

**LOCAL ECONOMY AND INFRASTRUCTURE DEVELOPMENT PROJECT**

**IBRD LOAN NUMBER 8572-AM**

**IMPLEMENTED BY  
ARMENIAN TERRITORIAL DEVELOPMENT FUND**

**SPECIAL PURPOSE FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**For the year ended 31 December 2021**

**YEREVAN  
June 2022**

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## STATEMENT OF MANAGEMENT RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The management of the Armenian Territorial Development Fund ("ATDF") is responsible for the preparation of the special purpose financial statements for the year ended 31 December 2021 of "Local Economy and Infrastructure Development Project" ("Project") financed by Loan Agreement IBRD Loan Number 8572-AM dated 23 February 2016 ("Loan Agreement"), in compliance 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) and the Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines).

In preparing the special purpose financial statements, ATDF's management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional required disclosures for the year ended 31 Dec 2021.

*ATDF's Management is also responsible for:*

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions, and which enable them to ensure that the special purpose financial statements of the Project comply with IPSAS - Cash Basis and the WB Guidelines;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project and to affirm that funds received have been used in accordance with the Loan Agreement, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- Maintaining the Designated Accounts in accordance with the provisions of the Loan Agreement, and World Bank related guidelines;
- Procuring financed Works, Goods and Services in accordance with the Loan Agreement and World Bank related guidelines
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the year ended 31 Dec 2021 were signed on 21 June 2022 by the ATDF's Management.

Artur Sghomonyan  
Executive Director



Levon Dulyan  
Chief Financial Officer





## INDEPENDENT AUDITOR'S REPORT

To the Management of the Armenian Territorial Development Fund

### **Opinion**

We have audited the special purpose financial statements of "Local Economy and Infrastructure Development Project" ("Project") financed by Loan Agreement IBRD Loan Number 8572-AM dated 23 February 2016 ("Loan Agreement"), and implemented by Armenian Territorial Development Fund ("ATDF"), which comprise of the statement of cash receipts and payments and the statement of expenditures per components for the year ended 31 December 2021, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements for the year ended 31 December 2021 are prepared, in all material respects, in accordance with International Public Sector Accounting Standards: *Financial Reporting Under the Cash Basis of Accounting, (IPSAS-Cash Basis)* and Financial Management Manual for World Bank Financed Investment Operations ("WB Guidelines").

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Project and of the ATDF in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical requirements in accordance with IESBA Code.

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

### **Emphasis of Matter- Cash Basis of Accounting**

Without modifying our opinion, we draw your attention to Note 2 to the financial statements, which describes those financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes.

### **Responsibilities of the Management for the Financial Statements**

Management of the ATDF is responsible for the preparation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) and WB Guidelines, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility for the Audit of the Special Purpose Financial Statements**

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.





**STATEMENT OF CASH RECEIPTS AND PAYMENTS***Local Economy and Infrastructure Development Project**IBRD Loan 8572-AM**For the year ended 31 December 2021**In USD*

Description	Note	Actual			Planned	Variance
		Year ended 31.12.2020	Year ended 31.12.2021	Cumulative as at 31.12.2021	Cumulative as at 31.12.2021	Cumulative as at 31.12.2021
Opening Cash Balance	6	1,163,926	84,056	-		
Sources of Funds	9					
IBRD Loan Number 8572-AM		2,271,383	6,039,642	14,172,062		
RA Government		842,716	1,183,734	3,163,965		
<b>Total</b>		<b>3,114,099</b>	<b>7,223,376</b>	<b>17,336,027</b>		
Use of Funds	10					
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project		4,106,360	5,838,246	15,468,848	16,189,891	721,043
(2) Operating costs		72,734	103,752	351,800	378,048	26,248
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project		-	-	-	-	-
Front-end Fee		-	-	137,500	137,500	-
<b>Total</b>		<b>4,179,094</b>	<b>5,941,998</b>	<b>15,958,148</b>	<b>16,705,439</b>	<b>747,291</b>
Foreign currency gain/(loss)		(14,875)	12,874	429		
Closing Cash Balance	6	84,056	1,378,308	1,378,308		

The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 21 June 2022. The accompanying notes form an integral part of these project special purpose financial statements.

Artur Sghomonyan  
Executive Director




Levon Dulyan  
Chief Financial Officer





Local Economy and Infrastructure Development Project  
IBRD Loan 8572-AM  
For the year ended 31 December 2021  
In USD

*The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 21 June 2022. The accompanying notes form an integral part of these project special purpose financial statements.*

Levon Dulyan  
Chief Financial Officer



## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Local Economy and Infrastructure Development Project*  
*IBRD Loan 8572-AM*  
*For the year ended 31 December 2021*

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### 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 23 February 2016, IBRD provided Loan Number 8572-AM in the amount of 55,000,000 United States dollars (USD) to the Republic of Armenia.

The loan was provided for implementation of "Local Economy and Infrastructure Development Project" (hereinafter Project).

The Loan Agreement became effective on 29 December 2016.

The Closing date for the Loan Number 8572-AM financing is set on 31 March 2023.

The Grace period for submitting the expenditures incurred before the Closing date is set four months after the Closing date 31 July 2023.

Due to the unpredicted challenges that Republic of Armenia has been facing since the beginning of 2020, the Government of Armenia has initiated the process to engage external financing accordance to the sectorial priorities for the implementation of projects and reforms with critical needs.

For that purpose, on July 3, 2020 and August 12, 2021, RA Minister of Finance has applied to the World Bank with a request to cancel 3,200,000 USD and 9,000,000 USD amounts accordingly, under the Loan Agreement No.8572 between the Republic of Armenia and International Bank for Reconstruction and Development. As a result, the loan for the project was reduced by 12,200,000 USD.

#### 1.2. The Project's objective

The objective of the Project is to improve infrastructure services and institutional capacity for increased tourism contribution to local economy in the selected regions in Armenia.

The Project consists of the following parts:

##### Part 1: Heritage Hub Regeneration and Tourism Circuit Development

- a) Provision of Investment Subproject Financing to Participating Beneficiaries to finance the carrying out of urban regeneration activities; including, but not limited to, restoration of public infrastructure, building facades and roofs, public spaces, museums, access roads, water and sanitation, drainage and street lighting;
- b) Provision of Investment Subproject Financing to Participating Beneficiaries to finance the carrying out of cultural heritage preservation and improved site management activities which may include, inter-alia: (i) implementation of site management plans recommendations; (ii) construction of a visitor facilities with information centers, cafes, public toilets and safe parking area; (iii) preservation of cultural heritage monuments, museums, and surrounding houses; and (iv) improvement of connectivity with access roads and public infrastructure.";
- c) Creation of public infrastructure to attract private investments;
- d) Project management, design and construction supervision.

##### Part 2: Institutional Development

Institutional capacity building activities for the Project Implementing Entity, the Tourism Committee at the Ministry of Economy (the MoE), and other local and regional entities.

##### Part 3: Contingent Emergency Response

Provision of support upon occurrence of an Eligible Emergency, as needed.



### 1.3. Budget

The Project is financed by:

- IBRD Loan Number 8572-AM,
- Government of the Republic of Armenia (Government of RA) cofinancing.

Expenditure category	IBRD Loan 8572-AM			RoA Government	Total	Percentage of Expenditures to be financed (including taxes)
	Initial	Cancelled (Note 1.1)	Updated	USD equivalent	USD equivalent	
	USD	USD	USD			
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	53,962,500	(12,200,000)	41,762,500	10,440,625	52,203,125	80%
(2) Operating costs	900,000	-	900,000	225,000	1,125,000	80%
(3) Front-end Fee	137,500	-	137,500	-	137,500	100%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-	-	-	-
<b>Total</b>	<b>55,000,000</b>	<b>(12,200,000)</b>	<b>42,800,000</b>	<b>10,665,625</b>	<b>53,465,625</b>	

### 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 23 February 2016 signed between IBRD and 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.

The ATDF implements projects financed by the WB and other donors including contribution 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 is a supreme governing body of the ATDF.

The ATDF registered address is: 31 K. 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 Standards: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB), and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 - Financial Reporting and Auditing.

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**

The special purpose financial statements are prepared and presented using the 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), reporting currency.

### **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).

Foreign currencies are translated into presentation currency at conversion rates. The exchange rate:

- 1) Before March 1, 2021 is settlement average rate of foreign currency over functional currency as of the transaction date established by the Central Bank of the Republic of Armenia (the CBA).
- 2) Since March 1, 2021:
  - For the inflows is used the foreign exchange purchase rate as of the transaction date set by the Central Bank of the RA.
  - For outflows is used the foreign exchange selling rate as of the transaction date set by the Central Bank of the RA.

### **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 Reports and SOEs

IBRD Loan Number 8572-AM  
For the year ended 31 December 2021

In USD

Application number	Value date	Expenditure category		Total
		(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	(2) Operating costs	
21	08/02/2021	1,600,572	15,374	1,615,946
22	12/05/2021	349,813	12,028	361,841
23	24/06/2021	602,380	8,120	610,500
24	09/08/2021	765,414	6,664	772,078
25	15/09/2021	178,939	6,448	185,387
26	14/10/2021	1,463,194	17,539	1,480,733
27	30/11/2021	891,188	6,495	897,683
28	27/12/2021	109,491	5,983	115,474
<b>Total</b>		<b>5,960,991</b>	<b>78,651</b>	<b>6,039,642</b>

### 4. STATEMENT OF DESIGNATED ACCOUNT

Funding	IBRD Loan Number 8572-AM
Bank account number	900000902818
Bank	Central Treasury
Bank location	Meliq Adamyan Street 1, Yerevan, Republic of Armenia, 0010
Account currency	USD

	Year ended 31.12.2021 USD
1. Opening balance	84,056
2. Add: opening discrepancy	5
3. WB advance/replenishment	6,039,642
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	6,123,703
6. DA closing balance	1,378,308
7. Add: Amount of eligible expenditures paid	4,745,390
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	6,123,698
10. Closing discrepancy (5)-(9)	5

## 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	31.12.2021 USD	31.12.2020 USD
<b>ASSETS</b>			
Cash	6	1,378,308	84,056
Prepayments and receivables	7	1,822,085	771,724
<b>Total assets</b>		<b>3,200,393</b>	<b>855,780</b>
<b>LIABILITIES</b>			
Payables	8	226,549	279,132
<b>Total Liabilities</b>		<b>226,549</b>	<b>279,132</b>
<b>NET ASSETS</b>			
<b>Cumulative income</b>			
<b>Funds</b>	9		
IBRD Loan 8572-AM		14,172,062	8,132,420
RA Government		3,163,965	1,980,231
		<b>17,336,027</b>	<b>10,112,651</b>
<b>Cumulative expenses</b>			
Project expenses	10	(14,362,612)	(9,523,558)
		<b>(14,362,612)</b>	<b>(9,523,558)</b>
Foreign currency gain/(loss)		429	(12,445)
<b>Total net assets</b>		<b>2,973,844</b>	<b>576,648</b>

## 6. CASH

Account	Account held at	Underlying Currency	31.12.2021 USD	31.12.2020 USD
Designated account (IBRD Loan 8572-AM)	Treasury	USD	1,378,308	84,056
			<b>1,378,308</b>	<b>84,056</b>

## 7. Prepayments and receivables

	31.12.21 USD	31.12.2020 USD
Prepayments on Works*	1,822,085	771,724
	<b>1,822,085</b>	<b>771,724</b>

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

## 8. Payables

	31.12.2021 USD	31.12.2020 USD
On Works (Retentions)*	226,549	279,132
	<b>226,549</b>	<b>279,132</b>

(\*) Retentions of 5% are held from the completed service invoices as guaranty for the quality of the work. 2.5% are paid after signing the final act, and the remaining 2.5% are kept for up to one year as guaranty for the quality of performed work, or paid on the basis of a one-year bank guaranty.



## 9. Financing

### 9.1. IBRD Loan Number 8572-AM

	Year ended 31.12.2020 USD	Year ended 31.12.2021 USD	Cumulative at 31.12.2021 USD
Advances	-	-	1,700,000
SOE and Summary Sheets	2,271,383	6,039,642	12,334,562
Front-end Fee	-	-	137,500
<b>Total</b>	<b>2,271,383</b>	<b>6,039,642</b>	<b>14,172,062</b>
Total financing budget			42,800,000
Percentage of finance provided			33%

### 9.2. Government of the Republic of Armenia co-financing

	Year ended 31.12.2020 USD	Year ended 31.12.2021 USD	Cumulative at 31.12.2021 USD
Contributions in cash	842,716	1,183,734	3,163,965
<b>Total</b>	<b>842,716</b>	<b>1,183,734</b>	<b>3,163,965</b>
Total financing budget			10,665,625
Percentage of finance provided			30%

## 10. Project Expenditures

### 10.1. Project expenditures financing per funds

Category	Year ended 31.12.2021		Total (USD)
	IBRD Loan 8572-AM (USD)	Government of RoA co-financing (USD)	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	4,662,389	1,175,857	5,838,246
(2) Operating costs	83,002	20,750	103,752
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	-	-	-
<b>Total</b>	<b>4,745,391</b>	<b>1,196,607</b>	<b>5,941,998</b>

Category	Cumulative as at 31.12.2021		Total (USD)
	IBRD Loan 8572-AM (USD)	Government of RoA co-financing (USD)	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	12,374,809	3,094,039	15,468,848
(2) Operating costs	281,440	70,360	351,800
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	-	137,500
<b>Total</b>	<b>12,793,749</b>	<b>3,164,399</b>	<b>15,958,148</b>

### 10.2. Project budget progress

Category	Cumulative as at 31.12.2021	Budget	Implementation
	USD	USD	%
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	15,468,848	52,203,125	30%
(2) Operating costs	351,800	1,125,000	31%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	137,500	100%
<b>Total</b>	<b>15,958,148</b>	<b>53,465,625</b>	<b>30%</b>

## 11. Events after the reporting date

The application N29 that includes expenditures relating to the reporting period in the amount of 321,692 USD was submitted to WB on 8 February 2022 and approved on 11 February 2022.



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

*Local Economy and Infrastructure Development Project  
IBRD Loan 8572-AM*

*For the year ended 31 December 2021  
In USD*

Expenditure Category	Appl.	ATDF	WB	Difference
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	21	1,600,572	1,600,572	-
	22	349,813	349,813	-
	23	602,380	602,380	-
	24	765,414	765,414	-
	25	178,939	178,939	-
	26	1,463,194	1,463,194	-
	27	891,188	891,188	-
	28	109,491	109,491	-
		<b>5,960,991</b>	<b>5,960,991</b>	-
(2) Operating costs	21	15,374	15,374	-
	22	12,028	12,028	-
	23	8,120	8,120	-
	24	6,664	6,664	-
	25	6,448	6,448	-
	26	17,539	17,539	-
	27	6,495	6,495	-
	28	5,983	5,983	-
		<b>78,651</b>	<b>78,651</b>	-
<b>Total</b>		<b>6,039,642</b>	<b>6,039,642</b>	-