

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 2019

YEREVAN
July 2020

CONTENT

	Page
STATEMENT OF MANAGEMENT RESPONSIBILITY FOR THE PREPARATION AND PRESENTATION 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

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR THE PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The management of the Armenian Territorial Development Fund ("ATDF") is responsible for the preparation of 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") that present fairly the Project's cash receipts and payments, and expenditures per components for the year ended 31 December 2019, 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) within the International Federation of Accountants (IFAC) 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 2019.

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; and
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the year ended 31 Dec 2019 were authorized for issue on 28 July 2020 by the ATDF's Management.

Artur Soghomonyan
Executive Director

Levon Dulyan
Financial and Administrative Director



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 2019, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the cash flows for the year ended 31 December 2019 in accordance with International Public Sector Accounting Standards: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis).

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) of the International Federation of Accountants (IFAC). 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.

Emphasis of Matter -Subsequent events

Without modifying our opinion, we draw attention to Note 11.2 to the financial statements, which describes the possible effect of the impact of COVID-19 epidemic on the project after the reporting date.

Responsibilities of the Management for the Financial Statements

Management of the ATDF is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the IFAC and Financial Management Manual for World Bank Financed Investment Operations ("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. 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, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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:

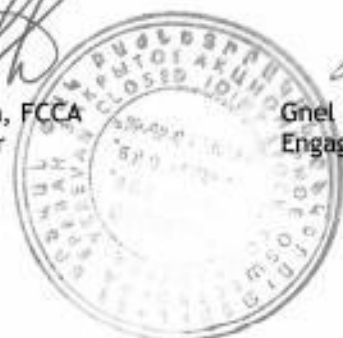
1. funds have been used in accordance with the conditions of the Loan Agreement concluded between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, and WB Guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing 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 year ended 31 December 2019.

"BDO Armenia" CJSC
28 July 2020


Vahagn Sahakyan, FCCA
Managing partner


Gnel Khachatryan, FCCA
Engagement partner



STATEMENT OF CASH RECEIPTS AND PAYMENTS
Local Economy and Infrastructure Development Project
IBRD Loan 8572-AM
For the year ended 31 December 2019
In USD

Description	Note	Actual		Planned		Variance	
		Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019	Cumulative as at 31.12.2019
Opening Cash Balance	6	414,394	-				
Sources of Funds	9						
IBRD Loan Number 8572-AM		3,676,254	5,861,037				
RA Government		728,758	1,137,515				
Total		4,405,012	6,998,552				
Use of Funds	10						
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project		3,586,121	5,524,242	4,265,379	6,203,500	679,258	679,258
(2) Operating costs		72,331	175,314	113,904	216,887	41,573	41,573
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project		-	-	-	-	-	-
Front-end Fee		-	137,500	-	137,500	-	-
Total		3,658,452	5,837,056	4,379,283	6,557,887	720,831	720,831
Foreign currency gain		2,972	2,430				
Closing Cash Balance	6	1,163,926	1,163,926				

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 28 July 2020 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Artur Soghomonyan
Executive Director

Levon Dulyan
Financial and Administrative Director



STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Local Economy and Infrastructure Development Project

IBRD Loan 8572-AM

For the year ended 31 December 2019

In USD

Project Activities	Actual		Planned		Variance	
	Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019	Cumulative as at 31.12.2019
Part 1. Heritage Hub Regeneration and Tourism Circuit Development	3,658,452	5,699,556	4,379,283	6,420,387	720,831	720,831
1.a. Urban regeneration activities	-	-	-	-	-	-
1.b. Cultural heritage preservation	3,478,761	5,328,026	4,016,059	5,865,324	537,298	537,298
1.c. Creation of public infrastructure to attract private investments	-	-	-	-	-	-
1.d. Project management, design and construction supervision	179,691	371,530	363,224	555,063	183,533	183,533
Part 2. Institutional Development	-	-	-	-	-	-
Part 3. Contingent Emergency Response	-	-	-	-	-	-
Front-end fee	-	137,500	-	137,500	-	-
Total	3,658,452	5,837,056	4,379,283	6,557,887	720,831	720,831

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 28 July 2020 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Artur Soghomonyan
Executive Director

Levon Dulyan
Financial and Administrative Director



NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Local Economy and Infrastructure Development Project

IBRD Loan 8572-AM

For the year ended 31 December 2019

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.

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 of Armenia (TCA), the MoE, the Historical and Culture Heritage Protection Agency (HCHPA).

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)
	USD	USD equivalent	USD	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	53,962,500	13,490,625	67,453,125	80%
(2) Operating costs	900,000	225,000	1,125,000	80%
(3) Front-end Fee	137,500	-	137,500	100%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-	-
Total	55,000,000	13,715,625	68,715,625	

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) 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 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).

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 these 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.

The exchange rate defined by the CBA as at 31 Dec 2018 is: USD 1 = 483.76 AMD.

The exchange rate defined by the CBA as at 31 Dec 2019 is: USD 1 = 479.70 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 Reports and SOEs

IBRD Loan Number 8572-AM

For the year ended 31 December 2019

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	
10	26/03/2019	577,189	8,418	585,607
12	14/05/2019	16,382	13,340	29,722
13	18/07/2019	1,058,510	13,747	1,072,257
14	20/08/2019	515,156	4,622	519,778
15	27/09/2019	521,621	5,538	527,159
16	16/12/2019	233,517	8,214	241,731
Total		2,922,375	53,879	2,976,254

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 31.12.2019 USD
1. Opening balance	414,394
2. Add: opening discrepancy	7
3. WB advance/replenishment	3,676,254
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	4,090,655
6. DA closing balance	1,163,926
7. Add: Amount of eligible expenditures paid	2,926,726
8. Less: Interest earned (if credited to DA)	-
9. Total advance accounted for	4,090,652
10. Closing discrepancy (5)-(9)	3

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	31.12.2019 USD	31.12.2018 USD
ASSETS			
Cash	6	1,163,926	414,394
Prepayments and receivables	7	72,077	966,246
Total assets		1,236,003	1,380,640
LIABILITIES			
Payables	8	164,810	46,475
Total Liabilities		164,810	46,475
NET ASSETS			
Cumulative income			
Funds	9		
IBRD Loan 8572-AM		5,861,037	2,184,783
RA Government		1,137,515	408,757
		6,998,552	2,593,540
Cumulative expenses			
Project expenses	10	5,929,789	1,258,833
		5,929,789	1,258,833
Foreign currency gain/(loss)		2,430	(542)
Total net assets		1,071,193	1,334,165

6. CASH

Account	Account held at	Underlying Currency	31.12.2019 USD	31.12.2018 USD
Designated account (IBRD Loan 8572-AM)	Treasury	USD	1,163,926	414,394
			1,163,926	414,394

7. Prepayments and receivables

	31.12.2019 USD	31.12.2018 USD
Prepayments on Works*	72,077	966,246
	72,077	966,246

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

8. Payables

	31.12.2019 USD	31.12.2018 USD
On Works (Retentions)*	164,810	46,475
	164,810	46,475

(*) 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 31.12.2019 USD	Cumulative at 31.12.2019 USD
Advances	700,000	1,700,000
SOE and Summary Sheets	2,976,254	4,023,537
Front-end Fee	-	137,500
Total	3,676,254	5,861,037
Total financing budget		55,000,000
Percentage of finance provided as at 31 Dec 2019		11%

9.2. Government of the Republic of Armenia co-financing

	Year ended 31.12.2019 USD	Cumulative at 31.12.2019 USD
Contributions in cash	728,758	1,137,515
Total	728,758	1,137,515
Total financing budget		13,715,625
Percentage of finance provided as at 31 Dec 2019		8%

10. Project Expenditures

10.1. Project expenditures financing per funds

Category	Year ended 31.12.2019		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	2,868,860	717,261	3,586,121
(2) Operating costs	57,866	14,465	72,331
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	-	-	-
Total	2,926,726	731,726	3,658,452

Category	Cumulative as at 31.12.2019		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	4,419,356	1,104,886	5,524,242
(2) Operating costs	140,251	35,063	175,314
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	-	137,500
Total	4,697,107	1,139,949	5,837,056

10.2. Project budget progress

Category	Cumulative as at 31.12.2019	Budget	Implementation
	USD	USD	%
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	5,524,242	67,453,125	8%
(2) Operating costs	175,314	1,125,000	16%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	137,500	100%
Total	5,837,056	68,715,625	8%

11. Events after the reporting date

11.1 Applications of compensation

The application N17 that includes expenditures relating to the reporting period in the amount of 536,078 USD was submitted to WB on 13 February 2020 and approved on 18 February 2020.

11.2 COVID-19 epidemic

Considering breakout of new coronavirus (COVID-19) epidemic in the world, as well as Republic of Armenia Government Decree on declaring State of Emergency from March 16 to August 12, 2020 throughout Armenia. The Project management believes that the situation may have a negative impact on the Project, in particular it may lead to:

- Delays in the works,
- Difficulties to coordinate project activities, and
- Other negative outcomes due to limitations.

Given the unpredictability of events, Project management does not consider it possible to estimate the financial impact of the above event on the reports.

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 2019
In USD*

Expenditure Category	Appl.	ATDF	WB	Difference
Advances	11	700,000.00	700,000.00	-
		700,000.00	700,000.00	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	10	577,189.10	577,189.10	-
	12	16,382.67	16,382.67	
	13	1,058,509.93	1,058,509.93	
	14	515,156.48	515,156.48	-
	15	521,620.87	521,620.87	
	16	233,516.58	233,516.58	-
		2,922,375.63	2,922,375.63	
(2) Operating costs	10	8,417.75	8,417.75	-
	12	13,340.43	13,340.43	-
	13	13,746.56	13,746.56	-
	14	4,621.83	4,621.83	-
	15	5,537.61	5,537.61	-
	16	8,214.11	8,214.11	-
		53,878.29	53,878.29	
Total		3,676,253.92	3,676,253.92	