

FUND FOR ARMENIAN RELIEF
630 Second Avenue
New York, New York 10016
(212) 889-5150

MEMORANDUM

To: ✓ Archbishop Khajag Barsamian
cc: Mr. Kevork Hovnanian
From: Simon Y. Balian
Date: September xx, 1994
Re: Greater Detroit Community Earthquake Funds

The Executive Committee of the Board of Directors discussed the matter of the Greater Detroit Armenian Community's Earthquake Funds at its meeting of Tuesday, August 9, 1994. Since the full Board is not scheduled to meet until September 22, 1994 the Executive Committee considered the matter and the following explanation recommendation to Your Eminence and the Diocesan Council is a result of that discussion and is made on behalf of the Executive Committee.

The Committee was given brief background information, including the letters that were exchanged between St. John's parish and the Diocese. The Committee members also read the letter of St. John's Parish Council dated July 18, 1994 to Your Eminence and the Diocesan Council demanding that the \$900,000 raised in the greater Detroit Community and the interest accrued thereon be returned to St. John's Parish.

The response to the request of St. John's Parish Council should be prefaced by an explanation of what the situation was in the immediate aftermath of the earthquake when relief projects were adopted and the unforeseen changes that took place which radically changed the priorities and possibilities in Armenia.

In December 1988 the Soviet Union, while undergoing major changes, was alive and well and no one anticipated its demise or even radical transformation to a more open society. All earthquake relief projects were closely monitored and approved by the central government in Moscow. At the time no long-term plans were conceived and none was necessary. All organizations (Armenian and non-Armenian) had one mission: complete the agreed on project and leave the country. Long-term presence and/or providing assistance other than the project was not anticipated.

Under these circumstances, the Armenian Church, under the leadership of the Catholicos of All Armenians, His Holiness Vasken I of blessed memory, undertook to concentrate its efforts on the City of Stepanavan. The Eastern Diocese developed the largest project, building a whole community of earthquake-resistant homes, a school, a clinic, playground and so on. The plan was to build a community of about 600 families. Some parishes which had collected substantial sums of money for the earthquake project were to be identified with certain parts of this community: school, playground, clinic. The Detroit community had requested to be identified with the medical and dental clinic to be built as part of the Stepanavan project.

As construction got under way in 1989, the pace of change in the Soviet Union accelerated and took the unexpected turn towards the eventual dissolution of the Union. The internal turmoil of the Soviet Union during the months of disintegration created logistical nightmares for all organizations trying to complete their earthquake relief projects. Furthermore, these difficulties caused expenses to skyrocket to a point where it was not justifiable to continue in many instances. The final disintegration of the Union made it practically impossible to continue implementing projects. Even many governments abandoned their half-finished projects.

A factor as important as the logistical difficulties was the changing priorities of Armenia. As the country moved toward political independence its economy collapsed because of the disintegration of the Soviet Union, the war of liberation for Artsakh and the blockade imposed by Azerbaijan and Turkey.

The new situation caused severe misery and hardship for the entire population. Now the entire country needed assistance ranging from food and clothing to technical assistance in many areas.

It is to the credit of the Diocese that it became one of the first organizations, Armenian and non-Armenian, to try to respond to this changing situation by expanding its activities in Armenia and still working to complete at least the first phase of the Stepanavan housing project.

The Diocese was filling an important void, soon to be followed by many other organizations, when it started activities above and beyond the housing project. Since then the Diocese/FAR has been at the forefront of implementing humanitarian and development projects in Armenia. The total value of the humanitarian aid provided to Armenia by the Diocese/FAR since then is well over 100 million dollars. In 1994 only the value of the Diocesan/FAR aid to Armenia should be about 50 million dollars.

Some of the aid provided by the Diocese/FAR include the following:

1. More than 50,000 metric tons of food ranging from butter to milk to lentils;
2. Several dozen containers of clothing, blankets, shoes and so on;

3. Agricultural aid in the form of potato seeds, fertilizer, equipment and training;
4. Multifaceted medical aid including: maintaining the medical library by supplying journals and books, providing training to doctors in the U.S.; sending drugs, equipment worth millions of dollars.
5. Encouraging the local economy by purchasing to the extent possible locally manufactured goods and employing local Armenians instead of expatriates.
6. Helping the government of Armenia in reorganizing the healthcare system, the welfare system,

There are numerous other projects, small and large, which have been accomplished and/or are in progress that will benefit Armenia for a long time to come.

The Diocese/FAR has been able to conduct these activities and continue to do so largely by having prudently managed its earthquake relief funds. The Diocese could have easily spent all the money received as well as the interest and other donations on the original project and still not have completed it. So far it has at least completed one phase of it where about 100 families live comfortably and done so much more by leveraging the funds available.

In addition to the above, the Diocese contributed 1.5 million dollars for completion of building left unfinished by other governments and organizations.

In view of the above and the current situation in Armenia it would be unwise to stick to the original Stepanavan plan regardless of promises made at an earlier time. The situation has drastically changed and new solutions are needed.

The money that the Diocese/FAR still has should be spend very prudently to maximize it. By leveraging the remaining funds, millions of dollars worth of aid can be secured for Armenia.

One of the most important factors sometimes overlooked is the fact of the commitment that the Diocese/FAR has for Armenia. This commitment is what differentiates us from the non-Armenian organizations currently in Armenia. There are some 30 non-Armenian organizations working in Armenia. However, these organizations have received various grants for projects in Armenia. Their operating expenses are tenfold more than ours and after completion of their grant they will leave for somewhere else. The Diocese/FAR are in Armenia for the long-term with a commitment of channeling as much aid to Armenia as possible from whatever source.

FINANCIAL EXPLANATION

Total earthquake related (i.e., contributions received in the immediate aftermath of the earthquake and throughout 1989) contributions to the Dicoese were under eight million

dollars. In addition the Diocese received contributions for relief and development in Armenia (donations received 1990 to present) of over one million dollars. This distinction should be made because starting in 1990 contributions were for general relief and development in Armenia rather than being emergency donations for earthquake relief. These amounts can be adjusted upward if the interest or investment income factor is added.

Through December 1993, the Diocese/FAR had expended in cash (figures are rounded):

- a. Over 4.1 million dollars on the Stepanavan project. This figure does not include substantial expenditures incurred by K.Hovnanian Companies in the form of donated materials, technical assistance and personnel.
- b. The 1.5 million dollar special contribution to Armenia to be used for the completion of unfinished housing projects in the earthquake zone.
- c. Over 800,000 on various medical projects.
- d. Over 250,000 on Agricultural development projects.
- e. Over one million dollars on miscellaneous humanitarian assistance in the form of food, clothing and other items distributed to refugees and other needy groups in Armenia.

Thus, the Diocese/FAR has had cash expenditures on actual projects of close to eight million dollars. And yet this figure does not include any administrative expenses ranging from salaries to employees to telephone and office supplies. The above makes it clear that the Diocese did actually spend ALL the money it received as earthquake relief donations.

LEGAL RAMIFICATIONS

Return of contributions, especially years after the original donation, presents complex legal and accounting problems for the organization as well as individual donors. Most donors itemized their contribution for tax deduction purposes. The tax-exempt organizations have included these donations on their financial statements as well as informational tax returns. Return of contributions can result in a bothersome reverse process. Furthermore, such an unusual financial transaction involving a large sum will attract unwelcome attention to the organizations and individuals involved and could precipitate an investigative process with potentially harmful consequences. The biggest loser will be Armenia.

The purported intended use of the funds demanded to be returned as specified in the letter of July 18, 1994 raises even more serious and thorny legal problems.

CONFLICT OF INTEREST

This whole issue places V.Rev. Father Baret Yeretzian in a difficult position. His three positions of (a) pastor of St. John's Armenian Church, (b) member of Diocesan Council, and (c) member of FAR Board of Directors create a serious conflict of interest for him with potential personal liability.

There is no doubt that any return of funds would be very detrimental to FAR. The law requires Directors to promote the interests of the corporation. As Pastor of St. John's and President of the Parish Council, Fr. Baret is in the untenable position of acting on their behalf in demanding the return of the money and harming a corporation (FAR) towards which he has fiduciary duties. Furthermore, as a non-profit charitable corporation, the Attorney General of the State of New York will be involved as well.

CONCLUSION

The Board of FAR strongly recommends that the Diocesan Council adopt a firm and definitive position on the funds donated for the benefit of Armenia generally as well as the specific issue raised by St. John's Church of Detroit.


The Diocesan Council created the Fund for Armenian Relief as an independent non-profit corporation and transferred all the assets it held for the benefit of Armenia to this corporation irrevocably, unconditionally and without any restriction.

The Diocesan Council should not consent to any requests for the return of any monies contributed so far for projects in Armenia. These monies have been used for the benefit of Armenia, continue to be used for that purpose and have been leveraged to secure other assistance tenfold more than the money. Furthermore, these monies were raised in the name of the Diocese by the parishes and the original intent at the time of the donation was to turn the funds over to the Diocese.

It appears that there is an information gap (or blackout) in some areas. The Board and staff of FAR are prepared to visit St. John's in Detroit (as well as any other parish where questions may be raised) to make a thorough presentation on what has been accomplished in Armenia, what is being currently done and what is planned for the future.

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Transportation became very expensive and difficult. Containers of material had to be rerouted several times to get them to their destination. Hyperinflation caused the constant escalation of wages and other expenses making laborers reluctant to work without sufficient incentives. Additionally, the Government was unable to fulfill its obligation of building the infrastructure and provide services to the community. Thus the Diocese/FAR had to incur substantial expenses to build the roads, sewer lines, utility lines and so on.

A factor as important as the logistical difficulties and hyperinflation was the changing priorities of Armenia. As the country moved toward political independence its economy collapsed because of the disintegration of the Soviet Union, the war of liberation for Artsakh and the blockade imposed by Azerbaijan and Turkey.

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