



Project Financial Statements and
Independent Auditor's Report

Foreign Financing Project Management Center

IDF Grant for Ministry of Finance capacity building
project

IDF Grant No. TF011907

As of January 8, 2016 and for the period from
October 4, 2012 to January 8, 2016

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Independent auditor's report

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To the State Institution “Foreign Financing Projects Management Center” of the Ministry of Finance of the Republic of Armenia,

We have audited the accompanying project financial statements of the IDF Grant for Ministry of Finance capacity building project (the “Project”), financed by the International Bank for Reconstruction and Development's (the “IBRD”) Institutional Development Fund Grant Agreement IDF Grant No. TF011907, which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activities as of January 8, 2016 and for the period from October 4, 2012 to January 8, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Project Financial Statements

Management of the State Institution “Foreign Financing Projects Management Center” of the Ministry of Finance of the Republic of Armenia is responsible for the preparation and fair presentation of these project financial statements in accordance with the International Public Sector Accounting Standard (“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 the Grant Agreement IDF Grant No. TF011907 and for such internal control as management determines is necessary to enable the preparation of these project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these project financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the project financial statements are free from material misstatement.

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 IDF Grant for Ministry of Finance capacity building project as of January 8, 2016 and the cash received and cash paid for the period from October 4, 2012 to January 8, 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 IDF Grant No. TF011907.

Emphasis of a Matter

We draw attention to note 3 to the project financial statements, which states that the closing date of the Project was defined as October 4, 2015. 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.

January 25, 2016

Gagik Gyulbudaghyan

Managing Partner



Emil Vassilyan, FCCA

Engagement Partner

Statement of cash receipts and payments

As of January 8, 2016 and for the period from October 4, 2012 to January 8, 2016

In US dollars

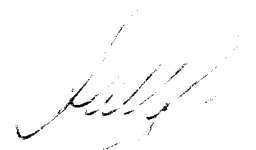
	Actual			Planned	Variance		
	For the year ended December 31, 2013	For the year ended December 31, 2014	For the year ended December 31, 2015				
Opening cash balance (note 4)	-	107,548	98,482	26,034	-		
<i>Add: cash receipts</i>							
IBRD Fund (note 5)	100,000	-	141,993	51,968	293,961		
Government co-financing	7,554	7,218	38,535	-	53,307		
Total cash receipts	107,554	7,218	180,528	51,968	347,268		
Exchange rate difference	(6)	(1,988)	(110)	-	(2,104)		
<i>Less: cash payments</i>							
Goods, Operating Costs, Consultants' Services including audit and Training	-	14,296	252,866	51,968	319,130	380,400	(61,270)
Total cash payments	-	14,296	252,866	51,968	319,130	380,400	(61,270)
Closing cash balance (note 4)	107,548	98,482	26,034	26,034	26,034		

The project financial statements were approved on January 21, 2016 by:

Edgar Avetyan
 Director



Armen Shahnazaryan
 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 5 to 14.

Statement of uses of funds by Project activities

As of January 8, 2016 and for the period from October 4, 2012 to January 8, 2016
In US dollars

	Actual			Planned	Variance
	For the year ended December 31, 2014	For the year ended December 31, 2015	For the period from January 1, 2016 to January 8, 2016 As of January 8, 2016		
Part A: Advancing institutional development	-	72,889	51,968	133,620	(8,763)
Part B: Financial market development	14,296	179,977	-	246,780	(52,507)
	14,296	252,866	51,968	380,400	(61,270)

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 5 to 14.

Notes to the project financial statements

1 Activity

The Grant Agreement IDF Grant No. TF011907 of the IDF Grant for Ministry of Finance capacity building project (the "Project") was signed on July 27, 2012 between the Republic of Armenia and the International Bank for Reconstruction and Development (the "IBRD"). However, during 2012 the Project did not have any financial proceeds. The total amount of the Loan was agreed to be US dollars 317,000.

The objective of the Project is to build capacity at the relevant divisions of the Ministry of Finance of the Republic of Armenia responsible for financial market development and anti-money laundering policy.

The Project consists of the following parts:

Part A: Advancing institutional development

Provision of technical assistance and training to build the capacity of the Ministry of Finance by engaging a consultant to assess the existing institutional challenges at the Ministry and draft a policy formulation strategy and by developing monitoring and evaluation systems supporting financial market development policy formulation and decision making at the Ministry level.

Part B: Financial market development

Provision of technical assistance and training to strengthen the capacity of the Ministry of Finance by engaging consultants to: (i) identify main directions of possible investment for institutional investors and develop new guidelines describing the information and fund flow between market participants; and (ii) improve the legal and regulatory environment for preventing money laundering and combating terrorism financing through a review of the existing framework, developing a new manual and guidelines and building the capacity of the front office staff.

In accordance with the Grant Agreement IDF Grant No. TF011907 dated July 27, 2012, 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)
Goods, Operating Costs, Consultants' Services including audit and Training	317,000	100%
	<u>317,000</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 FPPMC is Tigran Mets 4, Yerevan, Republic of Armenia.

The average number of the FPPMC staff during the reporting period was 26.

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 IDF Grant No. TF011907.

Alternatively, the FPPMC 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 January 1, 2013 to January 8, 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 405.64 for US dollar 1 as of December 31, 2013, 474.97 for US dollar 1 as of December 31, 2014, 483.75 for US dollar 1 as of December 31, 2015 and 484.68 for US dollar 1 as of January 8, 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 IDF Grant No. TF011907 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 prefinanced 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 IDF Grant No. TF011907, the closing date of the Project was defined as October 4, 2015.

4 Cash balances

In US dollars	As of January 8, 2016	As of December 31, 2015	As of December 31, 2014	As of December 31, 2013
Designated account (note 7)	26,034	26,034	88,406	100,000
Government co-financing account	-	-	10,076	7,548
	<u>26,034</u>	<u>26,034</u>	<u>98,482</u>	<u>107,548</u>

5 IBRD Fund

In US dollars	For the year ended December 31, 2013	For the year ended December 31, 2014	For the year ended December 31, 2015	For the period from January 1, 2016 to January 8, 2016	As of January 8, 2016
Designated account advance	100,000	100,000	-	-	200,000
SOE procedures (note 6)	-	-	30,089	-	30,089
Other procedures	-	-	185,870	-	185,870
Direct payment	-	-	-	51,968	51,968
Redemption of the designated account advance	-	-	(73,966)	-	(73,966)
Refund	-	(100,000)	-	-	(100,000)
	<u>100,000</u>	<u>-</u>	<u>141,993</u>	<u>51,968</u>	<u>293,961</u>

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

Under the method of "Other procedures" of financing, the FPPMC 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 FPPMC 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 year ended December 31, 2015

In US dollars

Application No.	Category	
	Goods, Operating Costs, Consultants' Services including audit and Training	
5 DA		29,912
6 DA		177
Total		<u>30,089</u>

7 Designated account statement

As of and for the year ended December 31, 2013

In US dollars

Opening balance as of January 1, 2013		-
Add:		
Cumulative unexplained discrepancy	-	
Grant replenishment during the year	100,000	
	<u>100,000</u>	<u>100,000</u>
<i>Less: Refund to the IBRD from the designated account during the year</i>		-
Present outstanding amount advanced to the designated account (1)		<u>100,000</u>
Closing balance as of December 31, 2013		100,000
Add:		
Amount of eligible expenditures paid during the year	-	
Service charges (if applicable)	-	
	<u>-</u>	<u>-</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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As of and for the year ended December 31, 2014

In US dollars

Opening balance as of January 1, 2014		100,000
Add:		
Cumulative unexplained discrepancy	-	
Grant replenishment during the year	100,000	
	<u>100,000</u>	<u>100,000</u>
<i>Less: Refund to the IBRD from the designated account during the year</i>		(100,000)
Present outstanding amount advanced to the designated account (1)		<u>100,000</u>
Closing balance as of December 31, 2014		88,406
Add:		
Amount of eligible expenditures paid during the year	11,594	
Service charges (if applicable)	-	
	<u>11,594</u>	<u>11,594</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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As of and for the year ended December 31, 2015

In US dollars

Opening balance as of January 1, 2015		88,406
Add:		
Cumulative unexplained discrepancy	-	
Grant replenishment during the year	141,993	
	<u>141,993</u>	<u>141,993</u>
<i>Less: Refund to the IBRD from the designated account during the year</i>		-
Present outstanding amount advanced to the designated account (1)		<u>230,399</u>
Closing balance as of December 31, 2015		26,034
Add:		
Amount of eligible expenditures paid during the year	204,365	
Service charges (if applicable)	-	
	<u>204,365</u>	<u>204,365</u>
<i>Less: Interest earned (if credited into the designated account)</i>		-
Total advance accounted for (2)		<u>230,399</u>
Discrepancy (1) – (2) to be explained		-

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As of January 8, 2016 and for the period from January 1, 2016 to January 8, 2016
In US dollars

Opening balance as of January 1, 2016		26,034
Add:		
Cumulative unexplained discrepancy	-	
Grant replenishment during the period	-	
	-	-
<i>Less: Refund to the IBRD from the designated account during the period</i>		-
Present outstanding amount advanced to the designated account (1)		<u>26,034</u>
Closing balance as of January 8, 2016		26,034
Add:		
Amount of eligible expenditures paid during the period	-	
Service charges (if applicable)	-	
	-	-
<i>Less: Interest earned (if credited into the designated account)</i>		-
Total advance accounted for (2)		<u>26,034</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 January 1, 2013 to January 8, 2016

In US dollars

Category	Appl.	FPPMC	The World Bank	Difference
Goods, Operating Costs, Consultants' Services including audit and Training				
	3 DA	11,594	11,594	-
	4 DA	71,599	71,599	-
	5 DA	58,800	58,800	-
	6 DA	73,966	73,966	-
	7 DP	51,968	51,968	-
		<u>267,927</u>	<u>267,927</u>	-
Designated account advance				
	1 A	100,000	100,000	-
	2 A	100,000	100,000	-
		<u>200,000</u>	<u>200,000</u>	-
Redemption of the designated account advance	6 DA	(73,966)	(73,966)	-
Refund		(100,000)	(100,000)	-
Total		<u>293,961</u>	<u>293,961</u>	-

9 Statement of financial position

As described in the note 2.1, the policy of the FPPMC is to prepare the project financial statements in accordance with IPSAS *Financial Reporting Under the Cash Basis of Accounting*. However, the FPPMC 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 January 8, 2016	As of December 31, 2015	As of December 31, 2014	As of December 31, 2013
Assets				
<i>Current assets</i>				
Balances in bank accounts				
Designated account	26,034	26,034	88,406	100,000
Government co-financing account	-	-	10,076	7,548
	<u>26,034</u>	<u>26,034</u>	<u>98,482</u>	<u>107,548</u>
<i>Non-current assets</i>				
Project expenditures	321,244	321,244	17,244	-
	<u>321,244</u>	<u>321,244</u>	<u>17,244</u>	<u>-</u>
Total assets	<u><u>347,278</u></u>	<u><u>347,278</u></u>	<u><u>115,726</u></u>	<u><u>107,548</u></u>
<i>Net assets funded by:</i>				
IBRD Fund	293,961	241,993	100,000	100,000
Government co-financing	53,307	53,307	14,772	7,554
Payables	-	51,769	-	-
Exchange rate difference	10	209	954	(6)
Total net assets	<u><u>347,278</u></u>	<u><u>347,278</u></u>	<u><u>115,726</u></u>	<u><u>107,548</u></u>

10 Subsequent events

On January 21, 2016 drams 140 thousand were transferred to the respective account of the Project from the Government co-financing sources to finance the VAT arising from the contract amount of audit services.