

Audited Project Financial Statements

Project Number: 49078-001
Loan Number: 3284-ARM
Period covered: 1 January 2017 to 31 December 2017

Seismic Safety Improvement Program Results-Based Lending

Prepared by the BDO Armenia CJSC for the Asian Development Bank.
Date received by ADB: 27 June 2018

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 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 2017

**YEREVAN
June 2018**

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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 year ended 31 December 2017, 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 year ended 31 December 2017 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.

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.

"BDO Armenia" CJSC
25 June 2018


Vahagn Sahakyan, FCCA
Managing Partner


Gnel Khachatryan, FCCA
Engagement Partner

In USD

The Program special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 25 June 2018 and signed on its behalf. The accompanying notes form an integral part of these Program special purpose financial statements.

4.3/June



10/11/19

Seismic Safety Improvement Program - Results-Based Lending
ADB Loan Number 3284-ARM(SF)
For the year ended 31 December 2017
In USD

Program Activities	Actual		Planned		Variance	
	Reporting year	Cumulative as at 31 Dec 2017	Reporting year	Cumulative as at 31 Dec 2017	Reporting year	Cumulative as at 31 Dec 2017
(a) Increasing seismic resilience of school buildings;	4,317,902	4,670,840	4,398,951	4,751,889	81,049	81,049
(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.	184,962	322,984	197,482	335,504	12,520	12,520
(e) Interest during implementation	728,197	1,116,611	728,197	1,116,611	-	-
Total	5,231,061	6,110,435	5,324,630	6,204,004	93,569	93,569

The Program special purpose financial statements were approved by the management of the Armenian Territorial Development Fund on 25 June 2018 and signed on its behalf. The accompanying notes form an integral part of these Program special purpose financial statements.

Ashot Kirakosyan
Executive Director

4.3/June



Levon Dulyan
Financial and Administrative Director

W. H. S.

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 2017

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:

- Increasing seismic resilience of school buildings;
- Strengthening seismic disaster preparedness and response capacity;
- Improving supportive policies and systems for seismic disaster risk management and reduction;
- 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	-	-	-	-	-	-

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	66,640,007	14,759,890	81,399,897
(2) Goods	4,183,000	5,904,829	1,307,842	7,212,671
(3) Consultants services	6,680,000	9,429,657	2,088,546	11,518,203
(4) Operating costs	1,685,000	2,378,589	526,826	2,905,415
(5) Interest during implementation	3,503,000	4,958,637	-	4,958,637
Total	63,259,000	89,311,719	18,683,104	107,994,823

(*) 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 31.12.2017 the SDR/USD rate is set 1 SDR=1.42413 USD (31.12.2016 - 1.34433 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, 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. 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 2016 is: USD 1 = 483.65 AMD.
The exchange rate defined by the CBA as at 31 Dec 2017 is: USD 1 = 483.17 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 year ended 31 December 2017

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			
	15 May 2017	-	-	-	-	-	-	339,028	339,028	339,028
	15 Nov 2017	-	-	-	-	-	-	389,169	389,169	389,169
Total		-	-	-	-	-	-	728,197	728,197	728,197

4. STATEMENT OF DEPOSIT ACCOUNT (DA)

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

	ADB Loan Number 3284- ARM(SF)
1. Opening balance as at 01.01.2017	25,241,353
2. Add: opening discrepancy	-
3. ADB advance/replenishment	-
4. Less: Refund to ADB from DA	-
5. Present outstanding amount advanced to DA	25,241,353
6. DA closing balance as at 31.12.2017	21,504,883
7. Add: Amount of eligible expenditures paid	3,735,712
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	25,240,595
10. Closing discrepancy (5)-(9)	758

5. Cash

Account	Account held at	Underlying Currency	31.12.2017 USD
Deposit account (ADB Loan 3284-ARM(SF))	Treasury	USD	21,504,883
			21,504,883

6. Financing

6.1. ADB Loan Number 3284-ARM(SF)

	Reporting year USD	Cumulative as at 31 Dec 2017 USD
DLI advance/ (advance recovery)	-	21,949,766
DLI payment	-	3,691,776
Interest payment	728,197	1,116,611
Total	728,197	26,758,153
Total financing budget		89,311,718
Percentage of finance provided as at 31 Dec 2017		30%

6.2. Government of the Republic of Armenia co-financing

	Reporting period USD	Cumulative as at 31 Dec 2017 USD
Contributions in cash	766,443	854,317
	766,443	854,317
Total financing budget		18,683,105
Percentage of finance provided as at 31 Dec 2017		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 2017 (SDR)	Proceed %
DLI1	Coverage of seismically safe school buildings increased	2017	At least 2.1% over baseline points (13.4%)		The list of 46 schools to be build or straightened is not approved, yet. There is only list of 20 schools, which does not allow to ensure target coverage.	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	The seismic resilient construction guidelines were approved by the Urban Development Committee of the Government of the Republic of Armenia. The revision of codes of seismic resilient construction is not commenced. For commencement, it is				

				required that the seismic risks map of 1:500000 to be approved, which is not prepared yet.				
		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		During year 2017, 14 workers are trained from which 8 are woman			
Total						59,756,000	2,715,000	5%