

SOCIAL INVESTMENT AND LOCAL DEVELOPMENT PROJECT

IBRD LOAN NUMBER 8483-AM

**IMPLIMENTED BY
ARMENIAN TERRITORIAL DEVELOPMENT FUND**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2015

**YEREVAN
May 2016**

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INDEPENDENT AUDITOR'S REPORT

*On the special purpose financial statements of
Social Investment and Local Development Project
for the year ended 31 December 2015*

To the Management of the Armenian Territorial Development Fund (the ATDF)

We have audited the accompanying special purpose financial statements of the "Social Investment and Local Development Project" (the Project) financed by the Loan Agreement IBRD Loan Number 8483-AM, which comprise the statement of cash receipts and payments, the statement of uses of funds by project activity for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The ATDF management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with International Public Sector Accounting Standards: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and Financial Management Manual for World Bank Financed Investment Operations, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) within the IFAC. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain reasonable audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the preparation and fair presentation of the special purpose financial statement 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 internal control.



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An audit also includes the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose financial statements.

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

Opinion

In our opinion,

1. the special purpose financial statements present fairly in all material respects cash receipts and payments of the Project for the year ended 31 December 2015 in accordance with IPSAS-Cash Basis;
2. funds have been used in all material respects in accordance with the conditions of the Loan Agreement Number 8483-AM dated 8 April 2015 between the Republic of Armenia and International Bank of Reconstruction and Development (IBRD), and World Bank related guidelines, with due attention to economy and efficiency, and only for the purpose for which they were provided;
3. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the IBRD Loan Number 8483-AM;
4. the Designated account used has been maintained in accordance with the provision of the IBRD Loan Number 8483-AM, and World Bank related guidelines.

"SOS-Audit" LLC
31 May 2016




Manvel Ghazaryan
Director


Gnel Khachatryan, FCCA
Auditor

STATEMENT OF CASH RECEIPTS AND PAYMENTS

Social Investment and Local Development Project

IBRD Loan 8483-AM

For the year ended 31 December 2015

In USD

Description	Note	Actual		Planned		Variance	
		Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015
Opening Cash Balance		-	-				
Sources of Funds							
IBRD Loan Number 8483-AM		945,219	945,219				
RA Government		531,488	531,488				
Community contribution		232,424	232,424				
Sponsors		73,284	73,284				
Total		1,782,415	1,782,415				
Uses of Funds							
1. Works, goods and consultants' services under Part A of the Project		712,393	712,393	902,277	902,277	189,884	189,884
2. Works, goods and consultants' services under Part B of the Project		-	-	-	-	-	-
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project		8,975	8,975	197,190	197,190	188,215	188,215
4. Operating costs under Part C of the Project		588,129	588,129	731,784	731,784	143,655	143,655
5. Front-end fee		75,000	75,000	75,000	75,000	-	-
Total		1,384,497	1,384,497	1,906,251	1,906,251	521,754	521,754
Foreign currency gain/(loss)		(4,416)	(4,416)				
Closing Cash Balance		393,502	393,502				

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 31 May 2016 and signed on its behalf. The accompanying tables form an integral part of these project special purpose financial statements.

Asghar Karapetyan
Executive Director

[Signature]

Levon Dulyan
Financial and Administrative Director



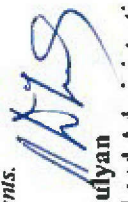
Social Investment and Local Development Project
for the year ended 31 December 2015

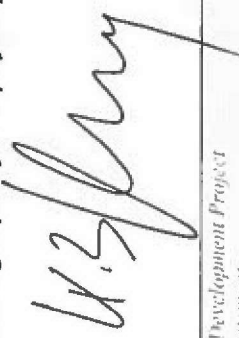
STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

*Social Investment and Local Development Project
IBRD Loan 8483-AM
For the year ended 31 December 2015
In USD*

Project Activities	Actual		Planned		Variance	
	Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015
Part A: Support to Socio-Economic Development and Capacity Building at Local Level						
A.1. Works	712,393	712,393	902,277	902,277	189,884	189,884
A.2. Provision of goods for micro-projects	502,328	502,328	783,504	783,504	281,176	281,176
A.3. Consultant services and training for micro-projects	-	-	21,777	21,777	21,777	21,777
	210,065	210,065	96,996	96,996	(113,069)	(113,069)
Part B: Support to Inter-Community Social and Economic Development Initiatives						
B.1. Works	-	-	-	-	-	-
B.2. Provision of goods for sub-projects	-	-	-	-	-	-
B.3. Consultant services and training for sub-projects	-	-	-	-	-	-
Part C: Institutional Strengthening and Project Management						
C.1. Project Monitoring & Evaluation and staff capacity building	597,104	597,104	928,974	928,974	331,870	331,870
C.2. Activities to support the transition from ASIF to ATDF	-	-	-	-	-	-
C.3. Goods for ATDF	8,975	8,975	197,190	197,190	188,215	188,215
C.4. Operating costs	588,129	588,129	731,784	731,784	143,655	143,655
Front-end fee	75,000	75,000	75,000	75,000	-	-
Total	1,384,497	1,384,497	1,906,251	1,906,251	521,754	521,754

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 31 May 2016 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.


Levon Dudyán
Financial and Administrative Director





*Social Investment and Local Development Project
Special Purpose Financial Statements
for the year ended 31 December 2015*

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Social Investment and Local Development Project
IBRD Loan 8483-AM
For the year ended 31 December 2015*

1. General information

1.1. *The Project financing*

According to the Loan Agreement between the Republic of Armenia and the International Bank for Reconstruction and Development (“IBRD”, “WB”) on 8 April 2015, IBRD provided Loan Number 8483-AM in the amount of 30,000,000 United States dollars (USD) to the Republic of Armenia.

The loan was provided for implementation of “Social Investment and Local Development Project” (hereinafter Project).

The Loan Agreement became effective on 22 September 2015.

The Closing date for the Loan Number 8483-AM financing is set on 30 June 2020.

The Grace period for submitting the expenditures incurred before the Closing date is set four months after the Closing date: 31 Oct 2020.

1.2. *The Project’s objective*

The objective of the Project is to improve quality and use of, and access to, community and inter-community infrastructure.

The Project consists of the following parts:

Part A: Support to Socio-Economic Development and Capacity Building at Local Level

1. Carrying out community micro-projects (Microprojects), with the assistance of Project Implementation Committees (“PICs”), including, inter-alia: (i) the construction, renovation, rehabilitation, and/or expansion of key social infrastructure covering education, health, and social services; (ii) the installation/rehabilitation of water supply and sanitation systems; and (iii) execution of minor irrigation and rural electrification works.
2. Providing: (i) technical assistance to ensure proper design, and supervision of Microprojects; and (ii) institutional and financial capacity building at community level.
3. Providing furniture and equipment for infrastructure investments benefited by Microprojects.

Part B: Support to Inter-Community Social and Economic Development Initiatives

1. Supporting to Armenia’s territorial reform, through carrying out of innovative development initiatives (Subprojects).
2. Providing: (i) technical assistance to ensure proper design, and supervision of Subprojects; and (ii) institutional and financial capacity building at community level.
3. Providing furniture and equipment for infrastructure investments benefited by Subprojects.

Part C: Institutional Strengthening and Project Management

Providing institutional support, capacity building, and technical assistance to ASIF/ADTF for Project Management, fiduciary oversight, safeguards oversights, the provision of training, and operating costs, required therefor.

1.3. Budget

The Project is financed by:

- IBRD Loan Number 4843-AM,
- Government of the Republic of Armenia (Government of RoA),
- Community Contributions (CC)
- Donors and other income.

Category	IBRD Loan Number 4843-AM	Government of RoA	Community Contribution	Donors and other	Total	Percentage Expenditure to be financed by the Loan (inclusive of Taxes)
	USD	USD equivalent	USD equivalent	USD equivalent	USD	
1. Works, goods and consultants' services under Part A of the Project	17,600,000	5,504,000	1,290,000	74,000	24,468,000	72.15%
2. Works, goods and consultants' services under Part B of the Project	10,100,000	2,741,000	625,000	-	13,466,000	75.00%
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	573,000	218,000	-	-	791,000	72.45%
4. Operating costs under Part C of the Project	1,652,000	2,548,000	-	-	4,200,000	50% (Y2015), 45% (Y2016), 40% (Y2017), 35% (Y2018), 30% after.
5. Front-end fee	75,000	-	-	-	75,000	100%
Total	30,000,000	11,011,000	1,915,000	74,000	43,000,000	

1.4. Project Implementation

The Project is implemented by the Armenian Territorial Development Fund (ATDF), formerly: Armenian Social Investment Fund (the ASIF), in accordance with the Project Agreement dated 8 April 2015 signed between IBRD and the ASIF.

The ASIF has been established by a Decree N 162 dated 11.04.2000 of the Government of the Republic of Armenia, the sole founder, as an autonomous non-profit agency to assist in the rehabilitation of small-scale infrastructure through community initiated and demand-based activities.

According to the new Charter the ATDF (the ATDF operates based on the new Charter since 4 August 2015) continues to implement similar projects financed by the WB including contributing to:

- welfare development of population through improving quality and accessibility of social and economic infrastructure and public services, employment, investment activity,
- Institutional and financial strengthening of regions of the Republic of Armenia.

The Board, chaired by the Prime-Minister of the Republic of Armenia, is a supreme governing body of the ATDF.

The ATDF registered address is: 31 Ulnetsu Street, Yerevan, 0037, Republic of Armenia.

2. Summary of significant accounting policies

2.1 Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

The special purpose project financial statements consist of:

- Statement of cash receipts and payments,
- Statement of uses of funds by project activity,
- Notes to the special purpose financial statements, including:
 - o Summary of significant accounting policies,
 - o Summary of summary reports and SOEs,
 - o Statement of Designated account,
 - o Statement of Financial Position, and
 - o other explanatory notes

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2 Cash basis of accounting

Cash basis means a basis of accounting under which transactions and other events are recognized only when cash or its equivalent is received or paid. Financial statements prepared under the cash basis provide information about the sources of cash raised during the period, the purpose for which cash was used and the cash balances at the reporting date.

2.3 Reporting currency

The Project financial statements are presented in United States Dollars (USD).

2.4 Foreign currency transactions

Foreign currency is a currency other than the reporting currency of the Project. Project accounts are maintained in USD and Armenian Drams (AMD). Transactions in foreign currencies are translated to presentation currency at exchange rates at the dates of the transactions. Settlement rate of foreign currency over functional currency established by the Central Bank of the Republic of Armenia (the CBA) is taken as the exchange rate.

Contributions of the Government of the Republic of Armenia, communities and other donors, and payments to contractors and suppliers expressed in AMD are presented in USD at the official exchange rate defined by the CBA at the date of transfer.

The exchange rate defined by the CBA as at 31 Dec 2015 is: USD 1 = 482.50 AMD.

2.5 Budgeting

Annual budgets for funding and expenditures are based on approved budget of the project agreement (Note 1.3.).

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated procurement plans for the period.

2.6 Taxes

All applicable taxes are paid in accordance with tax regulations of the Republic of Armenia.

3. SUMMARY OF SUMMARY REPORTS AND SOEs

IBRD Loan Number 8483-AM
For the year ended 31 December 2015
In USD

Application number*	Value date	Expenditure category		Total
		1. Works, goods and consultants' services under Part A of the Project	4. Operating costs under Part C of the Project	
		1	4	
1 Reimbursement	21.Oct.2015	-	61,328.90	61,328.90
2 Reimbursement	21.Oct.2015	71,810.66	111,672.87	183,483.53
4 Reimbursement	09.Dec.2015	-	25,406.51	25,406.51
Total		71,810.66	198,408.28	270,218.94

(*) Retroactive financing (reimbursement) from the IBRD Loan Number 8483-AM were made for the Project eligible expenditures incurred during the period from 1 January 2015 to 8 April 2015 (date of signing the Loan Agreement) in accordance with the Loan Agreement relevant terms.

4. STATEMENT OF DESIGNATED ACCOUNT

Bank account number	900000900283
Bank	Central Treasury
Bank location	Meliq Adamyan Street 1, Yerevan, Republic of Armenia, 0010
Account currency	USD

	<u>IBRD Loan Number 8483-AM</u>
1. Opening balance as at 01.01.2015	-
2. Add: opening discrepancy	-
3. WB advance/replenishment (a)	600,000
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	600,000
6. DA closing balance as at 31.12.2015	52,841
7. Add: Amount of eligible expenditures paid	547,236
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	600,077
10. Closing discrepancy (5)-(9) (b)	77

(a) Retroactive financing (Note 3) was not paid into the Designated Account, but directly made into the ATDF bank account held for the Government co-financing, to reimburse the relevant expenditures were made during the covered period.

(b) Discrepancy consists of covering eligible expenditure from other funding sources, and was settled in January 2016.

5. STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position discloses assets, liabilities and net assets of the Project as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	Note	31.12.2015 USD
ASSETS		
Cash	6	393,502
Prepayments and receivables	7	379,850
Total assets		773,352
LIABILITIES		
Payables	8	6,462
Total Liabilities		6,462
NET ASSETS		
Cumulative income		
<i>Funds</i>		
	9	
IBRD Loan 8483-AM		945,219
RA Government		531,488
Community contribution		232,424
Sponsors		73,284
		1,782,415
Cumulative expenses		
Project expenses	10	1,011,092
		1,011,092
Foreign currency gain/(loss)		(4,433)
Total net assets		766,890

6. Cash

Account	Account held at	Underlying Currency	31.12.2015 USD
Designated account (IBRD Loan 8483-AM)	Treasury	USD	52,841
Government of RoA	Treasury	AMD	69,777
Government of RoA (for operating costs)	HSBC bank	AMD	1,880
Community contribution account	ArmDevelopbank	AMD	196,246
Sponsors contribution account	ArmDevelopbank	AMD	72,671
Cash on hand	ATDF office	AMD	87
			393,502

7. Prepayments and receivables

	31 Dec 2015 USD
Prepayments on Works*	379,850
	<u>379,850</u>

(*) Prepayments are paid to contractors up to 20% of the construction contract amount based on bank guarantee provided.

8. Payables

	31 Dec 2015 USD
On Works (Retentions)*	6,446
Payables on taxes	16
	<u>6,462</u>

(*) Retentions of 2.5% are held from the completed service invoice for up to one year as guaranty for the quality of the work.

9. Financing

9.1 IBRD Loan Number 8483-AM

	Year ended 31 Dec 2015 USD	Cumulative as at 31 Dec 2015 USD
Advances/ (advance recovery)	600,000	600,000
Direct Payments	-	-
SOE and Summary Sheet	270,219	270,219
Special Commitment	-	-
Front-end Fee	75,000	75,000
Total	<u>945,219</u>	<u>945,219</u>
Total financing budget		<u>30,000,000</u>
Percentage of finance provided as at 31 Dec 2015		<u>3%</u>

9.2 Government of the Republic of Armenia

	Year ended 31 Dec 2015 USD	Cumulative as at 31 Dec 2015 USD
Contributions in cash	531,488	531,488
Total	<u>531,488</u>	<u>531,488</u>
Total financing budget		<u>11,011,000</u>
Percentage of finance provided as at 31 Dec 2015		<u>5%</u>

9.3 Community Contribution

	Year ended 31 Dec 2015 USD	Cumulative as at 31 Dec 2015 USD
Contributions in cash	232,424	232,424
Total	232,424	232,424
Total financing budget		1,915,000
Percentage of finance provided as at 31 Dec 2015		12%

9.4 Donors contribution and other income

	Year ended 31 Dec 2015 USD	Cumulative as at 31 Dec 2015 USD
Contributions in cash	73,284	73,284
Total	73,284	73,284
Total financing budget		74,000
Percentage of finance provided as at 31 Dec 2015		99%

10 Project Expenditures

10.1 Project expenditure financing per funds

Category	Year ended 31 Dec 2015				
	IBRD Loan 8483-AM	Government of RoA	Community contribution	Donors	Total
1. Works, goods and consultants' services under Part A of the Project	513,992	164,207	34,195	-	712,394
2. Works, goods and consultants' services under Part B of the Project	-	-	-	-	-
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	6,502	2,472	-	-	8,974
4. Operating costs under Part C of the Project	293,961	293,961	166	41	588,129
5. Front-end fee	75,000	-	-	-	75,000
Total	889,455	460,640	34,361	41	1,384,497

Category	Cumulative as at 31 Dec 2015				
	IBRD Loan 8483-AM	Government of RoA	Community contribution	Donors	Total
1. Works, goods and consultants' services under Part A of the Project	513,992	164,207	34,195	-	712,394
2. Works, goods and consultants' services under Part B of the Project	-	-	-	-	-
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	6,502	2,472	-	-	8,974
4. Operating costs under Part C of the Project	293,961	293,961	166	41	588,129
5. Front-end fee	75,000	-	-	-	75,000
Total	889,455	460,640	34,361	41	1,384,497

10.2 Project budget management

Category	Cumulative as at 31.12.2015	Budget	Implementation
	USD	USD	%
1. Works, goods and consultants' services under Part A of the Project	712,394	24,468,000	3%
2. Works, goods and consultants' services under Part B of the Project	-	13,466,000	0%
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	8,974	791,000	1%
4. Operating costs under Part C of the Project	588,129	4,200,000	14%
5. Front-end fee	75,000	75,000	100%
Total	1,384,497	43,000,000	3%

11 Events after the reporting date

The application N 5 that includes expenditures relating to the reporting period in the amount of 540,734.14 USD was submitted to WB on 20 January 2016 and approved on 21 January 2016.

The application N 6 that includes expenditures relating to the reporting period in the amount of 6,502.09 USD was submitted to WB on 13 April 2016 and approved on 14 April 2016.

ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE ATDF AND DISBURSED BY THE WORLD BANK

*Social Investment and Local Development Project
IBRD Loan 8483-AM
For the year ended 31 December 2015
In USD*

Expenditure Category	Appl.	ATDF	WB	Difference
Advances (Recovery)	3		600,000.00	
			600,000.00	
1. Works, goods and consultants' services under Part A of the Project	2 reimb.	71,810.66	71,810.66	-
		71,810.66	71,810.66	
4. Operating costs under Part C of the Project	1 reimb.	61,328.90	61,328.90	-
	2 reimb.	111,672.87	111,672.87	-
	4 reimb.	25,406.51	25,406.51	-
		198,408.28	198,408.28	
Total		270,218.94	870,218.94	