

**HEALTH PROJECTS IMPLEMENTATION UNIT SA  
MINISTRY OF HEALTH OF THE REPUBLIC OF ARMENIA**

**ADDITIONAL FINANCING FOR THE HEALTH SYSTEM  
MODERNIZATION PROJECT (APL2)**

**IBRD Credit 7987-AM**

**68324**

**SPECIAL PURPOSE FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**For the period from 8 June 2011 to 31 December 2011**

**YEREVAN  
April 2012**

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**INDEPENDENT AUDITOR'S REPORT N 16**

*On the special purpose financial statements of  
Additional Financing for the Health System Modernization Project (APL2)  
for the period from 8 June 2011 to 31 December 2011*

To the Management of the Health Projects Implementation Unit State Agency (HPIU)

We have audited the accompanying special purpose financial statements of Additional Financing for the Health System Modernization Project (APL2), which comprise the Statement of Financial Position as at 31 December 2011, the Statement of Project Sources and Uses of Funds, the Statement of Uses of Funds by Project Activity, Summary of summary reports and SOEs, Designated Account Statement for the period from 8 June 2011 to 31 December 2011, and a summary of significant accounting policies and other explanatory notes.

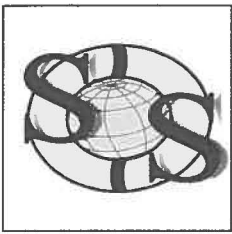
*Management's Responsibility for the Financial Statements*

HPIU's management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these special purpose 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 whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain reasonable audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatement of the special purpose 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 special purpose financial statement 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 the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose financial statements.



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

*Opinion*

In our opinion,

1. the special purpose financial statements present fairly in all material respects the financial position of the Project as of 31 December 2011, as well as sources and uses of funds, designated account movement and its balance for the period from 8 June 2011 to 31 December 2011 in accordance with International Financial Reporting Standards;
2. funds have been used in accordance with the conditions of the 7987-AM Credit Agreement signed between the Republic of Armenia and International Bank for Reconstruction and Development, and World Bank related 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 maintained to support claims for reimbursement of expenditures incurred. The expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the 7987-AM Credit Agreement.

SOS-Audit LLC  
10 April 2012



Manvel Ghazaryan  
Director

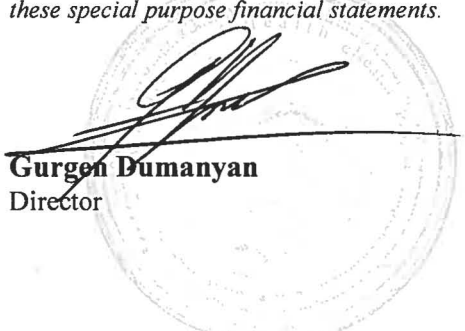
  
Nazik Chitchyan  
Auditor


## STATEMENT OF FINANCIAL POSITION

*Additional Financing for the Health System Modernization Project (APL2)*  
*IBRD Credit 7987-AM*  
*As at 31 December 2011*

	<u>note</u>	<u>31.12.2011</u> <u>USD</u>
<b>ASSETS</b>		
<b>Cash and cash equivalents</b>		
Designated account (IBRD Credit 7987-AM)		1,200,000.63
Current account (GoA)		1,114,198.76
Current account (bid security fund)		1,234.25
<b>Total Cash</b>		<u><b>2,315,433.64</b></u>
Cumulative project expenditures	3	3,393,320.50
Operating costs from bid security fund		558.17
		<u><b>3,393,878.67</b></u>
<b>TOTAL ASSETS</b>		<u><b>5,709,312.31</b></u>
 <b>FUNDS AND LIABILITIES</b>		
Accounts payable	4	277,591.91
<b>Funds</b>		
IBRD Credit 7987-AM	5	3,540,109.97
GoA		1,896,350.97
Bid security		1,825.17
<b>Total Funds</b>		<u><b>5,438,286.11</b></u>
Foreign exchange gain/(loss)	6	(6,565.71)
<b>TOTAL FUNDS AND LIABILITIES</b>		<u><b>5,709,312.31</b></u>

*The special purpose financial statements were approved by the management of Health Project Implementation Unit State Agency and signed on its behalf on 10 April 2012. The accompanying notes form an integral part of these special purpose financial statements.*

  
**Gurgun Dumanyan**  
 Director

  
**Arthur Stepanyan**  
 Chief Financial Officer

## STATEMENT OF PROJECT SOURCES AND USES OF FUNDS

*Additional Financing for the Health System Modernization Project (APL2)*

*IBRD Credit 7987-AM*

*For the period from 8 June 2011 to 31 December 2011*

*In USD*

	ACTUAL		PLANNED		VARIANCE		PAD
	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	
<b>Opening Working Capital</b>							
Cash and cash equivalents	-						
Accounts payable	-						
<b>Total</b>	-						
<b>Sources of Funds</b>							
IBRD Credit 7987-AM	3,540,109.97	3,540,109.97	5,420,972.00	5,420,972.00	(1,880,862.03)	(1,880,862.03)	19,000,000
GoA fund	1,896,350.97	1,896,350.97	1,806,990.50	1,806,990.50	89,360.47	89,360.47	6,333,300
Bid security fund	1,825.17	1,825.17	-	-	-	-	-
<b>Total</b>	<b>5,438,286.11</b>	<b>5,438,286.11</b>	<b>7,227,962.50</b>	<b>7,227,962.50</b>	<b>(1,791,501.56)</b>	<b>(1,791,501.56)</b>	<b>25,333,300.00</b>
<b>Foreign exchange gain/(loss)</b>	<b>(6,565.71)</b>	<b>(6,565.71)</b>					
<b>Uses of Funds</b>							
1.Works	665,879.18	665,879.18	1,906,162.50	1,906,162.50	(1,240,283)	(1,240,283)	11,704,600.00
2.Goods	2,435,144.00	2,435,144.00	4,721,000.00	4,721,000.00	(2,285,856)	(2,285,856)	9,010,700.00
3.Consultants' Services	244,797.32	244,797.32	600,800.00	600,800.00	(356,003)	(356,003)	3,021,000.00
4.Training	-	-	-	-	-	-	935,000.00
5.Operating costs	-	-	-	-	-	-	614,500.00
<b>Front end fee</b>	<b>47,500.00</b>	<b>47,500.00</b>	<b>-</b>	<b>-</b>	<b>47,500.00</b>	<b>47,500.00</b>	<b>47,500.00</b>
<b>Total</b>	<b>3,393,320.50</b>	<b>3,393,320.50</b>	<b>7,227,962.50</b>	<b>7,227,962.50</b>	<b>(3,834,642.00)</b>	<b>(3,834,642.00)</b>	<b>25,333,300.00</b>
<b>Operating costs from bid funds</b>	<b>558.17</b>	<b>558.17</b>					
<b>Closing Working Capital</b>							
Cash and cash equivalents	2,315,433.64	2,315,433.64					
Accounts payable	(277,591.91)	(277,591.91)					
<b>Total</b>	<b>2,037,841.73</b>	<b>2,037,841.73</b>					

*Additional Financing for the Health System Modernization Project (APL2)*

*Special Purpose Financial Statements*

*for the period from 8 June 2011 to 31 December 2011*

## STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Additional Financing for the Health System Modernization Project (APL2)

IBRD Credit 7987-AM

For the period from 8 June 2011 to 31 December 2011

In USD

Project Activities	ACTUAL		PLANNED		VARIANCE		PAD
	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	
<b>A. Family Medicine Development</b>	-	-	<b>211,662.50</b>	<b>211,662.50</b>	<b>(211,662.50)</b>	<b>(211,662.50)</b>	<b>3,112,000.00</b>
A2. Retraining and Residency Program for FPs and FNs	-	-	-	-	-	-	381,000.00
A3. Strengthening of PHC infrastructure	-	-	211,662.50	211,662.50	(211,662.50)	(211,662.50)	2,731,000.00
<b>B. Pilot Hospital Restructuring and Improvement</b>	<b>3,345,820.50</b>	<b>3,345,820.50</b>	<b>6,991,300.00</b>	<b>6,991,300.00</b>	<b>(3,645,479.50)</b>	<b>(3,645,479.50)</b>	<b>19,091,300.00</b>
B1. Optimization in Regional Hospitals	3,345,820.50	3,345,820.50	6,991,300.00	6,991,300.00	(3,645,479.50)	(3,645,479.50)	19,091,300.00
<b>C. Institutional development</b>	-	-	-	-	-	-	<b>2,413,000.00</b>
C1. Health Policy Development & Management Functions	-	-	-	-	-	-	404,000.00
C2. Strengthening of Regulatory, Oversight and Management Function	-	-	-	-	-	-	285,000.00
C3. Improvement of the Public Expenditure Management in Health Sector	-	-	-	-	-	-	850,000.00
C4. NCD Prevention & Control	-	-	-	-	-	-	644,000.00
C5. Improvement of Medical Education System	-	-	-	-	-	-	230,000.00
<b>D. Project Management</b>	-	-	<b>25,000.00</b>	<b>25,000.00</b>	<b>(25,000.00)</b>	<b>(25,000.00)</b>	<b>669,500.00</b>
Front end Fee	47,500.00	47,500.00	-	-	47,500.00	47,500.00	47,500.00
<b>Total Project Expenditures</b>	<b>3,393,320.50</b>	<b>3,393,320.50</b>	<b>7,227,962.50</b>	<b>7,227,962.50</b>	<b>(3,834,642.00)</b>	<b>(3,834,642.00)</b>	<b>25,333,300.00</b>
Operating costs from Bidding documents	558.17	558.17					

Additional Financing for the Health System Modernization Project (APL2)

Special Purpose Financial Statements

for the period from 8 June 2011 to 31 December 2011

## SUMMARY OF SUMMARY REPORTS AND SOEs

*Additional Financing for the Health System Modernization Project (APL2)*

*IBRD Credit 7987-AM*

*For the period from 8 June 2011 to 31 December 2011*

*In USD*

App. N	Works, goods, consultants' services, training, operating costs
HPAF-2	1,328,653.70
HPAF-3	663,956.27
	<b>1,992,609.97</b>



## DESIGNATED ACCOUNT STATEMENT

*Additional Financing for the Health System Modernization Project (APL2)*  
*IBRD Credit 7987-AM*  
*For the period from 8 June 2011 to 31 December 2011*  
*In USD*

<u>Designated Account</u>	<u>IBRD Credit 7987-AM</u>
Currency	USD
Account number	900000902131
Bank	Central Treasury 1 Meliq Adamyan Street, Yerevan
Location	Republic of Armenia, 0010
	<b>2011</b> <b>USD</b>
<b>1. Opening balance as at 08.06.2011</b>	
Add:	
2. Cumulative opening discrepancy	-
3. IBRD advance/replenishment	3,492,609.97
Less:	
4. Refund to IBRD from DA	-
<b>5. Present outstanding amount advanced to DA</b>	<b>3,492,609.97</b>
6. DA closing balance as at 31.12.2011	1,200,000.63
Add:	
7. Amount of eligible expenditures paid	2,292,609.34
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
<b>10. Total advance accounted for</b>	<b>3,492,609.97</b>
11. Discrepancy (5)-(10)	-

## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Additional Financing for the Health System Modernization Project (APL2)*

*IBRD Credit 7987-AM*

*For the period from 8 June 2011 to 31 December 2011*

### 1. General Information

#### 1.1. Project Financing

According to the Agreement concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD) on 26 January 2011, IBRD provided the Republic of Armenia Credit 7987-AM in the amount of 19,000,000 United States dollars (USD).

Credit was provided to implement the “Additional financing Health System Modernization Project (APL2)” (the Project) which finance on-going activities of “Health System Modernization Project (APL2)”.

The additional financing agreement of the Project became effective on 8 June 2011. The closing date of the Project is 31 December 2014.

#### 1.2. Project objectives

The objective of the Project is to strengthen the Ministry of Health capacity for more effective system governance, scaling up family medicine-based primary health care and upgrading selected healthcare service delivery networks/infrastructure in the selected marzed to provide more accessible, quality and sustainable health care services to the population.

The Project consists of the following parts:

- Family Medicine Development,
- Optimization of Hospital Infrastructure,
- Institutional Development,
- Project Management.

#### 1.3. Project Budget

The Project is being financed by the following sources:

- International Bank for Reconstruction and Development (IBRD),
- The Government of the Republic of Armenia (GoA),
- Community funds.

Co-financing rate of 25% is applied for all expenditure categories of the Project.

Category	IBRD 7987-AM	Government of the RA	Community	Total
	USD	USD	USD	USD
Works, goods, consultants' services, training, operating costs	18,952,500	6,230,800	102,500	25,285,800
Front end fee	47,500	-	-	47,500
<b>Total</b>	<b>19,000,000</b>	<b>6,230,800</b>	<b>102,500</b>	<b>25,333,300</b>

*Additional Financing for the Health System Modernization Project (APL2)*

*Special Purpose Financial Statements*

*for the period from 8 June 2011 to 31 December 2011*

#### **1.4. Project Implementation**

The Project is implemented by “Health Project Implementation Unit” SA (HPIU) of the Ministry of Health of the Republic of Armenia .

The address of the HPIU is: Shirvanzade Street 17, Yerevan, the Republic of Armenia.

## **2. Accounting policy**

### **2.1 Preparation and presentation of financial statements**

The special purpose financial statements have been prepared in compliance with International Financial Reporting Standards issued by the International Federation of Accountants (IFAC) and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

The special purpose financial statements consist of:

- Statement of Financial Position,
- Statement of Project sources and uses of funds,
- Statement of uses of funds by project activity,
- Summary of summary reports and SOEs,
- Statement of Designated Account,
- Notes to the Special Purpose Financial Statements.

Reporting currency of special purpose financial statements is US dollar (USD).

### **2.2 Foreign currency transactions**

Project accounts are maintained and transactions are made in USD and Armenian Drams (AMD). Transactions denominated in local currency are translated into USD as follows:

- Contributions of the RA Government expressed in AMD are translated into USD at the average exchange rate at currency market issued by the Central Bank of Armenia (CBA) at the date of transfer.
- Payments to contractors and suppliers expressed in AMD are translated into USD at the average exchange rate at currency market issued by the CBA at the date of payment.
- Monetary assets and liabilities are translated into USD at the average exchange rate at currency market issued by the CBA at the reporting date.
- Transaction and translation exchange differences (gains/losses) are recognized and presented in financial statements in net as an Exchange difference.

The average exchange rate at currency market issued by the CBA as at 31 December 2011 is 1 USD = 385.77 AMD

### **2.3 Taxes**

The Project related taxes and mandatory payments are calculated and paid in accordance with tax regulations of the Republic of Armenia.

### 3. Project expenditures allocation on funds

Expenditure category	Reporting period 2011			Cumulative As at 31.12.2011		
	IBRD Credit 7987-AM	GoA	Total	IBRD Credit 7987-AM	GoA	Total
	USD	USD	USD	USD	USD	USD
1.Works	499,409	166,470	665,879	499,409	166,470	665,879
2.Goods	1,826,358	608,786	2,435,144	1,826,358	608,786	2,435,144
3.Consultants' Services	183,598	61,199	244,798	183,597	61,199	244,797
4.Training	-	-	-	-	-	-
5.Operating costs	-	-	-	-	-	-
Front end fee	47,500	-	47,500	47,500	-	47,500
<b>Total</b>	<b>2,556,865</b>	<b>836,455</b>	<b>3,393,320</b>	<b>2,556,865</b>	<b>836,455</b>	<b>3,393,320</b>

### 4. Accounts payable

	<b>31.12.2011</b>
	USD
Works	33,493.29
Goods	244,098.62
<b>Total</b>	<b>277,591.91</b>

### 5. IBRD Credit 7987-AM financing

Financing was provided with the following disbursement methods:

	<b>2011</b>
	USD
Advance	1,500,000.00
Reimbursement- Summary Sheet	1,992,609.97
Front end fee	47,500.00
	<b>3,540,109.97</b>

### 6. Exchange gain/(loss)

	<b>31.12.2011</b>
	USD
Translation	(17,981.52)
Transaction	11,415.81
<b>Net exchange gain/(loss)</b>	<b>(6,565.71)</b>

## 7. Budget implementation

Expenditure category	As at 31.12.2011	Budget	Implementation
	USD	USD	%
1.Works	665,879.18	11,704,600.00	6%
2.Goods	2,435,144.00	9,010,700.00	27%
3.Consultants' Services	244,797.32	3,021,000.00	8%
4.Training	-	935,000.00	-
5.Operating costs	-	614,500.00	-
Front end fee	47,500.00	47,500.00	100%
<b>Total</b>	<b>3,393,320.50</b>	<b>25,333,300.00</b>	<b>13%</b>

## 8. Events after the reporting date

The Project expenditures for the reporting period at the total amount of USD 299,999.37 registered at the application HPAF-4 were submitted to WB on 10 April 2012 and not approved yet.

**ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PROJECT AND DISBURSED BY THE WORLD BANK**

*Additional Financing for the Health System Modernization Project (APL2)  
IBRD Credit 7987-AM  
For the period ended 31 December 2011  
In USD*

<b>Category</b>	<b>Appl. N</b>	<b>PIU</b>	<b>WB</b>	<b>Difference</b>
Advance	HPAF-1	1,500,000.00	1,500,000.00	-
		<b>1,500,000.00</b>	<b>1,500,000.00</b>	-
1. Works, goods, consultants' services, training, operating costs	HPAF-2	1,328,653.70	1,328,653.70	-
	HPAF-3	663,956.27	663,956.27	-
		<b>1,992,609.97</b>	<b>1,992,609.97</b>	
2. Front end fee		47,500	47,500	
		<b>3,540,109.97</b>	<b>3,540,109.97</b>	