

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 2020

YEREVAN
July 2021

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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 2020 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 2020.

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 2020 were authorized for issue on 29 July 2021 by the ATDF's Management.

Artur Soghomonyan
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 2020, 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 2020 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)*.

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 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 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.

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

In our opinion, the Project management has complied with the above requirements for the year ended 31 December 2020.

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 2020
In USD

Description	Note	Actual		Planned		Variance	
		Year ended 31.12.2020	Cumulative as at 31.12.2020	Year ended 31.12.2020	Cumulative as at 31.12.2020	Year ended 31.12.2020	Cumulative as at 31.12.2020
Opening Cash Balance	6	1,163,926	-				
Sources of Funds	9						
IBRD Loan Number 8572-AM		2,271,383	8,132,420				
RA Government		842,716	1,980,231				
Total		3,114,099	10,112,651				
Use of Funds	10						
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project							
(2) Operating costs		4,106,360	9,630,602	4,948,278	10,472,520	841,918	841,918
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project		72,734	248,048	98,540	273,854	25,806	25,806
Front-end Fee		-	-	-	-	-	-
Total		4,179,094	10,016,150	5,046,818	10,883,874	867,724	867,724
Foreign currency loss		(14,875)	(12,445)				
Closing Cash Balance	6	84,056	84,056				

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 29 July 2021 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
Chief Financial Officer



STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Local Economy and Infrastructure Development Project
IBRD Loan 8572-AM
For the year ended 31 December 2020
In USD

Project Activities	Actual		Planned		Variance	
	Year ended 31.12.2020	Cumulative as at 31.12.2020	Year ended 31.12.2020	Cumulative as at 31.12.2020	Year ended 31.12.2020	Cumulative as at 31.12.2020
Part 1. Heritage Hub Regeneration and Tourism Circuit Development	4,179,094	9,878,650	5,046,818	10,746,374	867,724	867,724
1.a. Urban regeneration activities	-	-	-	-	-	-
1.b. Cultural heritage preservation	3,913,339	9,241,365	4,722,873	10,050,899	809,534	809,534
1.c. Creation of public infrastructure to attract private investments	-	-	-	-	-	-
1.d. Project management, design and construction supervision	265,755	637,285	323,945	695,475	58,190	58,190
Part 2. Institutional Development	-	-	-	-	-	-
Part 3. Contingent Emergency Response	-	-	-	-	-	-
Front-end fee	-	137,500	-	137,500	-	-
Total	4,179,094	10,016,150	5,046,818	10,883,874	867,724	867,724

The project special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 29 July 2021 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
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 2020

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 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)
	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), 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 2019 is: USD 1 = 479.70 AMD.

The exchange rate defined by the CBA as at 31 Dec 2020 is: USD 1 = 522.59 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 2020

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	
17	18/02/2020	523,674	12,404	536,078
18	2/06/2020	498,040	16,442	514,482
19	31/07/2020	305,332	8,080	313,412
20	9/11/2020	889,120	18,291	907,411
Total		2,216,166	55,217	2,271,383

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 31.12.2020 USD
1. Opening balance	1,163,926
2. Add: opening discrepancy	3
3. WB advance/replenishment	2,271,383
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	3,435,312
6. DA closing balance	84,056
7. Add: Amount of eligible expenditures paid	3,351,251
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	3,435,307
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	31.12.2020 USD	31.12.2019 USD
ASSETS			
Cash	6	84,056	1,163,926
Prepayments and receivables	7	771,724	72,077
Total assets		855,780	1,236,003
LIABILITIES			
Payables	8	279,132	164,810
Total Liabilities		279,132	164,810
NET ASSETS			
Cumulative income			
<i>Funds</i>	9		
IBRD Loan 8572-AM		8,132,420	5,861,037
RA Government		1,980,231	1,137,515
		10,112,651	6,998,552
Cumulative expenses			
Project expenses	10	(9,523,558)	5,929,789
		(9,523,558)	5,929,789
Foreign currency gain/(loss)		(12,445)	2,430
Total net assets		576,648	1,071,193

6. CASH

Account	Account held at	Underlying Currency	31.12.2020 USD	31.12.2019 USD
Designated account (IBRD Loan 8572-AM)	Treasury	USD	84,056	1,163,926
			84,056	1,163,926

7. Prepayments and receivables

	31.12.20 USD	31.12.2019 USD
Prepayments on Works*	771,724	72,077
	771,724	72,077

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

8. Payables

	31.12.2020 USD	31.12.2019 USD
On Works (Retentions)*	279,132	164,810
	279,132	164,810

(*) 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	Cumulative at 31.12.2020 USD
Advances	-	1,700,000
SOE and Summary Sheets	2,271,383	6,294,920
Front-end Fee	-	137,500
Total	2,271,383	8,132,420
Total financing budget		55,000,000
Percentage of finance provided as at 31 Dec 2020		15%

9.2. Government of the Republic of Armenia co-financing

	Year ended 31.12.2020 USD	Cumulative at 31.12.2020 USD
Contributions in cash	842,716	1,980,231
Total	842,716	1,980,231
Total financing budget		13,715,625
Percentage of finance provided as at 31 Dec 2020		14%

10. Project Expenditures

10.1. Project expenditures financing per funds

Category	Year ended 31.12.2020		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	3,293,064	813,296	4,106,360
(2) Operating costs	58,187	14,547	72,734
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	-	-	-
Total	3,351,251	827,843	4,179,094

Category	Cumulative as at 31.12.2020		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	7,712,420	1,918,182	9,630,602
(2) Operating costs	198,438	49,610	248,048
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	-	137,500
Total	8,048,358	1,967,792	10,016,150

10.2. Project budget progress

Category	Cumulative as at 31.12.2020	Budget	Implementation
	USD	USD	%
(1) Goods, works, non-consulting services, consultants' services, and/or Training under Part 1 and 2 of the Project	9,630,602	67,453,125	14%
(2) Operating costs	248,048	1,125,000	22%
(4) Goods, works, non-consulting services, consultants' services under Part 3 of the Project	-	-	-
Front-end Fee	137,500	137,500	100%
Total	10,016,150	68,715,625	15%

11. Events after the reporting date

The application N21 that includes expenditures relating to the reporting period in the amount of 1,615,946 USD was submitted to WB on 5 February 2021 and approved on 8 February 2021.

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 2020
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	17	523,673.84	523,673.84	-
	18	498,040.44	498,040.44	-
	19	305,331.57	305,331.57	-
	20	889,120.27	889,120.27	-
		2,216,166.12	2,216,166.12	
(2) Operating costs	17	12,404.64	12,404.64	-
	18	16,441.62	16,441.62	-
	19	8,080.09	8,080.09	-
	20	18,291.01	18,291.01	-
		55,217.36	55,217.36	
Total		2,271,383.48	2,271,383.48	