

**ADDITIONAL FINANCING FOR SOCIAL INVESTMENT AND LOCAL DEVELOPMENT
PROJECT**

IBRD LOAN NUMBER 9060-AM

**IMPLEMENTED BY
ARMENIAN TERRITORIAL DEVELOPMENT FUND**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the period from 08 December 2020 to 31 December 2022

**YEREVAN
June 2023**

CONTENT

	Page
STATEMENT OF MANAGEMENT RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS	3
INDEPENDENT AUDITOR'S REPORT	4
STATEMENT OF CASH RECEIPTS AND PAYMENTS	6
STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY	7
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS	8
ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE ATDF AND DISBURSED BY THE WORLD BANK	16

INDEPENDENT AUDITOR'S REPORT

To the Management of the Armenian Territorial Development Fund

Opinion

We have audited the special purpose financial statements of "Additional Financing for Social Investment and Local Development Project" ("Project") financed by Loan Agreement IBRD Loan Number 9060-AM dated 21 April 2020 ("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 period from 08 December 2020 to 31 December 2022, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements for the period from 08 December 2020 to 31 December 2022 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 the 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 that 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 a 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 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. We also:

- Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure, and content of the special purpose financial statements, including the disclosures.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal Requirements

To comply with the terms of the Loan Agreement, the ATDF management shall insure that:

1. funds have been used in accordance with the conditions of the Loan Agreement concluded between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, and WB Guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
2. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Reimbursed expenditures included in the withdrawal applications are eligible for financing under the Loan Agreement; Interim Unaudited Financial Reports (IFRs) issued by ATDF during the Reporting year are in agreement with the underlying books of accounts;
3. the Designated Accounts have been maintained in accordance with the provisions of the Loan Agreement, and World Bank related guidelines;
4. Financed Works, Goods and Services have been procured in accordance with the Loan Agreement and World Bank related guidelines.

In our opinion, the Project management has complied with the above requirements for the period 08 December 2020 to 31 December 2022.

“BDO Armenia” CJSC
28 June 2023

Vahagn Sahakyan, FCCA
Managing partner



STATEMENT OF CASH RECEIPTS AND PAYMENTS

Additional Financing for *Social Investment and Local Development Project*
 IBRD Loan 9060-AM
 For the period 08 December 2020 to 31 December 2022
 In EUR

Description	Note	Actual		Planned	Variance
		From 08.12.2020 to 31.12.2022	Cumulative as at 31 Dec 2022	Cumulative as at 31 Dec 2022	Cumulative as at 31 Dec 2022
Opening Cash Balance		-			
Sources of Funds	9				
IBRD Loan Number 9060-AM		1,055,188	1,055,188		
RA Government		679,422	679,422		
Community contribution		936,402	936,402		
Total Financing		2,671,012	2,671,012		
Transferred from SILD to SILD AF (from community)		50,872*	50,872*		
Total inflow		2,721,884	2,721,884		
Uses of Funds					
1. Works, goods and consultants' services under Part A of the Project		930,451	930,451	906,511	(23,940)
2. Works, goods and consultants' services under Part B of the Project		799	799	-	(799)
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project		3,267	3,267	9,055	5,788
4. Operating costs under Part C of the Project		637,370	637,370	548,787	(88,583)
5. Front-end fee		44,750	44,750	44,750	-
Total	10	1,616,637	1,616,637	1,509,103	(107,534)
Foreign currency gain/(loss)		70,791	70,791		
Closing Cash Balance	6	1,176,038	1,176,038		

*At the deadline of SILD project 30 April 2023, the projects in progress, with the permission of World Bank, were transferred to SILD AF project. Accordingly, 50,872 EUR of communities' co-financing amounts was transferred to the SILD AF project.

The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 28 June 2023. The accompanying notes form an integral part of these project special purpose financial statements.

Sargis Baghinyan
 Executive Director

Levon Dulyan
 Chief Financial Officer



STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Additional Financing for *Social Investment and Local Development Project*
IBRD Loan 9060-AM
 For the period from 08 December 2020 to 31 December 2022
 In EUR

Project Activities	Actual		Planned	Variance
	From 08.12.2020 to 31.12.2022	Cumulative as at 31.12.2022	Cumulative as at 31.12.2022	Cumulative as at 31.12.2022
Part A: Support to Socio-Economic Development and Capacity Building at Local Level	930,451	930,451	906,511	(23,940)
A.1. Works	800,576	800,876	791,018	(9,558)
A.2. Provision of goods for micro-projects	-	-	-	-
A.3. Consultant services and trainings for micro-projects	129,875	129,875	115,493	(14,381)
Part B: Support to Inter-Community Social and Economic Development Initiatives	799	799	-	(799)
B.1. Works	-	-	-	-
B.2. Provision of goods for sub-projects	-	-	-	-
B.3. Consultant services and training for sub-projects	799	799	-	(799)
Part C: Institutional Strengthening and Project Management	640,637	640,637	557,842	(82,795)
C.1. Project Monitoring & Evaluation and staff capacity building	3,267	3,267	9,055	5,788
C.3. Goods for ATDF	-	-	-	-
C.4. Operating costs	637,370	637,370	548,787	(88,583)
Front-end fee	44,750	44,750	44,750	-
Total	1,616,637	1,616,637	1,509,103	(107,534)

The project special purpose financial statements were signed by the management of the Armenian Territorial Development Fund on 28 June 2023. The accompanying notes form an integral part of these project special purpose financial statements.

Sargis Baghinyan
 Executive Director

Levon Dulyan
 Chief Financial Officer



NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Additional Financing for *Social Investment and Local Development Project*
IBRD Loan 9060-AM
For the period from 08 December 2020 to 31 December 2022

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 21 April 2020, IBRD provided Loan Number 9060-AM in the amount of 17,900,000 Euros (EUR) to the Republic of Armenia.

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

The Loan Agreement became effective on 08 December 2020.

The Closing date for the Loan Number 9060-AM financing is set on 31 May 2025 (as extended).

The Grace period for submitting the expenditures incurred before the Closing date is set four months after the Closing date 30 September 2025.

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; (iii) execution of minor irrigation and rural electrification works and (iv) the installation of energy efficiency solutions for public infrastructure.
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, such as rehabilitated schools, kindergartens and community centers; as well as for other social infrastructure in accordance with criteria set forth in the Operational Manual.

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), involving consolidated communities.
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, assessments, evaluations and technical assistance to ATDF for Project Management, fiduciary oversight, safeguards oversight, the provision of training, and operating costs, required therefore.

1.3. Budget

The Project is financed by:

- IBRD Loan Number 9060-AM,
- Government of the Republic of Armenia (Government of RA) cofinancing,
- Community Contributions (CC)

Category	IBRD Loan Number 9060-AM (updated)*	Government of RoA	Community Contribution	Total	Percentage Expenditure to be financed by the Loan (inclusive of Taxes)
	EUR	EUR equivalent	EUR equivalent	EUR	
1. Works, goods, and consultants' services under Part A of the Project	4,480,000	1,370,025	359,320	6,209,345	72.15%
2. Works, goods, and consultants' services under Part B of the Project	12,530,250	3,351,846	825,309	16,707,405	75.00%
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	186,000	70,729	-	256,729	72.45%
4. Operating costs under Part C of the Project	659,000	1,537,667	-	2,196,667	30%
5. Front-end fee	44,750	-	-	44,750	100%
Total	17,900,000	6,330,267	1,184,629	25,414,896	

1.4. Project Implementation

The Project is implemented by the Armenian Territorial Development Fund (ATDF) - formerly: Armenian Social Investment Fund (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.

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 the supreme governing body of the ATDF.

The ATDF registered address is: 31 K. Ulnetsi 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 European monetary unit (EUR).

2.4 Foreign currency transactions

Foreign currency is a currency other than the reporting currency of the Project.

Project accounts are maintained in EUR and Armenian Drams (AMD).

Transactions in foreign currencies are translated to presentation currency at exchange rates at the dates of these transactions. The exchange rate:

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.).

The 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 9060-AM

For the period 08 December 2020 to 31 December 2022

In EUR

Application number	Value date	Expenditure category				Total
		(1) Works, goods and consultants' services under Part A of the Project	(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	(4) Operating costs under Part C of the Project	
2	18/03/2022	200,931	-	-	25	200,956
3	26/04/2023	142,076	-	-	8,518	150,594
4	29/06/2022	13,013	-	-	30,140	43,153
5	17/08/2022	177,343	1,249	-	38,589	217,181
6	17/10/2022	79,953	-	-	18,601	98,554
Total		613,316	1.249	-	95,873	710,438

4. STATEMENT OF DESIGNATED ACCOUNT

Bank account number

900000909417

Bank

Central Treasury

Meliq Adamyan Street 1, Yerevan,
Republic of Armenia, 0010

Bank location

For the period 08 December 2020 to
31 December 2022

Account currency

EUR

1. Opening balance as at 08.12.2020

IBRD Loan Number 9060-AM

2. Add: opening discrepancy

3. WB advance/replenishment

4. Less: Refund to WB from DA

5. Present outstanding amount advanced to DA

6. DA closing balance as at 31.12.2022

7. Add: Amount of eligible expenditures paid

8. Less: interest earned (if credited to DA)

9. Total advance accounted for

10. Closing discrepancy (5)-(9)

-	-
-	-
1,010,438	1,010,438
-	-
<u>1,010,438</u>	<u>1,010,438</u>
176,633	176,633
833,805	833,805
-	-
<u>1,010,438</u>	<u>1,010,438</u>
-	-

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 on an accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	Note	31.12.2022 EUR
ASSETS		
Cash	6	1,176,038
Total assets		1,176,038
LIABILITIES		
Payables	7	55,351
Total Liabilities		55,351
NET ASSETS		
Cumulative income		
<i>Funds</i>	8	
IBRD Loan 9060-AM		1,055,188
RA Government		679,422
Community contribution		936,402
		2,671,012
Other inflow*		50,872
Cumulative expenses		
Project expenses		(1,671,988)
		(1,671,988)
Foreign currency gain/(loss)		70,791
Total net assets		1,120,687

* 50,872 of communities' co-financing amount was transferred from SILD Project to the SILD AF project.

6. CASH

Account	Account held at	Underlying Currency	31.12.2022 EUR
Designated account (IBRD Loan 9060-AM)	Treasury	EUR	176,633
GOA co financing account	Treasury	AMD	11
Community contribution account	Treasury	AMD	999,394
			1,176,038

7. Payables

	31 Dec 2022 EUR
On Works (Retentions)*	55,351
	55,351

(*) Retentions of 5% are held from the completed service invoices as guaranty for the quality of the work. 2.5% is 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.

8. Financing

8.1. IBRD Loan Number 9060-AM	From 08 Dec 2020 to 31 Dec 2022 EUR	Cumulative as at 31/12/2022 EUR
Advances/ (advance recovery)	300,000	300,000
SOE and Summary Sheets	710,438	710,438
Front-end Fee	44,750	44,750
Total	1,055,188	1,055,188
Total financing budget		17,900,000
Percentage of finance provided		6%
8.2. Government of the Republic of Armenia co-financing	From 08 Dec 2020 to 31 Dec 2022 EUR	Cumulative as at 31 Dec 2022 EUR
Contributions in cash	679,422	679,422
Total	679,422	679,422
Total financing budget		6,330,267
Percentage of finance provided		11%
8.3. Community Contribution	From 08 Dec 2020 to 31 Dec 2022 EUR	Cumulative as at 31 Dec 2022 EUR
Contributions in cash	936,402	936,402
Total	936,402	936,402
Total financing budget		1,184,629
Percentage of finance provided		79%

9. Project Expenditures

9.1. Project expenditures financing per funds

EUR

Category	From 08 Dec 2020 to 31 Dec 2022			
	IBRD Loan 9060-AM	Government of RoA co-financing	Community contribution	Total
1. Works, goods and consultants' services under Part A of the Project	671,114	221,102	38,235	930,451
2. Works, goods and consultants' services under Part B of the Project	599	200	-	799
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	2,130	1,137	-	3,267
4. Operating costs under Part C of the Project	159,962	477,408	-	637,370
5. Front-end fee	44,750	-	-	44,750
Total	878,555	699,847	38,235	1,616,637

Category	Cumulative as at 31 Dec 2022			
	IBRD Loan 9060-AM	Government of RoA co-financing	Community contribution	Total
1. Works, goods and consultants' services under Part A of the Project	671,114	221,102	38,235	930,451
2. Works, goods and consultants' services under Part B of the Project	599	200	-	799
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	2,130	1,137	-	3,267
4. Operating costs under Part C of the Project	159,962	477,408	-	637,370
5. Front-end fee	44,750	-	-	44,750
Total	878,555	699,847	38,235	1,616,637

9.2. Project budget progress

Category	Cumulative as at 31 Dec 2022	Budget	Implementation
	EUR	EUR	%
1. Works, goods and consultants' services under Part A of the Project	930,451	6,209,345	15%
2. Works, goods and consultants' services under Part B of the Project	799	16,707,405	0%
3. Goods, consultants' services (including for Project audits) and Training under Part C of the Project	3,267	256,729	1%
4. Operating costs under Part C of the Project	637,370	2,196,667	29%
5. Front-end fee	44,750	44,750	100%
Total	1,616,637	25,414,896	6%

10. Events after the reporting date

10.1 Application of compensation

The application N 7 that includes expenditures relating to the Reporting year in the amount of 123.434.64 EUR was submitted to WB on 8 February 2023 and approved on 16 February 2023.

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

Additional Financing for *Social Investment and Local Development Project*
IBRD Loan 9060-AM
 For the period from 08 December 2020 to 31 Dec 2022
 In EUR

Expenditure Category	Appl.	ATDF	WB	Difference
Advances	1	300,000	300,000	-
1. Works, goods, and consultants' services under Part A of the Project	2	200,391	200,391	-
	3	142,076	142,076	-
	4	13,013	13,013	-
	5	177,343	177,343	-
	6	79,953	79,953	-
			613,316	613,316
2. Works, goods, and consultants' services under Part B of the Project	5	1,249	1,249	-
		1,249	1,249	-
4. Operating costs under Part C of the Project	2	25	25	-
	3	8,518	8,518	-
	4	30,140	30,140	-
	5	58,589	58,589	-
	6	18,601	18,601	-
			95,873	95,873
5. Front-end fee		44,750	44,750	
Total		1,055,188	1,055,188	