

**Additional Financing for Municipal Infrastructural
Development Project”
Grant No. H769-TJ**

Special Purpose Project Financial Statements
for the period from January 1, 2016 to April 30, 2016 and
grace period from May 1, 2016 to August 31, 2016

and independent auditors’ report

**“ADDITIONAL FINANCING FOR MUNICIPAL INFRASTRUCTURAL DEVELOPMENT
PROJECT”
GRANT NO. H769-TJ**

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 1, 2016 TO APRIL 30, 2016 AND GRACE PERIOD FROM MAY 1, 2016 TO AUGUST 31, 2016

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 3-4, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the special purpose project financial statements of "Additional financing for Municipal Infrastructural Development Project", financed under Financing Agreements Grant No. H769-TJ (the "Project").

Management is responsible for the preparation of the special purpose project financial statements that present fairly, in all material respects, cash proceeds and disbursements and uses of funds by project components of the Project for the period from January 1, 2016 to April 30, 2016 and grace period from May 1, 2016 to August 31, 2016 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

In preparing the special purpose project financial statements, management is responsible for:

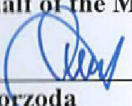
- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IPSAS and WB Guidelines have been followed, subject to any material departures disclosed and explained in the special purpose project financial statements; and
- preparing the special purpose project financial statements on a going concern basis, unless it is inappropriate to presume that the Project will continue its activity for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining effective and sound system of internal control and for revealing risks in system of internal control;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with IPSAS and WB Guidelines;
- compliance with laws and regulations of the Republic of Tajikistan, accounting system of the Project and the requirements of the World Bank;
- taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- detecting and preventing fraud and other irregularities.


The special purpose project financial statements for the period from January 1, 2016 to April 30, 2016 and grace period from May 1, 2016 to August 31, 2016 were approved and authorized for issue on October 31, 2016 by the management of the Project.

On behalf of the Management


D. Sattorzoda
Director

October 31, 2016
Dushanbe, Republic of Tajikistan




H. Amonov
Chief accountant

October 31, 2016
Dushanbe, Republic of Tajikistan



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INDEPENDENT AUDITORS' REPORT

To the Management of "Additional financing for Municipal Infrastructural Development Project" under the State Committee on Investments and Government Property Management of the Republic of Tajikistan:

Report on the Special Purpose Project Financial Statements

- [1] We have audited the accompanying special purpose project financial statements of "Additional financing for Municipal Infrastructural Development Project" (the "Project") which comprise the statement of cash proceeds and disbursements and the statement of uses of funds by project components for the period from January 1, 2016 to April 30, 2016 and grace period from May 1, 2016 to August 31, 2016, and a summary of significant accounting policies and other explanatory information (the "special purpose project financial statements").

Management's responsibility for the special purpose project financial statements

- [2] Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines"), and for such internal control as management determines is necessary to enable the preparation of the special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

- [3] Our responsibility is to express an opinion on these special purpose 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 whether the special purpose project financial statements are free from material misstatement.
- [4] An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose project financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the special purpose 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 special purpose project financial statements.

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An independent member of Baker Tilly International

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

Basis for qualified opinion

- [6] The special purpose project financial statements for the year ended December 31, 2015 were audited by another auditor. We are unable to satisfy ourselves as to the correctness of the opening balances, cumulative financing and expenses under audit due to unwillingness of predecessor auditor to collaborate with us to discuss and resolve material differences encountered in the opening balances.

There were no alternative audit procedures that we could perform to confirm independently the the correctness of the opening balances.

We were also unable to determine whether adjustments might be necessary for the special purpose project financial statements for the year ended December 31, 2015.

Qualified Opinion

- [7] In our opinion, except for the effects of the matter described in paragraph [6], the accompanying special purpose project financial statements present fairly, in all material respects, cash proceeds and disbursements and uses of funds by project components for the period from January 1, 2016 to April 30, 2016 and grace period from May 1, 2016 to August 31, 2016 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Emphasis of matter

- [8] Without further qualifying our opinion, we draw attention to Note 2 to the special purpose project financial statements which describes the basis of accounting. These special purpose project financial statements were prepared for complying with the appropriate World Bank Guidelines and Grant agreement requirements, and therefore are not intended to be a complete presentation of the Additional financing for Municipal Infrastructural Development Project (the "Project") operations.

Other Matter

- [9] The special purpose project financial statements are prepared to assist the Project to comply with the requirements of the World Bank. As a result, the special purpose project financial statements may not be suitable for another purpose.

Baker Tilly Klitou and Partners

Baker Tilly Klitou and Partners SRL

Bucharest, Romania

October 31, 2016




“ADDITIONAL FINANCING FOR MUNICIPAL INFRASTRUCTURAL DEVELOPMENT PROJECT” GRANT NO. H769-TJ

**STATEMENT OF CASH PROCEEDS AND DISBURSEMENTS
FOR THE PERIOD FROM JANUARY 1, 2016 TO APRIL 30, 2016 AND GRACE PERIOD FROM MAY 1, 2016 TO AUGUST 31, 2016
(in US Dollars)**

	Notes	Grace period from May 1, 2016 to August 31, 2016	Cumulative	For the period from January 1 to April 30, 2016	Cumulative	2015	Cumulative
Opening balance	4	638,529	-	312,285	-	150,003	-
Funding sources	6	-	-	1,060,812	11,299,280	2,917,354	10,238,468
IDA Grant H769-TJ							
Cofinancing by the Government of the Republic of Tajikistan					1,044,896	202,903	1,044,896
Total financing				1,060,812	12,344,176	3,120,257	11,283,364
Other income		6,004	35,951	10,299	29,947	-	19,648
Total receipts		6,004	35,951	1,071,111	12,374,123	3,120,257	11,303,012
Project expenses							
Reconstruction of municipal infrastructure	5	102,438	8,326,772	51,191	8,224,334	1,455,781	8,173,143
Strengthening technical and institutional capacity	5	89,617	1,751,283	609,212	1,661,666	778,194	1,052,454
Project Management	5	27,987	1,858,710	78,756	1,830,723	717,566	1,751,967
Total project expenses		220,042	11,936,765	739,159	11,716,723	2,951,541	10,977,564
Refund		403,015	403,015	-	-	-	-
Non-operating expenses		-	6,203	-	6,203	-	6,203
Foreign exchange rates differences		-	12,668	5,708	12,668	6,434	6,960
Closing balance	4	21,476	-	638,529	-	312,285	-

On behalf of the Management


D. Sattorzoda
Director

October 31, 2016
Dushanbe, Republic of Tajikistan




H. Amonov
Chief accountant

October 31, 2016
Dushanbe, Republic of Tajikistan


The notes on pages 7-12 form an integral part of the special purpose project financial statements. The Independent Auditors' Report is on pages 3-4.

“ADDITIONAL FINANCING FOR MUNICIPAL INFRASTRUCTURAL DEVELOPMENT PROJECT” GRANT NO. H769-TJ

**STATEMENT OF USES OF FUNDS BY PROJECT COMPONENTS
FOR THE PERIOD FROM JANUARY 1, 2016 TO APRIL 30, 2016 AND GRACE PERIOD FROM MAY 1, 2016 TO AUGUST 31, 2016**
(in US Dollars)

	Grace period from May 1, 2016 to August 31, 2016	Cumulative	For the period from January 1 to April 30, 2016	Cumulative	2015	Cumulative
Reconstruction of municipal infrastructure	102,438	1,609,410	51,191	1,506,972	1,455,781	8,173,143
Strengthening technical and institutional capacity	89,617	1,477,023	609,212	1,387,406	778,194	1,052,454
Project Management	27,987	824,309	78,756	796,322	717,566	1,751,967
	<u>220,042</u>	<u>3,910,742</u>	<u>739,159</u>	<u>3,690,700</u>	<u>2,951,541</u>	<u>10,977,564</u>

On behalf of the Management:


D. Sattorzoda
Director

October 31, 2016
Dushanbe, Republic of Tajikistan




H. Apolonov
Chief accountant

October 31, 2016
Dushanbe, Republic of Tajikistan

The notes on pages 7-12 form an integral part of the special purpose project financial statements. The Independent Auditors' Report is on pages 3-4.

ADDITIONAL FINANCING FOR “MUNICIPAL INFRASTRUCTURAL DEVELOPMENT PROJECT” GRANT NO. H769-TJ

NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 1, 2016 TO APRIL 30, 2016 AND
GRACE PERIOD FROM MAY 1, 2016 TO AUGUST 31, 2016
(in US Dollars)

1. GENERAL INFORMATION

According to the Agreement between the Republic of Tajikistan and the International Development Association (the “IDA”) dated August 23, 2012, the IDA provided additional financing in the form of Grant No. H769-TJ in the amount of 7,700,000 Special Drawing Rights (the “SDR”) to the Republic of Tajikistan to render assistance in financing the Project “Development of municipal infrastructure”.

Project purpose

The objective of the Project is to improve the availability, quality and efficiency of basic municipal services for the population of the towns that participate in the Project. An added objective, as an urgent response to the anticipated floods of the spring of 2012, is to contribute to their mitigation with the supply of emergency materials.

The Project consists of the following parts:

Part A. Municipal Infrastructure Rehabilitation

Rehabilitation, repair, construction, and replacement of infrastructure and equipment for basic municipal services in the Participating Towns, including the following activities:

- Rehabilitating, repairing, constructing and replacing infrastructure and equipment for basic municipal services in Farkhor through the provision of goods and works, including construction of a temporary waste deposit and sludge drying beds;
- Rehabilitating, repairing, constructing and replacing infrastructure and equipment for basic municipal services in Vose through the provision of goods and works, including construction of a new water storage tank and ventilated improved pit latrines;
- Establishing, rehabilitating, repairing, and replacing household connections to the water network in Farkhor through the provision of goods and works;
- Acquiring utility services maintenance equipment, to support KMK in responding to disruption of services through the provision of goods; and
- Acquiring cement, fuel and gabion wire mesh to support the Ministry of Land Reclamation and Water Resources of Recipient in preparing for flooding.

Part B. Technical and Institutional Strengthening of KMK and its local subsidiary utility enterprises

Assisting the institutional strengthening of KMK and its local subsidiary utility enterprises, including the following activities:

- Installing water usage meters in Farkhor;
- Installing a modern collection and billing system through the use of electronic kiosks;
- Raising awareness on water conservation, solid waste disposal issues, and the advantages of metering through a public information campaign;
- Installing a Monitoring Information System (MIS) at KMK to automate collection, storing, processing, and sharing data and reports related to communal services;
- Installing a modern accounting and billing system in the Participating Towns;
- Developing a Municipal Sector Strategy to focus on municipal issues and reforms required to improve the delivery of communal services;

- Training and building technical capacity to all utilities to implement and operate newly installed metering program; and
- Preparing feasibility studies to prepare investment projects identified by the Municipal Sector Strategy.

Part C. Project Management

Strengthening of the capacity of KMK and the PMU for project management, implementation, monitoring and evaluation, including the development and maintenance of a monitoring and evaluation system, periodic surveys of beneficiary satisfaction in Participating Towns, audit, procurement, disbursement and financial management activities through provision of goods, technical assistance and training, and financing of Incremental Operating Costs.

Project management

The project is implemented by the Project Management Centre that is budgetary institution located in the Republic of Tajikistan, Dushanbe, Karabayev N. 56 str..

Duration of the Project is from August 23, 2012 to April 30, 2016 and grace period from May 1, 2016 to August 31, 2016.

2. PRESENTATION OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

Basis of preparation

These special purpose project financial statements have been prepared in accordance with the International Public Sector Accounting Standard (the "IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Under the cash basis system income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received.

The Project's approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.

These special purpose project financial statements consist of:

- Statement of cash proceeds and disbursements;
- Statement of uses of funds by project components;
- Notes to the special purpose project financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these special purpose project financial statements is US dollars (the "USD").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash basis of accounting

Special purpose project financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Special purpose project financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the special purpose project financial statements is balances of cash and changes therein.

Foreign currency

Operations in foreign currency initially are counted in functional currency by the official currency exchange rate settled by the National Bank of Tajikistan (the "NBT") on a date of operation.

Funds received are translated into USD at official exchange rate of Special Drawing Rights (the "SDR") at the date of funds receipt. All payments made in local currency are translated into USD at the official exchange rate defined by National Bank of Tajikistan, at the date of transaction.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate on a date settled by the NBT.

All foreign exchange differences resulted from maturity or recounting are included in statement of cash proceeds and disbursements.

Non-monetary items are valued according to their historic cost in foreign currency, which are recalculated on rates of the initial operation date.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term.

Taxes

Calculation and payment of personal income tax and social security contributions from income of local staff and consultants is made in accordance with the requirements and rates of the Tax Code of the Republic of Tajikistan.

Project expenses

The expenses are recorded in the period when they were actually paid.

Sources of funds

The funds were provided by the World Bank and co-financed by the Government of the Republic of Tajikistan to the Project by replenishment of special account or through direct payment to the end supplier of goods and/or services.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at August 31, 2016, April 30, 2016 and December 31, 2015 comprise:

	August 31, 2016	April 30, 2016	December 31, 2015
Special account in foreign currency	-	592,857	283,175
Co-financing by the Government of the Republic of Tajikistan special account in national currency	2,443	26,541	27,035
Escrow account in the OJSC "Orienbank"	19,000	19,000	-
Transit account in national currency	21	-	48
Transit account in foreign currency	12	12	-
Tender account in foreign currency	-	-	513
Cash on hand	-	119	1,514
	<u>21,476</u>	<u>638,529</u>	<u>312,285</u>

The cash balance as at August 31, 2016 in amount of 19,000 US dollars was temporarily transferred to the escrow account in the OJSC "Orienbank" to cover subsequent expenses associated to liabilities on completing the Project (Note 10).

5. CUMULATIVE PROJECT EXPENDITURES

Project expenditures by components are presented in the statement of funds by project components. Project expenditures on major categories are presented in the statement of cash proceeds and disbursements. Project expenditures by source of financing are presented as following:

	Grace period from May 1, 2016 to August 31, 2016	Cumulative	For the period from January 1 to April 30, 2016	Cumulative	2015	Cumulative
<i>Sources of financing</i>						
Grant No. H769-TJ	220,042	11,936,765	739,159	11,716,723	2,707,815	9,968,973
Co-financing by the Government of the Republic of Tajikistan	-	-	-	-	243,726	1,008,591
	<u>220,042</u>	<u>11,936,765</u>	<u>739,159</u>	<u>11,716,723</u>	<u>2,951,541</u>	<u>10,977,564</u>

6. GRANTS RECEIVED

The grants received were presented by the following:

	Grace period from May 1, 2016 to August 31, 2016	For the period from January 1 to April 30, 2016	2015
Grant No.H769-TJ			
Direct payments	-	-	65,855
Reimbursement of expenses	-	1,060,812	2,851,499
Cofinancing by the Government of the Republic of Tajikistan	<u>-</u>	<u>-</u>	<u>202,903</u>
	<u>-</u>	<u>1,060,812</u>	<u>3,120,257</u>

7. FINANCIAL POSITION

Financial position as at August 31, 2016, April 30, 2016 and December 31, 2015 comprise of:

	August 31, 2016	April 30, 2016	December 31, 2016
ASSETS AND EXPENDITURES			
Cash and cash equivalents	21,476	638,529	312,285
Cumulative project expenditures	11,936,765	11,716,723	10,977,564
Refunds	403,015	-	-
Foreign exchange differences	12,670	12,670	6,960
Other expenses	6,201	6,201	6,203
TOTAL ASSETS AND EXPENDITURES	<u>12,380,127</u>	<u>12,374,123</u>	<u>11,303,012</u>
FINANCING			
Grants received	12,344,176	12,344,176	11,283,364
Other income	35,951	29,947	19,648
TOTAL FINANCING	<u>12,380,127</u>	<u>12,374,123</u>	<u>11,303,012</u>

8. WITHDRAWAL APPLICATIONS

Withdrawal applications for the period from January 1, 2016 to April 30, 2016 and grace period from May 1, 2016 to August 31, 2016 comprise:

Sources of financing	Application	Date	Reimbursement of expenses	Total
For the period from January 1, 2016 to April 30, 2016				
Grant No. H769-TJ				
	28	February 3, 2016	503,368	503,368
	29	March 7, 2016	213,350	213,350
	30	April 1, 2016	344,094	344,094
			<u>1,060,812</u>	<u>1,060,812</u>
Grace period from May 1, 2016 to August 31, 2016				
Grant No. H H769-TJ			-	-
			-	-
Total:			<u>1,060,812</u>	<u>1,060,812</u>

9. SPECIAL ACCOUNT

Special account for the period from January 1, 2016 to April 30, 2016 and grace period from May 1, 2016 to August 31, 2016 comprise:

<i>Special accounts</i>	Grant H769-TJ	
<i>Currency</i>	US Dollars	
<i>Bank account</i>	20206840816905000423	
<i>Bank</i>	OJSC "Orienbank"	
<i>Bank's location</i>	95/1 Rudaki avenue str., Dushanbe, Tajikistan	
Description	US Dollars	Total
Balance as at January 1, 2016	<u>283,175</u>	<u>283,175</u>
Reimbursement of expenses	<u>1,060,812</u>	<u>1,060,812</u>
Total funds received to a special account	<u>1,060,812</u>	<u>1,060,812</u>
The amount of eligible expenditures paid	133,803	133,803
Transferred to transit account and cash on hand	598,327	598,327
Transfer of funds to transit account foreign currency	<u>19,000</u>	<u>19,000</u>
Balance as at April 30, 2016	<u>592,857</u>	<u>592,857</u>
Total funds received to a special account	<u>-</u>	<u>-</u>
The amount of eligible expenditures paid	20,106	20,106
Transferred to transit account and cash on hand	169,736	169,736
Refund	<u>403,015</u>	<u>403,015</u>
Balance as at August 31, 2016	<u>-</u>	<u>-</u>

10. COMMITMENTS

In the normal course of activities, the Project concludes agreements with suppliers of goods and services in accordance with the established budget and procurement plan. As at August 31, 2016 the Project had commitments for covering audit service expenses in amount of 8,000 US dollars to Baker Tilly Klitou and Partners SRL. The rest of funds in amount of 11,000 in the escrow account will be refunded to the Donor back.

11. GOING CONCERN

The period of duration of the Project was completed on April 30, 2016 and grace period on August 31, 2016.

12. LEGAL CASES

There were no any legal claims related to the Project.

13. EVENTS AFTER THE REPORTING DATE

There were no any events after the reporting date.