



Grant Thornton

Project Financial Statements and
Independent Auditor's Report

Foreign Financing Project Management Center

Promoting Youth Inclusion project
SPF Grant No. TF016980

As of June 15, 2016 and for the period from March
26, 2015 to June 15, 2016

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the project financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the project financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the project financial statements present fairly the cash balance of the Promoting Youth Inclusion project as of June 15, 2016 and the cash received and cash paid for the period from March 26, 2015 to June 15, 2016 in accordance with the International Public Sector Accounting Standards ("IPSAS") *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, the World Bank guidelines and the relevant points of Grant Agreement SPF Grant No. TF016980.

Emphasis of a Matter

- We draw attention to note 10 to the project financial statements, which states that the World Bank has not approved the implementation of the third category Micro-Grants under Part 2 (e) of the Project, due to the lack of sufficient time for the implementation of the project. Our opinion is not qualified in respect of this matter.
- We draw attention to note 3 to the project financial statements, which states that the closing date of the Project was defined as March 31, 2016. Our opinion is not qualified in respect of this matter.

Basis of Accounting

Without modifying our opinion, we draw attention to note 2 to the project financial statements, which describes the basis of accounting. The project financial statements are prepared to assist the management of the State Institution “Foreign Financing Projects Management Center” of the Ministry of Finance of the Republic of Armenia to meet the requirements of the financial reporting of the World Bank. As a result, the project financial statements may not be suitable for another purpose.

August 1, 2016

Gagik Gyulbudaghyan

Managing Partner



Emil Vassilyan, FCCA

Engagement Partner



Statement of cash receipts and payments

As of June 15, 2016 and for the period from March 26, 2015 to June 15, 2016

In US dollars

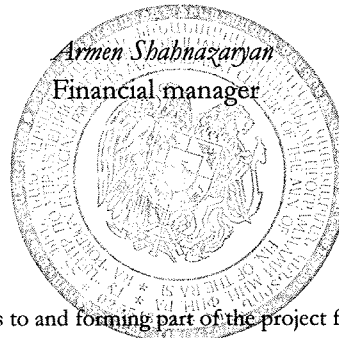
	Actual		Planned	Variance
	For the period from March 26, 2015 to December 31, 2015	For the period from January 1, 2016 to June 15, 2016	As of June 15, 2016	As of June 15, 2016
Opening cash balance (note 4)	-	64,901	-	
<i>Add: cash receipts</i>				
IDA Fund (note 5)	100,000	383,680	483,680	
Government co-financing	10,097	71,714	81,811	
Total cash receipts	110,097	455,394	565,491	
Exchange rate difference	(171)	761	590	
<i>Less: cash payments</i>				
(1) Goods, non-consulting services, Consultants' services and operating costs under the Project other than Part 1 (a)(vii) and Part 2 (e)	45,025	377,865	422,890	888,000 (465,110)
(2) Small Grants under Part 1 (a)(vii) of the Project	-	119,462	119,462	132,000 (12,538)
(3) Micro- Grants under Part 2 (e) of the Project	-	-	-	180,000 (180,000)
Total cash payments	45,025	497,327	542,352	1,200,000 (657,648)
Closing cash balance (note 4)	64,901	23,729		

The project financial statements were approved on August 1, 2016 by:

Edgar Avetyan
 Director



Armen Shabnazaryan
 Financial manager




This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 6 to 14.

Statement of uses of funds by Project activities

*As of June 15, 2016 and for the period from March 26, 2015 to June 15, 2016
 In US dollars*

		Actual		Planned	Variance
	For the period from March 26, 2015 to December 31, 2015	For the period from January 1, 2016 to June 15, 2016	As of June 15, 2016	As of June 15, 2016	As of June 15, 2016
Part A: Strengthening Youth Leadership	-	303,708	303,708	384,000	(80,292)
Part B: Promoting Youth Livelihoods	16,843	175,429	192,272	428,400	(236,128)
Part C: Project Management	28,182	18,190	46,372	387,600	(341,228)
	45,025	497,327	542,352	1,200,000	(657,648)

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 6 to 14.

Notes to the project financial statements

1 Activity

The Grant Agreement SPF Grant No. TF016980 of the Promoting Youth Inclusion Project (the “Project”) was signed on July 31, 2014 between the Republic of Armenia and the International Development Association (the “IDA”). The total amount of the Grant was agreed to be US dollars 1,000,000.

The objective of the Project is to promote the social and economic inclusion of vulnerable youth in the Targeted Regions through increased access to opportunities for leadership and livelihood development.

The Project consists of the following parts:

Part 1: Strengthening Youth Leadership

- a) Supporting the social inclusion of vulnerable young people in the Targeted Regions through the carrying out of a program of activities including:
 - i. leadership skills training and other leadership learning events and exchanges;
 - ii. youth discussion groups;
 - iii. cultural and sports activities;
 - iv. the promotion of youth volunteerism;
 - v. the development of a youth information portal, including crowd-sourcing local opportunities;
 - vi. government-youth discussion forums; and
 - vii. the provision of Small Grants to youth for Innovative Development Projects planned in collaboration between youth leaders and local authorities.
- b) Supporting opportunities for young people to work collaboratively with their community councils and heads of community to develop new activities for young people in the locality.

Part 2: Promoting Youth Livelihoods

Increasing access to information on livelihoods among vulnerable youth in the Targeted Regions and improving their employability through:

- a) the carrying out of training on youth unemployment related issues for local authorities and service providers;
- b) the carrying out of regional livelihood conferences, including, job fairs, curriculum vitae workshops, e-Learning courses and information and communication technology skills development;
- c) the provision of support programs for youth entrepreneurs;
- d) the provision of business opportunities training for youth; and

- e) the provision of Micro-grants for youth entrepreneurs who have participated in project training to launch new business ideas.

Part 3: Project Management

Financing: (a) the operating costs incurred by the PCU and FFPMC relating to Project implementation, including, management, supervision and fiduciary oversight; (b) the costs associated for carrying out the Project's audit.

In accordance with the Grant Agreement SPF Grant No. TF016980 dated July 31, 2014, the financing of the Project is implemented through the following categories:

Category	Amount of the Grant Allocated (In US dollars)	Percentage of Expenditures to be financed (exclusive of Taxes)
(1) Goods, non-consulting services, Consultants' services and operating costs under the Project other than Part 1 (a)(vii) and Part 2 (e),	730,000	100%
(2) Small Grants under Part 1 (a)(vii) of the Project	120,000	100%
(3) Micro- Grants under Part 2 (e) of the Project	150,000	100%
	<u>1,000,000</u>	

The Project is implemented by the State Institution "Foreign Financing Projects Management Center" of the Ministry of Finance of the Republic of Armenia (the "FFPMC"). The FFPMC was established as a state institution by the Republic of Armenia Government Resolution # 37 dated March 29, 2000, on the basis of the Department of Aid Coordination and Technical Assistance of the Ministry of Economy of the Republic of Armenia. The founder of the FFPMC is the Government of the Republic of Armenia.

The legal address of FFPMC is Tigran Mets 4, Yerevan, Republic of Armenia.

The average number of the FFPMC staff during the reporting period was 21.

2 Significant accounting policies

2.1 Statement of compliance

The project financial statements are prepared in accordance with IPSAS *Financial Reporting Under the Cash Basis of Accounting*, the World Bank guidelines and the relevant points of the Grant Agreement SPF Grant No. TF016980.

Alternatively, the FFPMC presents a statement of financial position of the Project as of the reporting date as an encouraged additional disclosure, as prescribed in the part 2 of IPSAS *Financial Reporting Under the Cash Basis of Accounting* (refer to note 9).

2.2 Project financial statements

The project financial statements include:

- a) The statements of cash receipts and payments of the Project for the period from March 26, 2015 to June 15, 2016, showing the World Bank and counterpart funds separately, and the statement of uses of funds by Project activities.

- b) Accounting policies and explanatory notes (including additional accounting policies and disclosures), covering
- Summary of summary reports or SOEs used as the basis for the submission of withdrawal applications in the notes, as appropriate;
 - Statement of designated account in the notes, as appropriate;
 - Statement of financial position showing accumulated funds of the Project, bank balances, other assets of the Project, and liabilities, if any, as described in the note 2.1.

2.3 Functional and presentation currency

The national currency of the Republic of Armenia is Armenian dram. These project financial statements are presented in US dollars (presentation currency).

In preparing the project financial statements, transactions in currencies other than US dollar are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 483.75 for US dollar 1 as of December 31, 2015 and 478.33 for US dollar 1 as of June 15, 2016. Any exchange rate differences are recognized in the statement of the statement of cash receipts and payments and the accumulated figure of exchange rate difference is disclosed in the Statement of financial position under "Exchange rate difference".

2.4 Expenses

Expenses incurred in the framework of the Project are recognized on the cash basis of accounting, i.e. when the relevant cash is paid. The expenses are recognized in the statement of cash receipts and payments under the caption "cash payments". Additionally, the Project expenses are disclosed in the statement of uses of funds by Project activities.

2.5 Project financing

Financing received in the framework of the Grant Agreement SPF Grant No. TF016980 is recorded in the statement of cash receipts and payments as "cash receipts" and is recognized at each replenishment. In addition, the Project funds received are disclosed in the Statement of financial position (refer to note 9).

2.6 The World Bank financing

To finance eligible expenditures for the Grant Agreement, the World Bank disburses proceeds from the Loan account using one or more of the disbursement methods, which are stated below:

a. Reimbursement

The Bank may reimburse the borrower to finance eligible expenditures that the borrower has prefunded from its own resources.

b. Advance

The Bank may advance loan proceeds into a Designated account of the borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.

c. Direct payments

The Bank may make payments, at the borrower's request, directly to a third party for eligible expenditures.

d. Special commitment

The Bank may pay amounts to a third party for eligible expenditures under Special commitments entered into, in writing, at the borrower's request and on terms and conditions agreed between the Bank and the borrower.

3 Closing date of the project

According to the Grant Agreement SPF Grant No. TF016980, the Project closing date was March 31, 2016.

4 Cash balances

In US dollars	As of June 15, 2016	As of December 31, 2015
Designated account (note 7)	22,170	64,901
Government co-financing account	1,559	-
	<u>23,729</u>	<u>64,901</u>

5 IDA Fund

In US dollars	For the period from March 26, 2015 to December 31, 2015	For the period from January 1, 2016 to June 15, 2016	As of June 15, 2016
SOE procedures (note 6)	-	209,371	209,371
Other procedures	-	252,139	252,139
Designated account advance	100,000	50,000	150,000
Redemption of the designated account advance	-	(127,830)	(127,830)
	<u>100,000</u>	<u>383,680</u>	<u>483,680</u>

Under the method of "SOE procedures" of financing, the FFFPMC requests advance to and documentation of designated account accompanied by the statement of expenditure (SOE).

Under the method of "Other procedures" of financing, the FFFPMC requests advance to and documentation of designated account accompanied by the records evidencing eligible expenditures for payments against contracts valued at more than the amounts in accordance with the Disbursement Letter and contracts that are subject to the World Bank's prior review.

The FFFPMC reports regularly on the use of loan proceeds advanced to a designated account. This is disclosed as a redemption of the designated account advance.

6 SOE withdrawal schedule

For the period from January 1, 2016 to June 15, 2016

In US dollars

Application No.	Category		Total
	Goods, non-consulting services, Consultants' services and operating costs under the Project other than Part 1 (a)(vii) and Part 2 (e)	Small Grants under Part 1 (a)(vii) of the Project	
2 DA	33,630	-	33,630
3 DA	9,301	-	9,301
4 DA	1,030	-	1,030
5 DA	8,365	97,278	105,643
6 DA	7,483	-	7,483
7 DA	383	-	383
8 DA	15,126	-	15,126
9 DA	24,397	12,378	36,775
Total	99,715	109,656	209,371

7 Designated account statement

As of December 31, 2015 and for the period from March 26, 2015 to December 31, 2015

In US dollars

Opening balance as of March 26, 2015		-
Add:		
Cumulative unexplained discrepancy	-	
Grant replenishment during the period	100,000	
	<u>100,000</u>	<u>100,000</u>
<i>Less: Refund to the IDA from the designated account during the period</i>		-
Present outstanding amount advanced to the designated account (1)		<u>100,000</u>
Closing balance as of December 31, 2015		64,901
Add:		
Amount of eligible expenditures paid during the period	35,099	
Service charges (if applicable)	-	
	<u>35,099</u>	<u>35,099</u>
<i>Less: Interest earned (if credited into the designated account)</i>		-
Total advance accounted for (2)		<u>100,000</u>
Discrepancy (1) – (2) to be explained		-

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In US dollars

Opening balance as of January 1, 2016		64,901
Add:		
Cumulative unexplained discrepancy	-	
Grant replenishment during the period	383,680	383,680
	<u>383,680</u>	<u>383,680</u>
<i>Less: Refund to the IDA from the designated account during the period</i>		-
Present outstanding amount advanced to the designated account (1)		<u>448,581</u>
Closing balance as of June 15, 2016		22,170
Add:		
Amount of eligible expenditures paid during the period	426,411	
Service charges (if applicable)	-	
	<u>426,411</u>	<u>426,411</u>
<i>Less: Interest earned (if credited into the designated account)</i>		-
Total advance accounted for (2)		<u>448,581</u>
Discrepancy (1) – (2) to be explained		-

8 Reconciliation between the amounts received by the FPPMC and disbursed by the World Bank

For the period from March 26, 2015 to June 15, 2016

In US dollars

Category	Appl.	FFPMC	The World Bank	Difference
1) Goods, non-consulting services, Consultants' services and operating costs under the Project other than Part 1 (a)(vii) and Part 2 (e)				
	2 DA	35,099	35,099	-
	3 DA	34,903	34,903	-
	4 DA	25,075	25,075	-
	5 DA	9,392	9,392	-
	6 DA	57,629	57,629	-
	7 DA	49,303	49,303	-
	8 DA	65,826	65,826	-
	9 DA	74,627	74,627	-
		351,854	351,854	-
2) Small Grants under Part 1 (a)(vii) of the Project				
	5 DA	97,278	97,278	-
	9 DA	12,378	12,378	-
		109,656	109,656	-
Designated account advance				
	1 A	100,000	100,000	-
	3 DA	50,000	50,000	-
		150,000	150,000	-
Redemption of the designated account advance				
	8 DA	(40,825)	(40,825)	-
	9 DA	(87,005)	(87,005)	-
		(127,830)	(127,830)	-
Total				
		483,680	483,680	-

9 Statement of financial position

As described in the note 2.1, the policy of the FFPMC is to prepare the project financial statements in accordance with IPSAS *Financial Reporting Under the Cash Basis of Accounting*. However, the FFPMC also has presented a separate statement of financial position as a disclosure encouraged under IPSAS *Financial Reporting Under the Cash Basis of Accounting*.

US dollar	As of June 15, 2016	As of December 31, 2015
Assets		
<i>Current assets</i>		
Balances in bank accounts		
Designated account	22,170	64,901
Government co-financing account	1,559	-
	<u>23,729</u>	<u>64,901</u>
<i>Non-current assets</i>		
Project expenditures	544,234	44,998
	<u>544,234</u>	<u>44,998</u>
Total assets	<u><u>567,963</u></u>	<u><u>109,899</u></u>
<i>Net assets funded by:</i>		
IDA Fund	483,680	100,000
Government co-financing	81,811	10,097
	<u>565,491</u>	<u>110,097</u>
Exchange rate difference	2,472	(198)
Total net assets	<u><u>567,963</u></u>	<u><u>109,899</u></u>

10 Project implementation

The Project started on March 26, 2015. The process of the tender assessment was long, since many applications were presented. In addition, the assessment committee has organized individual interviews to make correct decisions. Therefore, the Project implementing team was formed from October 2015 to January 2016. The first contracts were concluded on October 15, 2015. After the contracts were signed, negotiations started with the World Bank to implement all the events and to fully utilize the funds. As a result, the World Bank has not approved the implementation of the third category Micro-Grants under Part 2 (e) of the Project, due to the lack of sufficient time for the implementation of the project. All the events were implemented in an accelerated mode. In such conditions, there were some savings as compared with the amounts planned before. As a result, the financial resources of the Project which were planned to be used in 22 months were spent in five and a half months.

11 Subsequent events

According to the letter to the Chief Treasurer Deputy Minister of Finance of the Republic of Armenia dated July 28, 2016, US dollar 7,825 was transferred to the Escrow account from the designated account to finance the Project audit fee. On July 28, 2016 the withdrawal application #10 DA at the amount of US dollar 7,825 was submitted and approved by the World Bank.

On July 29, 2016 US dollar 14,345 was refunded to the World Bank from the designated account.