

Audited Project Financial Statements

Project Number: 49078-001

Loan Number: 3284

Period covered: 22 December 2015 to 31 December 2016

Armenia: Seismic Safety Improvement Program Results-Based Lending

Prepared by the Armenian Territorial Development Fund

For the Asian Development Bank

Date received by ADB: 31 May 2017

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Armenian Territorial Development Fund.

**SEISMIC SAFETY IMPROVEMENT PROGRAM
RESULTS-BASED LENDING**

ADB LOAN NUMBER 3284-ARM(SF)

**IMPLEMENTED BY
ARMENIAN TERRITORIAL DEVELOPMENT FUND**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the period from 22 December 2015 to 31 December 2016

**YEREVAN
May 2017**

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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 "Seismic Safety Improvement Program" ("Program") financed by Loan Agreement ADB Loan Number 3284-ARM(SF) dated on 19 October 2015 ("Loan Agreement"), and implemented by the Armenian Territorial Development Fund ("ATDF"), which comprise of the statement of cash receipts and payments for the period from 22 December 2015 to 31 December 2016, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion,

1. the accompanying financial statements present fairly, in all material respects, the cash flows for the period from 22 December 2015 to 31 December 2016 in accordance with International Public Sector Accounting Standards: *Financial Reporting Under the Cash Basis of Accounting, (IPSAS-Cash Basis)*;
2. funds have been used in accordance with the conditions of the Loan Agreement concluded between the Asian Development Bank (ADB) and the Republic of Armenia, and ADB Guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. supporting documents, records and accounts have been kept in respect of all Program ventures, including those relating to DLIs achievements reports. Respective reports issued during the period were in agreement with the underlying books of accounts;
4. The Deposit Account used has been maintained in accordance with the provision of the Loan Agreement, and ADB related 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) 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 Program 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.

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 ADB Program Financial Reporting and Auditing Guidelines ("ADB 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.



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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.

"SOS-Audit" LLC

25 May 2017



Manvel Ghazaryan
Director

Gnel Khachatryan, FCCA
Auditor

STATEMENT OF CASH RECEIPTS AND PAYMENTS

Seismic Safety Improvement Program –Results-Based Lending

ADB Loan Number 3284-ARM(SF)


For the period from 22 December 2015 to 31 December 2016

In USD

Description	Note	Actual		Planned		Variance	
		Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016
Opening Cash Balance		-	-				
Sources of Funds	6						
ADB Loan Number 3284-ARM(SF)		26,029,956	26,029,956				
RA Government		87,874	87,874				
Total		26,117,830	26,117,830				
Uses of Funds							
(1) Works		-	-	2,170,682	2,170,682	2,170,682	2,170,682
(2) Goods		44,117	44,117	341,787	341,787	297,670	297,670
(3) Consultants services		308,821	308,821	1,295,884	1,295,884	987,063	987,063
(4) Operating costs		138,022	138,022	200,178	200,178	62,156	62,156
(5) Interest during implementation		388,414	388,414	388,414	388,414	-	-
Total		879,374	879,374	4,396,945	4,396,945	3,517,571	3,517,571
Foreign currency gain/(loss)		2,897	2,897				
Closing Cash Balance	5	25,241,353	25,241,353				

The Program special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 25 May 2017 and signed on its behalf. The accompanying notes form an integral part of these Program special purpose financial statements.

Ashot Kirakosyan
Executive Director



Levon Dulyan
Financial and Administrative Director




STATEMENT OF USES OF FUNDS BY PROGRAM ACTIVITY

Seismic Safety Improvement Program – Results-Based Lending

ADB Loan Number 3284-ARM(SF)

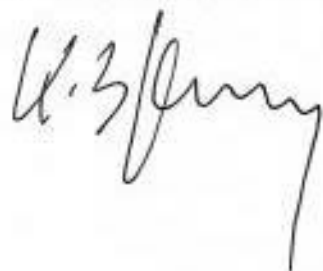
For the period from 22 December 2015 to 31 December 2016

In USD

Program Activities	Actual		Planned		Variance	
	Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016
(a) Increasing seismic resilience of school buildings;	352,938	352,938	3,808,353	3,808,353	3,455,415	3,455,415
(b) Strengthening seismic disaster preparedness and response capacity;	-	-	-	-	-	-
(c) Improving supportive policies and systems for seismic disaster risk management and reduction;	-	-	-	-	-	-
(d) Enhancing capacity in Program execution and implementation.	138,022	138,022	200,178	200,178	62,156	62,156
(e) Interest during implementation	388,414	388,414	388,414	388,414	-	-
Total	879,374	879,374	4,396,945	4,396,945	3,517,571	3,517,571

The Program special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 25 May 2017 and signed on its behalf. The accompanying notes form an integral part of these Program special purpose financial statements.

Ashot Kirakosyan
Executive Director



Levon Dulyan
Financial and Administrative Director




NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Seismic Safety Improvement Program – Results- Based Lending
ADB Loan Number 3284-ARM(SF)
For the period from 22 December 2015 to 31 December 2016

1. General information

1.1. The Program financing

According to the Loan Agreement between the Republic of Armenia and the Asian Development Bank (“ADB”) concluded on 19 October 2015, ADB provided a Loan Number 3284-ARM(SF) in the amount of 63,259,000 Special Drawing Rights (“SDR”) to the Republic of Armenia.

The payment currency of the loan is United States dollars (USD).

The loan was provided for implementation of “Seismic Safety Improvement Program –Results-Based Lending” (“Program”, “SSIP”).

The Loan Agreement became effective on 22 December 2015.

The Program is expected to be completed by 30 November 2020, and Closing date for the ADB Loan Number 3284-ARM(SF) financing is set on 31 May 2021.

1.2. The Program’s objective

The objective of the Program is to support SSIP implementation in improving coverage of seismically safe school buildings.

The Program shall support SSIP in the following areas:

- (f) Increasing seismic resilience of school buildings;
- (g) Strengthening seismic disaster preparedness and response capacity;
- (h) Improving supportive policies and systems for seismic disaster risk management and reduction;
- (i) Enhancing capacity in Program execution and implementation.

1.3. Disbursement Linked Indicator (“DLI”)

The Loan amounts are available for withdrawal upon satisfaction of the corresponding DLI targets. The satisfactory evidence of DLIs achievement shall be submitted to ADB to support withdrawal applications. Withdrawals from the Loan account may be made for DLI targets achieved prior to the Effective date, 22 Dec 2015, but not earlier than 19 Oct 2014.

DLI #	DLI description	Total	Prior Results	Y 2016	Y 2017	Y 2018	Y 2019	Y 2020
		SDR	SDR	SDR	SDR	SDR	SDR	SDR
DLI1	Coverage of seismically safe school buildings increased	18,514,000	-		6,791,000	-	6,719,000	5,004,000
DLI2	Seismic resilience of school buildings increased	34,382,000	2,144,000	13,224,000	-	13,438,000	-	5,576,000
DLI3	Seismic disaster preparedness and response capacity strengthened	2,573,000	-	1,072,000	-	1,001,000	-	500,000
DLI4	Supportive policies, systems, and structures for seismic disaster risk management and reduction improved	2,429,000	643,000	643,000	-	643,000	-	500,000
DLI5	National capacity in executing and implementing the seismic safety investment program enhanced	1,858,000	357,000	643,000	858,000	-	-	-
Subtotal		59,756,000	3,144,000	15,582,000	7,649,000	15,082,000	6,719,000	11,580,000
Interest during implementation		3,503,000	-	-	-	-	-	-
Total		63,259,000	-	-	-	-	-	-

1.4. Budget

The Program is financed by:

- ☐ ADB Loan Number 3284-ARM(SF),
- ☐ Government of the Republic of Armenia (Government of RoA), covering the taxes.

Category	ADB Loan Number 3284-ARM(SF)		Government of RoA	Total
	SDR	USD equivalent*	USD equivalent**	USD
(1) Works	47,208,000	64,018,219	14,177,021	78,195,240
(2) Goods	4,183,000	5,672,518	1,256,196	6,928,714
(3) Consultants services	6,680,000	9,058,670	2,006,069	11,064,739
(4) Operating costs	1,685,000	2,285,008	506,022	2,791,030
(5) Interest during implementation	3,503,000	4,750,378	-	4,750,378
Total	63,259,000	85,784,793	17,945,308	103,730,101

(*) Budget USD equivalent of SDR underlined loan is calculated based on cumulative funds received in USD, plus USD equivalent of undisbursed funds in SDR as at reporting date. As at 31.12.2016 the SDR/USD rate is set 1 SDR=1.34433 USD (31.12.2015: 1.38573 USD).

(**) The Government of RoA co-financing budget is adjusted based on updated budget of Loan financing.

1.5. Program Implementation

The Program is implemented by the Armenian Territorial Development Fund (ATDF).

The ATDF implements Programs related 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, chaired by the Prime-Minister of the Republic of Armenia, 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 ADB Program Financial Reporting and Auditing Guidelines (March 2015) (“ADB Guidelines”).

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 end of reporting date.

2.3 Reporting currency

The Program 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 Program.

Program 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 the 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.

Contributions of the Government of the Republic of Armenia, communities and other donors, and payments to contractors and suppliers expressed in AMD are presented in USD at the official exchange rate defined by the CBA at the date of transfer.

The exchange rate defined by the CBA as at 31 Dec 2016 is: USD 1 = 483.65 AMD.

2.5 Taxes

All applicable taxes are paid in accordance with tax regulations of the Republic of Armenia.

3. SUMMARY OF FUNDS RECEIVED UNDER EACH DLI

ADB Loan Number 3284-ARM(SF)

For the period from 22 December 2015 to 31 December 2016

In USD

Application number	Value date	DLI Advance/ (Advance recovery)	Disbursement category documented					Interest during implementation	Total documented	Total paid
			DLI1. Coverage of seismically safe school buildings increased	DLI2. Seismic resilience of school buildings increased	DLI3. Seismic disaster preparedness and response capacity strengthened	DLI4. Supportive policies, systems, and structures for seismic disaster risk management and reduction improved	DLI5. National capacity in executing and implementing the seismic safety investment program enhanced			
00001	28-Dec-2015	21,949,765.98	-	-	-	-	-	-	-	21,949,765.98
	15-May-2016	-	-	-	-	-	-	169,910.01	169,910.01	169,910.01
	15-Nov-2016	-	-	-	-	-	-	218,503.93	218,503.93	218,503.93
00002	09-Dec-2016	-	-	-	1,457,673.44	874,332.11	1,359,770	-	3,691,775.55	3,691,775.55
Total		21,949,765.98	-	-	1,457,673.44	874,332.11	1,359,770.00	388,413.94	4,080,189.49	26,029,955.47

4. STATEMENT OF DEPOSIT ACCOUNT (DA)

Bank account number	900000901281
Bank	Central Treasury
Bank location	Meliq Adamyan Street 1, Yerevan, Republic of Armenia, 0010
Account currency	USD

	ADB Loan Number 3284- ARM(SF)
1. Opening balance as at 22.12.2015	-
2. Add: opening discrepancy	-
3. ADB advance/replenishment	25,641,542
4. Less: Refund to ADB from DA	-
5. Present outstanding amount advanced to DA	25,641,542
6. DA closing balance as at 31.12.2016	25,241,353
7. Add: Amount of eligible expenditures paid	400,189
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	25,641,542
10. Closing discrepancy (5)-(9) (b)	-

5. Cash

Account	Account held at	Underlying Currency	31.12.2016 USD
Deposit account (ADB Loan 3284-ARM(SF))	Treasury	USD	25,241,353
			25,241,353

6. Financing

6.1. ADB Loan Number 3284-ARM(SF)

	Reporting period USD	Cumulative as at 31 Dec 2016 USD
DLI advance/ (advance recovery)	21,949,766	21,949,766
DLI payment	3,691,776	3,691,776
Interest payment	388,414	388,414
Total	26,029,956	26,029,956
Total financing budget		85,784,793
Percentage of finance provided as at 31 Dec 2016		30%

6.2. Government of the Republic of Armenia co-financing

	Reporting period USD	Cumulative as at 31 Dec 2016 USD
Contributions in cash	87,874	87,874
Total financing budget		17,945,308
Percentage of finance provided as at 31 Dec 2016		0.5%

7. Litigations

There are no pending litigations related to the Program as at reporting date and as at approval date of these financial statements.

8. DLI achievement progress

DLI#	DLI description	Year	DLI target	Progress of implementation as at 31 Dec 2016	Corresponding verification process	Amount of Loan Allocated (SDR)	Amount of Loan Proceed Cumulative as at 31 Dec 2016 (SDR)	Proceed %
DLI1	Coverage of seismically safe school buildings increased	2017	At least 2.1% over baseline points (13.4%)			18,514,000	-	-
		2019	At least 3.9% over baseline points					
		2020	At least 5.3% over baseline points					
DLI2	Seismic resilience of school buildings increased	Prior 2015	8 priority schools completed and approved					
		2016	# of schools increase by 9 from baseline			34,382,000	-	-
		2018	# of schools increase by 27 from baseline					
		2020	# of schools increase by 46 from baseline					
DLI3	Seismic disaster preparedness and response capacity strengthened	2016	At least 8 communities received public awareness campaign	Implemented and submitted to ADB on 11 November 2016	Approved by ADB on 29 November 2016	2,573,000	1,072,000	42%
		2018	At least 26 communities received public awareness campaign					
		2020	At least 46 communities received public awareness campaign					
DLI4	Supportive policies, systems, and structures for seismic disaster risk management and reduction improved	Prior 2015	SSRP approved	Implemented and submitted to ADB on 11 November 2016	Approved by ADB on 29 November 2016	2,429,000	643,000	26%
		2016	Building codes harmonized with international standards					
		2018	National seismic hazard probabilistic map updated					
DLI5	National capacity in executing and implementing the seismic safety investment program enhanced	Prior 2015	At least 11 additional staff for program implementation is recruited at ATDF	Implemented and submitted to ADB on 11 November 2016	Approved by ADB on 29 November 2016	1,858,000	1,000,000	54%
		2016	Template bidding documents are prepared; ATDF operational manual updated; Program monitoring and evaluation system established	Prepared by ATDF and submitted to ADB on November 2016				
		2017	At least 30 staff working for program implementation, with at least 40% women are trained					
Total						59,756,000	2,715,000	5%