

**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 period from 29 December 2016 to 31 December 2018**

**YEREVAN  
June 2019**

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## 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 period from 29 December 2016 to 31 December 2018, 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 period from 29 December 2016 to 31 December 2017 and for the year ended 31 December 2018 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**

We draw 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. Our opinion is not modified in respect of this matter.

### **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:

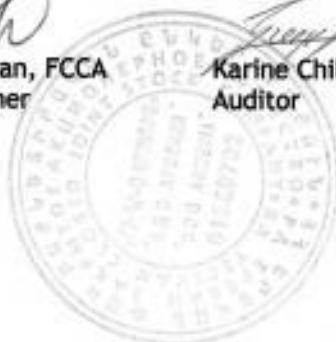
1. funds have been used in accordance with the conditions of the Loan Agreement concluded between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, and WB Guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing 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 period from 29 December 2016 to 31 December 2018.

"BDO Armenia" CJSC  
20 June 2019

  
Vahagn Sahakyan, FCCA  
Managing Partner

  
Karine Chilingaryan  
Auditor



# STATEMENT OF CASH RECEIPTS AND PAYMENTS

Local Economy and Infrastructure Development Project

IBRD Loan 8572-AM

For the period from 29 December 2016 to 31 December 2018

In USD

Description	Note	Actual		Planned		Variance	
		29.12.2016 31.12.2017	Year ended 31.12.2018	Cumulative 31.12.2018	29.12.2016 31.12.2017	Year ended 31.12.2018	Cumulative 31.12.2018
Opening Cash Balance	6	-	90,595	-			
Sources of Funds	9						
IBRD Loan Number 8572-AM		270,896	1,913,887	2,184,783			
RA Government		10,859	397,898	408,757			
Total		281,755	2,311,785	2,593,540			
Տնօրենի օգնություն	10						
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project			1,938,121	1,938,121	17,939	2,201,472	2,201,472
(2) Operating costs							
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project							
Front-end Fee		53,494	49,489	102,983	60,499	82,533	136,027
Total		137,500	-	137,500	137,500	-	137,500
Foreign currency loss		190,994	1,987,610	2,178,604	215,938	2,284,005	2,474,999
Closing Cash Balance	6	166	376	542			
		90,595	414,394	414,394			

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 20 June 2019 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Ashot Kirakosyan  
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 period from 29 December 2016 to 31 December 2018

In USD

Project Activities	Actual		Planned		Variance	
	29.12.2016	Year ended 31.12.2018	29.12.2016 31.12.2017	Year ended 31.12.2018	29.12.2016 31.12.2017	Year ended 31.12.2018
Part 1. Heritage Hub Regeneration and Tourism Circuit Development	53,494	1,987,610	78,438	2,284,005	24,944	296,395
1.a. Urban regeneration activities	-	-	-	-	-	-
1.b. Cultural heritage preservation	-	1,849,265	14,767	2,116,538	14,767	267,273
1.c. Creation of public infrastructure to attract private investments	-	-	-	-	-	-
1.d. Project management, design and construction supervision	53,494	138,345	63,671	167,467	10,177	29,122
Part 2. Institutional Development	-	-	-	-	-	-
Part 3. Contingent Emergency Response	-	-	-	-	-	-
Front-end fee	137,500	-	137,500	-	-	-
Total	190,994	1,987,610	215,938	2,284,005	24,944	296,395

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 20 June 2019 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Ashot Kirakosyan  
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 period from 29 December 2016 to 31 December 2018*

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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 30 April 2021.

The Grace period for submitting the expenditures incurred before the Closing date is set four months after the Closing date 31 August 2021.

#### **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) Restoration of public infrastructure, building facilities and roofs, public spaces, museums, access roads, water and sanitation, drainage and street lighting in towns of Gyumri, Goris, and Meghri, and the heritage villages of Areni, Tatev and Tandzatap.
- b) Cultural heritage preservations and improved site management activities;
- 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 Development Foundation Armenia (DFA), the MoE, the Historical and Culture Heritage Protection Agency (HCHPA).

##### **Part 3: Contingent emergency response**

Support for community services and infrastructure rehabilitation and reconstruction to respond to an Eligible Emergency within the Selected Regions.

### 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	
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-	100%
<b>Total</b>	<b>55,000,000</b>	<b>13,715,625</b>	<b>68,715,625</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) 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**

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 2017 is: USD 1 = 483.17 AMD.

The exchange rate defined by the CBA as at 31 Dec 2018 is: USD 1 = 483.76 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 period from 29 December 2016 to 31 December 2018

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	
For the period from 29 December 2016 to 31 December 2017				
2	23/08/2017	-	21,647	21,647
3	26/12/2017	-	11,749	11,749
		-	33,396	33,396
For the year ended 31 December 2018				
4	02/04/2018		15,291	15,291
6	26/07/2018	250,357	13,061	263,418
8	20/09/2018	310,112	6,510	316,622
9	20/11/2018	412,838	5,718	418,556
		973,307	40,580	1,013,887
Total		973,307	73,976	1,047,283

### 4. STATEMENT OF DESIGNATED ACCOUNT

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

	29.12.2016- 31.12.2017 USD	Year ended 31.12.2018 USD	Total USD
1. Opening balance	-	90,595	-
2. Add: opening discrepancy	-	6	-
3. WB advance/replenishment	133,396	1,913,887	2,047,283
4. Less: Refund to WB from DA	-	-	-
5. Present outstanding amount advanced to DA	133,396	2,004,488	2,047,283
6. DA closing balance	90,595	414,394	414,394
7. Add: Amount of eligible expenditures paid	42,795	1,590,087	1,632,882
8. Less: interest earned (if credited to DA)	-	-	-
9. Total advance accounted for	133,390	2,004,481	2,047,276
10. Closing discrepancy (5)-(9)	6	7	7

## 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	31.12.2018 USD	31.12.2017 USD
<b>ASSETS</b>			
Cash	6	414,394	90,595
Prepayments and receivables	7	966,246	-
<b>Total assets</b>		<b>1,380,640</b>	<b>90,595</b>
<b>LIABILITIES</b>			
Payables	8	46,475	-
<b>Total Liabilities</b>		<b>46,475</b>	<b>-</b>
<b>NET ASSETS</b>			
<b>Cumulative income</b>			
<i>Funds</i>	9		
IBRD Loan 8572-AM		2,184,783	270,896
RA Government		408,757	10,859
		<b>2,593,540</b>	<b>281,755</b>
<b>Cumulative expenses</b>			
Project expenses	10	1,258,833	190,994
		<b>1,258,833</b>	<b>190,994</b>
Foreign currency loss		542	166
<b>Total net assets</b>		<b>1,334,165</b>	<b>90,595</b>

## 6. CASH

Account	Account held at	Underlying Currency	31.12.2018 USD	31.12.2017 USD
Designated account (IBRD Loan 8572-AM)	Treasury	USD	414,394	90,595
			<b>414,394</b>	<b>90,595</b>

## 7. Prepayments and receivables

	31 Dec 2018 USD	31 Dec 2017 USD
Prepayments on Works*	966,246	-
	<b>966,246</b>	<b>-</b>

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

## 8. Payables

	31 Dec 2018 USD	31 Dec 2017 USD
On Works (Retentions)*	46,475	-
	<b>46,475</b>	<b>-</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

	29.12.2016- 31.12.2017 USD	Year ended 31.12.2018 USD	Cumulative at 31.12.2018 USD
Advances	100,000	900,000	1,000,000
SOE and Summary Sheets	33,396	1,013,887	1,047,283
Front-end Fee	137,500	-	137,500
<b>Total</b>	<b>270,896</b>	<b>1,913,887</b>	<b>2,184,783</b>
Total financing budget			55,000,000
Percentage of finance provided as at 31 Dec 2018			4%

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

	29.12.2016- 31.12.2017 USD	Year ended 31.12.2018 USD	Cumulative at 31.12.2018 USD
Contributions in cash	10,858	397,899	408,757
<b>Total</b>	<b>10,858</b>	<b>397,899</b>	<b>408,757</b>
Total financing budget			13,715,625
Percentage of finance provided as at 31 Dec 2018			3%

## 10. Project Expenditures

### 10.1. Project expenditures financing per funds

USD

Category	29.12.2016- 31.12.2017		Year ended 31.12.2018		Total
	IBRD Loan 8572-AM	Governme nt of RoA co- financing	IBRD Loan 8572-AM	Governm ent of RoA co- financing	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	-	-	1,550,496	387,625	1,938,121
(2) Operating costs	42,795	10,699	39,591	9,898	102,983
(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>180,295</b>	<b>10,699</b>	<b>1,590,087</b>	<b>397,523</b>	<b>2,178,604</b>

USD

Category	Cumulative as at 31.12.2018		
	IBRD Loan 8572-AM	Government of RoA co-financing	Total
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	1,550,496	387,625	1,938,121
(2) Operating costs	82,386	20,597	102,983
(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>1,770,382</b>	<b>408,222</b>	<b>2,178,604</b>

### 10.2. Project budget progress

Category	Cumulative as at 31.12.2018	Budget	Implementation
	USD	USD	%
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	1,938,121	67,453,125	3%
(2) Operating costs	102,983	1,125,000	9%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	n/a
Front-end Fee	137,500	137,500	100%
<b>Total</b>	<b>2,178,604</b>	<b>68,715,625</b>	<b>3%</b>

## 11. Events after the reporting date

The application N 10 that includes expenditures relating to the reporting period in the amount of 585,607 USD was submitted to WB on 20 March 2019 and approved on 26 March 2019.

# 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 period from 29 December 2016 to 31 December 2018  
In USD

Expenditure Category	Appl.	ATDF	WB	Difference
Advances	1	100,000.00	100,000.00	-
	5	300,000.00	300,000.00	-
	7	600,000.00	600,000.00	-
		1,000,000.00	1,000,000.00	
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	6	250,356.81	250,356.81	-
	8	310,111.60	310,111.60	-
	9	412,838.35	412,838.35	-
		973,306.76	973,306.76	
(2) Operating costs	2	21,646.93	21,646.93	-
	3	11,749.36	11,749.36	-
	4	15,290.81	15,290.81	-
	6	13,060.50	13,060.50	-
	8	6,510.44	6,510.44	-
	9	5,718.06	5,718.06	-
		73,976.10	73,976.10	
Total		2,047,282.86	2,047,282.86	