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Project Financial Statements and Independent Auditor's Report

Renewable Resources and Energy Efficiency Fund

Preparation of the Utility-Scale Solar Power Project Grant No. TF0A0418

As of and for the year ended 31 December 2018

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Independent auditor's report

Grant Thornton Audit S.R.L
4D, Gara Herastrau str
Green Court Bucharest – building C
5th floor
Bucharest, Romania
20334

T +40 21 32 02 328
F +40 21 32 02 327

To the board of trustees of the Renewable Resources and Energy Efficiency Fund

Opinion

We have audited the accompanying project financial statements of the Preparation of the Utility-Scale Solar Power Project (the "Project"), financed by the International Bank for Reconstruction and Development (the "IBRD") acting as an implementing agency of the Scaling-up Renewable Energy Program (the "SREP") under the Strategic Climate Fund (the "SCF") Grant Agreement SCF Grant No. TF0A0418, which comprise the statement of financial position as of 31 December 2018, the statement of the Project sources and uses of funds, the statement of uses of funds by Project activities, the designated account statement as of and for the year ended 31 December 2018 as well as the statement of expenditures ("SOE") submitted to the World Bank for the year ended 31 December 2018 in support of the Grant Agreement SCF Grant No. TF0A0418 withdrawals, and a summary of significant accounting policies and other explanatory information.

In our opinion, the project financial statements are prepared, in all material respects, in accordance with the accounting policies described in note 2 to the project financial statements, the World Bank guidelines, and the relevant points of the Grant Agreement SCF Grant No. TF0A0418.

In addition, in our opinion, the SOEs submitted together with the internal controls and procedures involved in their preparation can be relied upon to support the applications for the Grant Agreement SCF Grant No. TF0A0418 withdrawals.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Project Financial Statements* section of our report. We are independent of the "Renewable Resources and Energy Efficiency Fund" (the "R2E2 Fund") in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

- 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 Renewable Resources and Energy Efficiency Fund 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. Our opinion is not modified 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 30 June 2019. Our opinion is not modified in respect of this matter.

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Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

Management of R2E2 Fund is responsible for the preparation and fair presentation of the project financial statements in accordance with the accounting policies described in note 2 to the project financial statements, the World Bank guidelines, and the relevant points of the Grant Agreement SCF Grant No. TF0A0418, and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the project 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 a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or 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 project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project 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 R2E2 Fund's 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 project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management, 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.

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Grant Thornton Audit SRL, Romania

5 June 2019

Statement of financial position

US dollar	Note	As of 31 December 2018	As of 31 December 2017
Assets			
Current assets			
Balances in bank accounts			
Designated account		75,911	166,342
		75,911	166,342
Non-current assets			
Accumulated Project expenditures		2,398,113	1,983,963
		2,398,113	1,983,963
Total assets		2,474,024	2,150,305
Funds and liabilities			
Grant Number TF 0A0418	4	2,000,000	1,759,055
Government co-financing	5	480,081	388,715
Exchange rate difference		(6,057)	(6,805)
		2,474,024	2,140,965
Current liabilities			
Accounts payable		-	9,340
Total funds and liabilities		2,474,024	2,150,305

The project financial statements were approved on 5 June 2019 by:

Karen Asatryan
Director

Mariam Burnachyan
Financial Manager

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 11 to 14.

Statement of the Project sources and uses of funds

Grant Agreement TF0A0418
As of and for the year ended 31 December 2018

In US dollars

	Actual		Planned		Variance		
	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	Life of Project
Sources of funds							
Grant Number TF 0A0418 (note 4)	240,945	2,000,000					
Government co-financing (note 5)	91,366	480,081					
Total	332,311	2,480,081					
Exchange rate difference	748	(6,057)					
Less: Uses of funds							
Goods, non-consulting services, consultants' services and incremental operating costs under the Project	414,150	2,398,113	501,430	2,500,000	(87,280)	(101,887)	2,500,000
Total	414,150	2,398,113	501,430	2,500,000	(87,280)	(101,887)	2,500,000
Net increase/(decrease) in working capital (note 6)	(81,091)	75,911					

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 14.

Statement of uses of funds by Project activities

Grant Agreement TF0A0418
As of and for the year ended 31 December 2018

In US dollars

	Actual		Planned		Variance		
	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	Life of Project
Part I. Resource Mapping and Feasibility Studies	-	1,356,480	-	1,383,243	-	(26,763)	1,381,250
Part II. Preparation of Safeguard Instruments	-	-	-	-	-	-	68,750
Part III. Assessment of Legal and Regulatory Environment for Solar PV Development	-	29,924	-	29,924	-	-	225,000
Part IV. Transaction Advisory Services	361,956	768,575	408,430	774,168	(46,474)	(5,593)	562,500
Part V. Operational Manual	-	-	-	-	-	-	12,500
Part VI. Grant Implementation Support	52,194	243,134	93,000	312,665	(40,806)	(69,531)	250,000
Total	414,150	2,398,113	501,430	2,500,000	(87,280)	(101,887)	2,500,000

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 14.

SOE withdrawal schedule

Grant Agreement TF0A0418
For the year ended 31 December 2018

In US dollars

	Category
Application No.	Goods, non-consulting services, consultants' services and incremental operating costs under the Project
10-DA	40,297
11-DA	21,598
Total	61,895

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 14.

Designated account statement

Grant Agreement TF0A0418
As of and for the year ended 31 December 2018

In US dollars

Opening balance as of 1 January 2018		166,342
Add:		
Grant replenishment during the year	240,945	
	240,945	240,945
Present outstanding amount advanced to the designated account (1)		407,287
Closing balance as of 31 December 2018		75,911
Add:		
Amount of eligible expenditures paid during the year	331,376	
Service charges (if applicable)	-	
	331,376	331,376
Total advance accounted for (2)		407,287
Discrepancy (1) – (2) to be explained		-

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 14.

Notes to the Project financial statements

1 Activity

Renewable Resources and Energy Efficiency Fund (the "Fund") has been established on 21 November 2005, in accordance with the decree N799 of the Government of the Republic of Armenia ("RA") dated 28 April 2005.

The Fund implements the Preparation of the Utility-Scale Solar Power Project (the "Project"), which is financed under the Grant Agreement SCF Grant No. TF0A0418 signed between the International Bank for Reconstruction and Development (the "IBRD") acting as an implementing agency of the Scaling-up Renewable Energy Program (the "SREP") under the Strategic Climate Fund (the "SCF") and the Government of the Republic of Armenia on 5 June 2015.

The Project consists of the following parts:

Part 1: Resource Mapping and Feasibility Studies

Providing support for resource mapping to determine prospective sites for solar power plants, and conducting feasibility studies for prospective sites, including, *inter alia*: (a) preliminary resource mapping output based on satellite and global atmospheric and meteorological data; (b) ground- based data collection; (c) production of validated resource map(s) based on satellite and ground- based data; (d) determination of the technology for solar photovoltaic plants; (e) evaluation of the potential for grid interconnection at selected sites and the need for grid upgrades if any; (f) assessment of grid interconnection costs; (g) assessment of economic and financial viability of proposed plants; and (h) development of conceptual design.

Part II: Preparation of Safeguard Instruments

Preparing, disclosing, and carrying out public consultations on the necessary safeguard instruments for the proposed SPP Project, which include: (a) site-specific environmental and social impact assessments, including environmental and social management plans; and (b) resettlement policy framework(s) and resettlement action plan(s) for associated facilities.

Part III: Assessment of Legal and Regulatory Environment for Solar PV Development

Identifying bottlenecks and developing recommendations and measures for the legal and regulatory environment for development of solar power, which includes, *inter alia:* (a) assessment of existing regulatory and legal environment; (b) development of proposals for policy and legislative improvements to attract investments in solar power plants.

Part IV: Transaction Advisory Services

Providing transaction advisory services which include, *inter alia:* (a) identification of structuring options for individual projects; (b) development of tender documents for the selection of private developers; (c) developing marketing proposals of the specific projects among potential investors; and (d) support in bidding process and discussions with developers.

Part V: Operational Manual

Preparation of the Operations Manual for the proposed SPP Project.

Part VI: Grant Implementation Support

Supporting the R2E2 Fund to implement the Project: (a) through the financing of Incremental Operating Costs during implementation of the Project; and (b) financing the capacity building activities of the R2E2 Fund.

In accordance with the Grant Agreement the financing of the Project is implemented through the following category:

Category	Percentage of expenses to be financed	Amount of the grant allocated (in USD)
Goods, non-consulting services, consultants' services and incremental operating costs under the Project	80 %	2,000,000
Total		2,000,000

The legal address of the Fund is 1 Melik Adamyan street, Yerevan, Republic of Armenia.

The average number of the Fund's staff in 2018 was 21 (2017: 21).

2 Significant accounting policies

2.1 Basis of preparation

The project financial statements were prepared in accordance with the accrual basis of accounting as well as the World Bank guidelines and the relevant points of the Grant Agreement SCF Grant No. TF0A0418. Significant accounting policies are disclosed below.

2.2 Functional and presentation currency

The national currency of the Republic of Armenia is Armenian dram, which is also the functional currency of the Project since this currency best reflects the economic substance of the underlying events and transactions of the Project. These project financial statements are presented in US dollars (presentation currency), since management believes that this currency is more useful for the users of these project financial statements.

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. For direct payments denominated in currencies other than US dollar to the contractor/consultant from the World Bank share, the exchange rate set out for the presentation of the operation in the system client connection (https://clientconnection.worldbank.org) is used. At each reporting date, bank balances and payables denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 483.75 Armenian drams for 1 US dollar as of 31 December 2018 (as of 31 December 2017: 484.10 Armenian drams for 1 US dollar). Any exchange rate differences are recognized in the statement of the Project sources and uses of funds and the accumulated figure of exchange rate difference is disclosed in the Statement of financial position under "Exchange rate differences".

2.3 Project financing

The financing received in the framework of the Grant Agreement SCF Grant No. TF0A0418 is recorded in the statement of financial position as "Accumulated Project financing" and is recognized at each replenishment. In addition, the current period funds received are disclosed in the statement of Project sources and uses of funds, showing the sources of funds.

2.4 Project expenses

The Project expenses are recognized on the accrual basis of accounting. The accumulated Project expenses are disclosed in the statement of financial position under non-current assets. In addition, current period expenses are disclosed in the statement of Project sources and uses of funds and statement of uses of funds by Project activity.

2.5 The World Bank financing

To finance eligible expenditures for the Grant Agreement SCF Grant No. TF0A0418, the World Bank disburses proceeds from the Credit 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 pre-financed 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 payment

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

The closing date of the Project initially was 31 May 2018 and subsequently formally extended until 30 June 2019.

4. Grant Number TF 0A0418

US dollar	Year ended 31 December 2018	As of 31 December 2018
SOE procedures	61,895	377,614
Direct payment	-	425,774
Designated account advances	-	300,000
Other procedures	190,663	908,225
Redemption	(11,613)	(11,613)
	240,945	2,000,000

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

Under the method of "Other procedures" of financing, the Fund 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.

5. Government co-financing

US dollar	Year ended 31 December 2018	As of 31 December 2018
Financing received	93,614	529,308
Refunded amount	(2,248)	(49,227)
	91,366	480,081

6. Net increase/(decrease) in working capital

US dollar	Year ended 31 December 2018	As of 31 December 2018
Decrease in bank balances	(90,431)	75,911
Decrease in accounts payable	9,340	-
	(81,091)	75,911

7. Reconciliation between the amounts received by the Fund and disbursed by the World Bank

Grant Agreement TF0A0418
For the year ended 31 December 2018

In US dollars

Category	Appl.	Fund	The World Bank	Difference
Goods, non-consulting services, consultants' services and incremental operating costs under the Project				
	10-DA	149,564	149,564	-
	11-DP	102,994	102,994	-
		252,558	252,558	-
Advance redemption		(11,613)	(11,613)	-
Total		240,945	240,945	-