

**“Additional financing for the Project
“Development of municipal infrastructure”
Grant No. H769-TJ**

Financial statements

*For the year ended 31 December 2015
with independent auditors' report*

Contents

INDEPENDENT AUDITOR’S REPORT

Statement of cash receipts and payments	1
Statement of funds by project components	2
Statement of applications	3-4
Statement of special account	5

NOTES TO THE FINANCIAL STATEMENTS

1. General information.....	6
2. Basis of preparation.....	7
3. Summary of significant accounting policies.....	7
4. Cash and cash equivalents.....	8
5. Project cumulative expenses	8
6. Funds	9
7. Cumulative other income	9
8. Undrawn funds	9
9. Legal cases.....	9
10. Events after reporting period	9

APPENDIX 1. RECONCILIATION OF THE AMOUNTS PROVIDED BY THE PROJECT AND REFUNDED BY THE WORLD BANK.....	10
--	-----------

Independent auditors' report

To the Management of the Project "Additional Financing for Project
"Development of municipal infrastructure"

We have audited the accompanying financial statements of "Additional Financing for Project "Development of municipal infrastructure" (the "Project") which, comprise the statement of cash receipts and payments, the statement of funds by project components, the statement of applications, the statement of special account for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information (the "financial statements").

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standard (IPSAS) *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of Grant Agreement No. H769-TJ between the Republic of Tajikistan and the World Bank, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the cash receipts and payments of the Project for the year ended 31 December 2015 in accordance with International Public Sector Accounting Standard (IPSAS) *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of Grant Agreement No. H769-TJ between the Republic of Tajikistan and the World Bank.

Ernst & Young LLP



Paul Cohn
Audit Partner
Ernst & Young LLP

30 June 2016

STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2015

In US dollars

Notes	2015		2014	
	For the period	Cumulative	For the period	Cumulative
Cash balance as at 1 January				
Grant H769-TJ	75,231	—	289,200	—
Cofinancing by the Government of the Republic of Tajikistan	74,772	—	75,083	—
Other	—	—	2,047	—
Total cash balance as at 1 January	150,003	—	366,330	—
Funds				
Grant H769-TJ	2,917,354	10,238,468	2,768,720	7,321,114
Cofinancing by the Government of the Republic of Tajikistan	202,903	1,044,896	275,322	841,993
Total funds received	3,120,257	11,283,364	3,044,042	8,163,107
Other income	—	19,648	17,833	19,648
Expenses incurred				
Reconstruction of municipal infrastructure	(1,455,781)	(8,173,143)	(2,336,284)	(6,717,362)
Strengthening technical and institutional capacity	(778,194)	(1,052,454)	(274,260)	(274,260)
Project management	(717,566)	(1,751,967)	(660,971)	(1,034,401)
Total expenses	(2,951,541)	(10,977,564)	(3,271,515)	(8,026,023)
Other expenses	—	(6,203)	(6,161)	(6,203)
Foreign Exchange Difference	(6,434)	(6,960)	(526)	(526)
Cash balance as at 31 December				
Grant H769-TJ	283,175	—	75,231	—
Cofinancing by the Government of the Republic of Tajikistan	27,035	—	74,772	—
Other	2,075	—	—	—
Total cash balance as at 31 December	312,285	—	150,003	—

Signed and approved for issue on 30 June 2016

Director PMC“LID”

Chief Accountant



Sattorzoda D.

Amonov H.N.

STATEMENT OF FUNDS BY PROJECT COMPONENTS

For the year ended 31 December 2015

In US dollars

Project components	2015		2014	
	For the period	Cumulative	For the period	Cumulative
Reconstruction of municipal infrastructure	1,455,781	8,173,143	2,336,284	6,717,362
Goods and works of parts A.1 and A.2	1,455,781	6,303,316	1,774,126	4,847,535
Goods of part A.4	—	1,018,954	562,158	1,018,954
Goods of part A.5	—	850,873	—	850,873
Strengthening technical and institutional capacity	778,194	1,052,454	274,260	274,260
Goods, non-advisory services, trainings and seminars within part B.1-B.8	778,194	1,052,454	274,260	274,260
Project management	717,566	1,751,967	660,971	1,034,401
Advisory services, including audit, trainings and operating expenses within part C	717,566	1,751,967	660,971	1,034,401
Total expenses by components	2,951,541	10,977,564	3,271,515	8,026,023

Signed and approved for issue on 30 June 2016

Director PMC "LID"

Chief Accountant



Sattorzoda D.

Amonov H.N.

STATEMENT OF APPLICATIONS

For the year ended 31 December 2015

In US dollars

		2015					
Sources of financing	Applications	Advance	Goods and works of parts A.1 and A.2	Goods of part A.4	Goods of part A.5	Advisory services, including audit, trainings and operating expenses	Total
Grant No. H769-TJ							
	20	—	440,096	—	20,646	373,123	833,865
	21	—	79,344	—	—	16,949	96,293
	22	—	323,200	—	—	84,153	407,353
	23	—	190,343	—	151,196	238,429	579,968
	25	—	241,465	105,637	110,516	117,984	575,602
	26	—	125,228	47,154	92,389	93,647	358,418
	27	—	—	—	—	65,855	65,855
		—	1,399,676	152,791	374,747	990,140	2,917,354
Replenishment of government account							
		—	—	—	—	202,903	202,903
Total		—	1,399,676	152,791	374,747	1,193,043	3,120,257

STATEMENT OF APPLICATIONS (continued)

2014							
<i>Sources of financing</i>	<i>Applications</i>	<i>Advance</i>	<i>Goods and works of parts A.1 and A.2</i>	<i>Goods of part A.4</i>	<i>Goods of part A.5</i>	<i>Advisory services, including audit, trainings and operating expenses</i>	<i>Total</i>
Grant No. H769-TJ							
	14	—	—	206,830	—	—	206,830
	15	—	648,566	—	—	60,386	708,952
	16	—	352,073	192,635	54,640	68,967	668,315
	17	—	—	98,770	—	—	98,770
	18	—	343,128	—	57,298	129,578	530,004
	19	—	286,380	63,690	114,621	91,158	555,849
		—	1,630,147	561,925	226,559	350,089	2,768,720
Co-financing by the Government of the Republic of Tajikistan							
		275,322	—	—	—	—	275,322
		275,322	—	—	—	—	275,322
Total		275,322	1,630,147	561,925	226,559	350,089	3,044,042

Signed and approved for issue on 30 June 2016

Director PMC “LID”



[Signature]

Sattorzoda D.

Chief Accountant

[Signature]

Amonov H.N.

STATEMENT OF SPECIAL ACCOUNT

For the year ended 31 December 2015

In US dollars

Special account	Grant H769-TJ	Co-financing by the Government of the Republic of Tajikistan
Currency	US Dollars	US Dollars
Bank account	20206840816905000423	20202972226902000423
Bank	Orienbank OJSC	Orienbank OJSC
Bank's location	95/1 Rudaki str., Dushanbe, Tajikistan	95/1 Rudaki str., Dushanbe, Tajikistan

<i>Description</i>	<i>US dollars</i>	<i>US dollars</i>	<i>Total</i>
Balance as at 1 January 2014	289,200	75,083	364,283
Advances received during the reporting period	—	275,322	275,322
Reimbursement of expenses during the reporting period	2,463,120	—	2,463,120
Total funds received to a special account during reporting period	2,463,120	275,322	2,738,442
Less: amount of eligible expenditures paid during the reporting period	(2,683,752)	(276,704)	(2,960,456)
Balance as at 1 January 2015 (Note 4)	68,568	73,701	142,269
Advances received during the reporting period (Note 6)	—	202,903	202,903
Reimbursement of expenses during the reporting period (Note 6)	2,851,499	—	2,851,499
Total funds received to a special account during reporting period	2,851,499	202,903	3,054,402
Less: amount of eligible expenditures paid during the reporting period	(2,636,892)	(249,569)	(2,886,461)
Balance as at 31 December 2015 (Note 4)	283,175	27,035	310,210

Signed and approved for issue on 30 June 2016

Director PMC "LID"


Sattorzoda D.


Amonov H.N.

Chief Accountant

In US dollars

1. General information

According to the Agreement between the Republic of Tajikistan and International Bank of Reconstruction and Development (hereafter the “World Bank”) and International Development Association (“IDA”) signed on 25 June 2005, the IDA provided additional financing in the form of Grant H769-TJ in the amount of Special Drawing Rights (“SDR”) 7,700,000 to the Republic of Tajikistan to render assistance in financing the Project “Development of municipal infrastructure” (the “Project”).

Project purpose

The purpose of the Project is to improve the accessibility, quality and efficiency of provision the main public utility services to the general public of cities participating in the Project. The additional purpose, as an urgent response to the floods in the spring, is to make efforts to their mitigation by supplying materials for emergency situation preparation.

The Project comprises the following components:

Part A. Reconstruction of municipal infrastructure

Reconstruction, repair, construction, and replacement of infrastructure and equipment of the main municipal services facilities of participating cities, including the following:

- (1) reconstruction, repair, construction, and replacement of infrastructure and equipment of the main municipal services facilities in Farhor through the provision of goods and works, including construction of temporary landfills and waste water drying grounds;
- (2) reconstruction, repair, construction, and replacement of infrastructure and equipment of the main municipal services facilities in Vos through the provision of goods and works, including the construction of new elevated water tank and improved ventilated cesspools;
- (3) formation, reconstruction, repair and replacement of plumbing system and their connection to Farhor water-supply facilities through the provision of goods and works;
- (4) purchase of equipment to exercise a repair in community facilities to assist the state unitary enterprise Hojagii Manziliyu Komunali (the “HMK”) in its response to disruptions of public utility services provision by the provision of goods; and
- (5) purchase of cement, fuel, gabion net to assist the Ministry of Melioration and Water Resources Management in preparation for the period of high waters and floodwaters.

Part B. Strengthening technical and institutional capacity of HMK and its local public utilities subsidiaries

Contribution to institutional strengthening of HMK and its local subsidiaries of public utilities, including the following:

- (1) installation of water-gauges in Farhor;
- (2) installation of modern collection and recording system through the use of electronic kiosks;
- (3) increase awareness about water saving, recycling of residential solid waste, and about benefits of using water-gauges by virtue of publicity campaign;
- (4) installation of information monitor system (the “IMS”) in HMK for automation of collection, storage, processing and exchange of data and reports related to municipal services;
- (5) installation of modern collection and recording system in participating cities;
- (6) development of the municipal sector strategy focusing on issues in the area of public utilities and reforms required for public facilities improvement;
- (7) training and building of technological capacity in all entities to implement and operate the newly installed water-gauges; and
- (8) preparation of feasibility study for investment projects specified in the municipal sector strategy.

In US dollars

1. General information (continued)

Project purpose (continued)

Part C. Project management

Strengthening the potential of HMK and Project Management Office (the “PMO”) with regard to management, implementation, monitoring and evaluation of the Project, including the establishment and maintenance of monitoring and evaluation system, regular surveys of beneficiaries satisfaction in participating cities, arranging audits, procurements, disbursement and financial management by the provision of goods, technical assistance and training, and by financing of their additional operating expenses.

Duration of the Project is from 23 August 2012 to 1 December 2015.

Project management

The project implementation is carried out by “Local infrastructure development” Project Management Centre (the “PMC”), that is budgetary institution located in the Republic of Tajikistan, Dushanbe, Karabayev N.-56 st.

2. Basis of preparation

These financial statements are prepared in accordance with the International Public Sector Accounting Standards (“IPSAS”) *Financial Reporting under the Cash Basis of Accounting* issued by the Public Sector Committee of the International Federation of Accountants, and relevant points of the Grant No. H769-TJ.

The Project’s approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.

These financial statements consist of:

- statement of cash receipts and payments;
- statement of funds by project components;
- statement of applications;
- statement of special accounts;
- notes to the financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these financial statements is US dollars.

3. Summary of significant accounting policies

Cash basis of accounting

Financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein.

Foreign currency

Operations in foreign currency initially are counted in functional currency by the official currency exchange rate settled by National Bank of the Republic of Tajikistan (the “NBRT”) on a date of operation.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate settled by the NBRT on a reporting date of financial statement.

All foreign exchange differences resulted from maturity or recounting are included in statement of cash receipts and payments.

In US dollars

3. Summary of significant accounting policies (continued)

Foreign currency (continued)

Non-monetary items are valued according to their historic cost in foreign currency, which presented on rates of the initial operation date.

In preparing financial statements the following exchange rates of NBRT in regard to Tajik somoni were used:

31 December 2015	6,9902
31 December 2014	5,3079

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits on current and interest-bearing accounts.

Taxes

Calculation and payment of personal income tax and social security contributions from income of local staff and consultants is made in accordance with the requirements and rates of the Tax Code of the Republic of Tajikistan.

Project expenses

The expenses are recorded in the period when they were actually paid.

Sources of funds

The funds were provided by World Bank to the Project by replenishment of special account or through direct payment to the end supplier of goods and/or services.

4. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	2015	2014
Special account in foreign currency	283,175	68,568
Cofinancing by the Government of the Republic of Tajikistan special account in national currency	27,035	73,701
Cash on hand	1,514	6,291
Tender account in foreign currency	513	372
Transit account in national currency	48	1,071
Total	312,285	150,003

5. Project cumulative expenses

Project expenditures on major categories are presented in statement of cash receipts and payments. Project expenditures by components are presented in statement of funds by Project components. Project expenditures by source of financing are presented as following:

Sources of financing	2015		2014	
	For the period	Cumulative	For the period	Cumulative
Grant No. H769-TJ	2,707,815	9,968,973	2,998,376	7,261,158
Co-financing by the Government of the Republic of Tajikistan	243,726	1,008,591	273,139	764,865
Total	2,951,541	10,977,564	3,271,515	8,026,023

In US dollars

6. Funds

Financing of the Project in 2015 and 2014 was made in the following way:

<i>Financing method / sources of financing</i>	<i>2015</i>		<i>Total</i>
	<i>Grant No. H769-TJ</i>	<i>Co-financing by the Government of the Republic of Tajikistan</i>	
Advances	–	202,903	202,903
Direct payments	65,855	–	65,855
Reimbursement of expenses	2,851,499	–	2,851,499
Total	2,917,354	202,903	3,120,257

<i>Financing method / sources of financing</i>	<i>2014</i>		<i>Total</i>
	<i>Grant No. H769-TJ</i>	<i>Co-financing by the Government of the Republic of Tajikistan</i>	
Advances	–	275,322	275,322
Direct payments	305,600	–	305,600
Reimbursement of expenses	2,463,120	–	2,463,120
Total	2,768,720	275,322	3,044,042

7. Cumulative other income

Other income and expenses represent interest income and accrued by the serving bank on the ending balance cash on special account.

8. Undrawn funds

As at 31 December 2015, the undrawn part of Grant and Cofinancing by the Government of the Republic of Tajikistan is equal to 1,258,783 US dollars (2014: 4,176,137 US dollars).

9. Legal cases

There were no legal cases relating to the Project.

10. Events after reporting period

On 14 January 2016 according to the request No. 28 the World Bank provided funds in the amount of 503,368 US dollars.

On 9 February 2016 according to the request No. 29 the World Bank provided funds in the amount of 213,350 US dollars.

In US dollars

Appendix 1. Reconciliation of the amounts provided by the Project and refunded by the World Bank

For the year ended 31 December 2015:

<i>Categories of expenditures</i>	<i>Applications No.</i>	<i>Project</i>	<i>World Bank</i>	<i>Variance</i>
Grant No. H769-TJ				
Goods and works of parts A.1 and A.2	20	440,096	440,096	—
	21	79,344	79,344	—
	22	323,200	323,200	—
	23	190,343	190,343	—
	24	—	—	—
	25	241,465	241,465	—
	26	125,228	125,228	—
Goods and works , advisory services, including audit, trainings and operating expenses within part B.1	25	105,637	105,637	—
	26	47,154	47,154	—
Goods and works , advisory services, including audit, trainings and operating expenses within part B.2-B.8	20	20,646	20,646	—
	23	151,196	151,196	—
	25	110,516	110,516	—
	26	92,389	92,389	—
Advisory services, including audit, trainings and operating expenses within part C	20	373,123	373,123	—
	21	16,949	16,949	—
	22	84,153	84,153	—
	23	238,429	238,429	—
	25	117,984	117,984	—
	26	93,647	93,647	—
	27	65,855	65,855	—
Total		2,917,354	2,917,354	—

For the year ended 31 December 2014:

<i>Categories of expenditures</i>	<i>Applications No.</i>	<i>Project</i>	<i>World Bank</i>	<i>Variance</i>
Grant No. H769-TJ				
Goods and works of parts A.1 and A.2	15	648,566	648,566	—
	16	352,073	352,073	—
	18	343,128	343,128	—
	19	286,380	286,380	—
Goods and works of part A4	14	206,830	206,830	—
	16	192,635	192,635	—
	17	98,770	98,770	—
	19	63,690	63,690	—
Goods and works , advisory services, including audit, trainings and operating expenses within part B.1-B.8	16	54,640	54,640	—
	18	57,298	57,298	—
	19	114,621	114,621	—
Advisory services, including audit, trainings and operating expenses within part C	15	60,386	60,386	—
	16	68,967	68,967	—
	18	129,578	129,578	—
	19	91,158	91,158	—
Total		2,768,720	2,768,720	—