

Audited Project Financial Statements

Project Number: 49078-001
Loan Number: 3284-ARM
Period covered: 1 January 2018 to 31 December 2018

Seismic Safety Improvement Program Results-Based Lending

Prepared by the BDO Armenia CJSC for the Asian Development Bank.
Date received by ADB: 28 June 2019

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 Access to Information Policy and as agreed between ADB and the Ministry of Finance of the Republic of Armenia.

**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 year ended 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 "Seismic Safety Improvement Program" ("Program") financed by Loan Agreement ADB Loan Number 3284-ARM(SF) dated 19 October 2015 ("Loan Agreement"), and implemented by the Armenian Territorial Development Fund ("ATDF"), which comprise the statement of cash receipts and payments for the year ended 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 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 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.

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 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.

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 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;
2. 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;
3. The Deposit Account used has been maintained in accordance with the provision of the Loan Agreement, and ADB related guidelines.

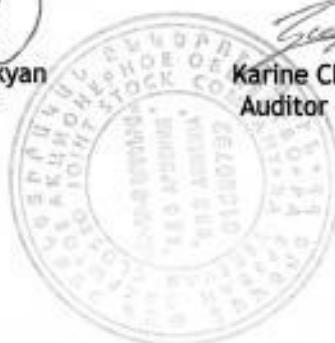
In our opinion, the Project management has complied with the above requirements for the year ended 31 December 2018.

"BDO Armenia" CJSC

20 June 2019


Vahagn Sahakyan
Director


Karine Chilingaryan
Auditor



STATEMENT OF CASH RECEIPTS AND PAYMENTS
Seismic Safety Improvement Program -Results-Based Lending
 ADB Loan Number 3284-ARM(SF)
 For the year ended 31 December 2018
 In USD

Description	Note	Actual		Planned		Variance	
		Reporting year	Cumulative as at 31 Dec 2018	Reporting year	Cumulative as at 31 Dec 2018	Reporting year	Cumulative as at 31 Dec 2018
Opening Cash Balance		21,504,883	-				
Sources of Funds	8						
ADB Loan Number 3284-ARM(SF)		795,315	27,553,468				
RA Government		689,969	1,544,286				
Total		1,485,284	29,097,754				
Uses of Funds							
(1) Works		3,763,286	8,010,328	4,845,475	9,092,517	1,082,189	1,082,189
(2) Goods		287	44,404	-	44,117	(287)	(287)
(3) Consultants services		212,702	592,383	621,041	1,000,722	408,339	408,339
(4) Operating costs		162,979	485,963	193,798	516,782	30,819	30,819
(5) Interest during implementation		795,315	1,911,926	795,315	1,911,926	-	-
Total		4,934,569	11,045,004	6,455,629	12,566,064	1,521,060	1,521,060
Foreign currency gain/(loss)		(82)	2,766				
Closing Cash Balance	5	18,055,516	18,055,516				

The Program 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 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 year ended 31 December 2018

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 was expected to be completed by 30 November 2020, and Closing date for the ADB Loan Number 3284-ARM(SF) financing was set on 31 May 2021. In 2018 the Closing date for the Program was amended to 31 May 2024.

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:

- a) Increasing seismic resilience of school buildings;
- 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.

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.

[illegible]

1.4. Budget

The Program is financed by:

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

Category	ADB Loan Number 3284-ARM(SF)		Government of RA	Total
	SDR	USD equivalent*	USD equivalent**	USD
(1) Works	47,208,000	65,554,148	14,519,048	80,073,196
(2) Goods	4,183,000	5,808,613	1,286,502	7,095,115
(3) Consultants services	6,680,000	9,276,006	2,054,466	11,330,472
(4) Operating costs	1,685,000	2,339,831	518,230	2,858,061
(5) Interest during implementation	3,503,000	4,875,790	-	4,875,790
Total	63,259,000	87,854,388	18,378,246	106,232,634

(*) 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 31.12.2018 the SDR/USD rate is set 1 SDR=1.3908 USD (31.12.2017 - 1.42413 USD).

(**) The Government of RA 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 of Trustees is a 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) 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 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 Taxes

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

Summary of Funds Received Under Each DLI

in Number 3284-ARM(SF)
year ended 31 December 2018

ion r	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		
	15 May 2018	-	-	-	-	-	-	401,660	401,660
	15 Nov 2018	-	-	-	-	-	-	393,655	393,655
		-	-	-	-	-	-	795,315	795,315

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 01.01.2018	21,504,883
2. Add: opening discrepancy	758
3. ADB advance/replenishment	-
4. Less: Refund to ADB from DA	-
5. Present outstanding amount advanced to DA	21,505,641
6. DA closing balance as at 31.12.2018	18,055,516
7. Add: Amount of eligible expenditures paid	3,449,399
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	21,504,915
10. Closing discrepancy (5)-(9)	726

5. Cash

Account	Account held at	Underlying Currency	31.12.2018 USD
Deposit account (ADB Loan 3284- ARM(SF))	Treasury	USD	18,055,516
			18,055,516

6. Financing

6.1. ADB Loan Number 3284-ARM(SF)

	Reporting year USD	Cumulative as at 31 Dec 2018 USD
DLI advance/(advance recovery)	-	21,949,766
DLI payment	-	3,691,776
Interest payment	795,315	1,911,926
Total	795,315	27,553,468
Total financing budget		87,854,388
Percentage of finance provided as at 31 Dec 2018		31%

6.2. Government of the Republic of Armenia co-financing

	Reporting period USD	Cumulative as at 31 Dec 2018 USD
Contributions in cash	689,969	1,544,286
	689,969	1,544,286
Total financing budget		18,378,246
Percentage of finance provided as at 31 Dec 2018		8.4%

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 2018	Corresponding verification process	Amount of Loan Allocated (SDR)	Amount of Loan Proceed Cumulative as at 31 Dec 2018 (SDR)	Proceed %
DLI1	Coverage of seismically safe school buildings increased	2021	At least 2.1% over baseline points			18,514,000	-	-
		2022	At least 3.9% over baseline points					
		2023	At least 5.3% over baseline points					
DLI2	Seismic resilience of school buildings increased	Prior 2015	8 priority schools completed and approved			34,382,000	-	-
		2020	# of schools increase by 8 from baseline					
		2021	# of schools increase by 16 from baseline					
		2022	# of schools increase by 37 from baseline					
		2023	# 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			
		2020	At least 16 communities received public awareness campaign			3,073,000	1,072,000	35%
		2022	At least 37 communities received public awareness campaign					
		2023	At least 46 communities received public awareness campaign					
		Prior 2015	SSRP approved	Implemented and submitted to ADB on 11 November 2016	Approved by ADB on 29 November 2016			
DLI4	Supportive policies, systems, and structures for seismic disaster risk management and reduction improved	2017	Guidelines in line with international best practices for school seismic strengthening and retrofitting approved	Guidelines in line with international best practices for school seismic strengthening and retrofitting were revised under the WB TA	Approved by the RA State Urban Development Committee's presidents decree N 118-A, dated 23.10.2017	1,929,000	643,000	33%
		2018	National seismic hazard probabilistic map updated. The updated building codes for school buildings, harmonized with international standard, approved	National seismic hazard probabilistic map is updated and approved	Approved by the Minister of Emergency Situations on 04.07.2018 as per order N 725			

				the process						
	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						
	2016	Template bidding documents are prepared; ATDF operational manual expanded and updated; Program monitoring and evaluation system established	Prepared by ATDF and submitted to ADB on November 2016							
	2018	At least 30 staff working for program implementation, with at least 40% women are trained	3 types of training were organized for 34 specialists involved in the implementation of theSSIP	ATDF staff training. Environmental and social safeguards training. Project Management training						
DUS	National capacity in executing and implementing the seismic safety investment program enhanced				1,858,000	1,000,000				54%
Total					59,756,000	2,715,000				5%