

“SOCIAL INFRASTRUCTURE AND ENERGY EFFICIENCY” PROJECT

KfW Grant No.; 2009 66 440

UNDER THE MOLDOVA SOCIAL INVESTMENT FUND PROJECT

**IMPLEMENTED BY
MOLDOVA SOCIAL INVESTMENT FUND**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR’S REPORT

For the year ended 31 December 2015

**CHISINAU
March 2016**

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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT

*On the special purpose financial statements of
"Social Infrastructure and Energy Efficiency" Project
for the year ended 31 December 2015
partially financed by KfW Grant No. 2009 66 440*

To the Management of the Moldova Social Investment Fund

We have audited the accompanying special purpose financial statements of "Social Infrastructure and Energy Efficiency" project (the Project) under the Moldova Social Investment Fund project partially financed by KfW Grant No. 2009 66 440, managed by Moldova Social Investment Fund (the MSIF), which comprise the statement of financial position as at 31 December 2015, the statement of sources and uses of funds, the statement of SOEs, the statement of expenditure by project activity, the statement of designated account for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management of the MSIF is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and Financial Management Manual for World Bank Financed Investment Operations, 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 (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) within the IFAC. 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 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 Project's internal control.

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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.

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 at 31 December 2015, as well as sources and uses of funds, for the year then ended in accordance with the IPSAS-Cash Basis;
2. expenditures have been incurred, funds have been maintained and goods and services financed have been procured in all material respects in accordance with the Financing and Project Agreement KfW Grant No. 2009 66 440 signed between the Republic of Moldova, the KfW Bankengruppe, Frankfurt am Main (the KfW) and the MISF on 15.12.2010, and the related Operational Manual;
3. adequate supporting documentation has been maintained to support claims for reimbursement of expenditures incurred. The expenditures included in the withdrawal applications and reimbursed against in are eligible for financing under the KfW Grant No. 2009 66 440;
4. The Designated account used has been maintained in accordance with the provision of the KfW Grant No. 2009 66 440.

"SOS-Audit" LLC
10 March 2016


Manvel Ghazaryan
Director


Gnel Khachatryan, FCCA
Auditor



STATEMENT OF FINANCIAL POSITION

*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2009 66 440
As at 31 December 2015*

	31.12.2015	31.12.2014
	EUR	EUR
ASSETS		
Cash and cash equivalents		
Undisbursed Balance - KfW Grant No. 2009 66 440	1,348,359	1,837,067
Designated Account - KfW Grant No. 2009 66 440	316,901	340,119
Designated Account - CC3KFW2	83,592	328,432
Total cash and cash equivalents	1,748,852	2,505,618
Cumulative project expenditures		
KfW Grant No. 2009 66 440	3,358,244	2,849,041
CC3KFW2	1,042,100	795,271
GRM	154,014	56,284
TOTAL CUMULATIVE PROJECT EXPENDITURES	4,554,358	3,700,596
TOTAL CASH AND EXPENDITURES	6,303,210	6,206,214
FINANCING		
Funding		
KfW Grant No. 2009 66 440	5,000,000	5,000,000
CC3KFW2	1,168,112	1,150,373
GRM	154,014	56,284
TOTAL FUNDING	6,322,126	6,206,657
Interest		
Sources of funds- KfW Grant No. 2009 66 440	28,336	27,135
Sources of funds - CC3KFW2	52,951	48,664
TOTAL INTEREST	81,287	75,799
Foreign Exchange Difference		
KfW Grant No. 2009 66 440	(4,832)	(908)
CC3KFW2	(95,371)	(75,334)
Total Foreign Exchange Gain/(Loss)	(100,203)	(76,242)
TOTAL FINANCING	6,303,210	6,206,214

The project special purpose financial statements were approved by the management of the Moldova Social Investment Fund on 10 March 2016 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.



Mircea Esanu
MSIF Executive Director

Ludmila Nita
MSIF Financial Director

STATEMENT OF SOURCES AND USES OF FUNDS

"Social Infrastructure and Energy Efficiency" Project
 Under the Moldova Social Investment Fund Project
 Financed by KfW Grant No. 2009 66 440
 For the year ended 31 December 2015

	Year ended 31 Dec 2015 EUR	Cumulative 31 Dec 2015 EUR
OPENING CASH BALANCE		
Designated Account - KfW Grant No. 2009 66 440	340,119	-
Designated Account - CC3KFW2	328,432	-
TOTAL OPENING CASH BALANCE	668,551	-
ADD: SOURCES		
Funds		
KfW Grant No. 2009 66 440	488,708	3,651,641
CC3KFW2	17,739	1,168,112
GRM	97,731	154,014
TOTAL Funds	604,178	4,973,767
Interest		
KfW Grant No. 2009 66 440	1,201	28,336
CC3KFW2	4,286	52,951
TOTAL INTEREST	5,487	81,287
Foreign Exchange Difference		
KfW Grant No. 2009 66 440	(3,924)	(4,832)
CC3KFW2	(20,037)	(95,371)
Total Foreign Exchange Gain/(Loss)	(23,961)	(100,203)
TOTAL SOURCES	585,704	4,954,851
LESS: USES OF FUNDS		
KfW Grant No. 2009 66 440		
Cons. Serv. & training	133,038	240,034
Recurrent costs	72,564	160,066
Grants	303,601	2,958,144
TOTAL KfW Grant No. 2009 66 440	509,203	3,358,244
CC3KFW2		
Recurrent costs	21	970
Grants	246,808	1,041,130
TOTAL CC3KFW2	246,829	1,042,100
GRM		
Cons. Serv. & training	288	54,118
Recurrent costs	97,442	99,896
TOTAL GRM	97,730	154,014
TOTAL USED FUNDS	853,762	4,554,358
CLOSING CASH BALANCE		
Designated Account - KfW Grant No. 2009 66 440	316,901	316,901
Designated Account - CC3KFW2	83,592	83,592
TOTAL CLOSING CASH BALANCE	400,493	400,493

STATEMENT OF EXPENDITURE BY PROJECT ACTIVITY

*"Social Infrastructure and Energy Efficiency" Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2009 66 440
For the year ended 31 December 2015*

Component	Year ended 31 Dec 2015 EUR	Cumulative 31 Dec 2015 EUR
1. Nationwide individual sub-projects according to MSIF guidelines (social infrastructure, gas and electricity, rural paths/streets)	246,397	2,988,015
2. Individual sub-projects on both sides of Nistru/Dniestr river	303,820	985,322
3. Pilot sub-projects energy efficiency	192	25,936
4. Administrative costs MSIF	303,353	555,085
Total	853,762	4,554,358

STATEMENT OF SOE_s

*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2009 66 440
For the year ended 31 December 2015
In EUR*

App. #	Value date	Expenditure category				Bank charges	Total
		Nationwide individual sub-projects according to general MSIF guidelines (social infrastructure, gas and electricity supply, rural paths/streets)	Individual sub-projects on both sides of Nistru/ Dniestr river	Pilot sub-projects energy efficiency	Administrative costs MSIF		
		1	2	3	4		
10	06.01.2015	343,632.11	190,162.05	-	28,013.62	75.00	561,882.78
11	05.05.2015	16,485.62	211,360.95	48.78	76,551.84	75.00	304,522.19
12	06.10.2015	15,308.05	100,479.37	143.25	80,571.84	-	196,502.51
Total		375,425.78	502,002.37	192.03	185,137.30	150.00	1,062,907.48

STATEMENT OF DESIGNATED ACCOUNT

*"Social Infrastructure and Energy Efficiency" Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2009 66 440
For the year ended 31 December 2015*

Account No.	EUR 2251710SV81104817100 MDL 2251710SV81104657100
Depository Bank	BC "Mobiasbanca-Groupe Societe Generale" SA
Address	Chisinau, Moldova

	KfW Grant No. 2009 66 440
	EUR
Opening balance as at 01.01.2015	340,119
Add:	
Funds*	488,633
Interest	1,201
Foreign currency gain/(loss)	(3,924)
Deduct:	
Uses of funds*	509,128
Closing balance as at 31.12.2015	316,901

(*) The Designated account movement does not include corresponding bank charges on KfW financing which in total account EUR 75 for the reporting year.

**STATEMENT OF DESIGNATED ACCOUNT
(Continued)**

*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
CC3KFW2
For the year ended 31 December 2015*

Underling currency	MDL
Account No.	2251710SV29273867100
Depository Bank	BC “Mobiasbanca-Groupe Societe Generale” SA
Address	Chisinau, Moldova

	Contribution of Community CC3KFW2
	<u>EUR</u>
Opening balance as at 01.01.2015	328,432
Add:	
Funds received*	6,662
Funds refunded	(20,522)
Interest	4,286
Foreign currency gain/(loss)	(20,037)
Deduct:	
Uses of funds*	<u>215,229</u>
Closing balance as at 31.12.2015	<u>83,592</u>

(*) The community contribution (CC) in eastern side of Nistru River is paid directly from community to contractors (e.g. construction companies) without any cash flows reflected in CC designated accounts. (Note 3.2)

NOTES TO THE PROJECT SPECIAL PURPOSE FINANCIAL STATEMENTS

*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2009 66 440
For the year ended 31 December 2015*

1. General information

1.1. The Financing and Project Agreement

According to the Financing and Project Agreement between the Republic of Moldova, KfW Bankengruppe, Frankfurt am Main (the KfW) and Moldova Social Investment Fund (MSIF) on 15 December 2010, the KfW provided Grant No. 2009 66 440 in the amount of 5,000,000 EUR (Euro) to the Republic of Moldova. The grant was provided for implementation of “Social Infrastructure and Energy Efficiency” project (hereinafter Project) under the Moldova Social Investment Fund Project.

The closing date for grant disbursement is set 31 July 2017 (as updated by the KfW letter dated 17.12.2014).

1.2. The Project objective

The objective of the Project is to contribute to financing of municipal and social infrastructure (water and gas supply, energy supply, schools, kindergarten, roads, etc.) of local communities of up to 20,000 inhabitants throughout Moldova and on both sides of Nistru/Dniestr with a specific focus on the efficient use of energy and the use of alternative energy resources.

1.3. The Budget

The Project is financed by:

- KfW Grant No. 2009 66 440
- Community contribution of target group (CC3KFW2)
- Government of Republic of Moldova (GRM).

The Project budget and financing per funding is as follows: (EUR)

#	Category	KfW Grant No. 2009 66 440	CC3KFW2	GRM	Total
1	Nationwide individual sub-projects	2,400,000	360,000	-	2,760,000
2	Individual sub-projects on both sides of Nistru/Dniestr river	1,000,000	150,000	-	1,150,000
3	Pilot sub-projects energy efficiency	1,000,000	150,000	-	1,150,000
4	Administrative costs MSIF	600,000	-	400,000	1,000,000
		5,000,000	660,000	400,000	6,060,000

1.4. Project Implementation

The Project is implemented by Moldova Social Investment Fund (MSIF), established by a Decree of the Government of Moldova, as an autonomous public institution.

The address of the registered office of the Project is 124, Stefan cel Mare str., Chisinau, Republic of Moldova.

2. Accounting policy

2.1 Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within 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 Management policy is to prepare and present special purpose financial statements under the cash basis of accounting, which recognizes transactions and events only when cash (including cash equivalents) are received or paid by the entity.

Financial Statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purpose for which cash was used and the cash balances at the reporting date.

The project special purpose financial statements consist of:

- Statement of financial position,
- Statement of sources and uses of funds,
- Statement of expenditure by project activity,
- Statement of SOEs,
- Statement of Designated accounts,
- Significant accounting policies and other explanatory notes.

Reporting currency of special purpose financial statements is Euro (EUR).

2.2 Foreign currency transactions

Project accounts are maintained and transactions are made in EUR and Moldavian Leu (MDL). Transactions denominated in local currency are translated into EUR as follows:

- Contributions in the currencies other than EUR are translated into EUR at the National Bank of Moldova (BNM) established rates at the date of transactions.
- Non-EUR payments are translated into EUR at the conversion rate applied by the commercial bank for EUR currency exchange to the local currency.
- As at reporting date, cash balances denominated in the currencies other than EUR are translated into EUR at the exchange rate established by BNM at that date.
- Transaction and translation exchange rate differences (gain/loss) are reflected in the Project Sources and Uses of Funds.

The exchange rate established by BNM as at 31 December 2014 is EUR 1 = 18.9966 MDL.
The exchange rate established by BNM as at 31 December 2015 is EUR 1 = 21.4779 MDL.
The average exchange rate established by BNM for the year 2015 is EUR 1 = 20.8980 MDL.

2.3 Taxes

According to tax code of the Republic of Moldova, all the goods and services designed for the implementation of MSIF sub-projects are to be delivered/rendered with application of zero VAT.

Income taxes for personnel and for long-term consultants as well as the social and medical charges are paid in conformity with the Grant Agreements.

2.4 Accounting System

MSIF has adequate written statements and explanations of its accounting policies and procedures such as:

- Chart of accounts,
- Specification of accounting records,
- Accounting procedures and the required supporting documents,
- Assignment of responsibilities and delegation of authority,
- Documentation and approval requirements for recording transactions and making journal entries.

2.5 Internal Control System

MSIF internal control system is able to ensure that financial records are reliable and complete. In particular, the internal control system ensures proper recording and safeguarding of assets and resources, adherence to financial management policies and orderly and efficient conduct of operations.

3. Project Financing

3.1. KfW Grant No. 2009 66 440

	For the year ended 31 Dec 2015	Cumulative as at 31 Dec 2015
	EUR	EUR
Advance	(574,199)	349,573
Statement of Expenditures	1,062,907	3,302,068
Total	488,708	3,651,641
Total budget		5,000,000
Percentage of finance provided as at 31 Dec 2015		73%

3.2. Community contribution

	For the year ended 31 Dec 2015	Cumulative as at 31 Dec 2015
	EUR	EUR
Contributions in cash	6,662	1,245,427
Refunds in cash (a)	(20,522)	(225,193)
Contributions in cash (b)	31,599	147,878
Total	17,739	1,168,112
Total budget		660,000
Percentage of finance provided as at 31 Dec 2015 (c)		177%

- (a) Refunds of community contribution is done if the sub-project is not approved, terminated or ceased, or the project is implemented with less expenditure than planned and residual amount is not invested in other sub-project related to that beneficiary.
- (b) The community contribution (CC) in eastern side of Nistru river is paid directly from community to contractors (e.g. to construction companies).
- (c) The Communities contributed more than min of 15% (or 30% in the case of repeat grants) of requested grant to develop enhanced infrastructure.

3.3. Contribution of Government of Republic of Moldova

	For the year ended 31 Dec 2015	Cumulative as at 31 Dec 2015
	EUR	EUR
Contribution in cash	97,731	154,014
Total	97,731	154,014
Total budget		400,000
Percentage of finance provided as at 31 Dec 2015*		39%

(*) The contribution of Government of the Republic of Moldova (the GRM) is used to cover taxes on administrative costs of MSIF. The financing from the GRM is reflected in these special purpose financial statements to the extent of expenditures made related to this Project. Contribution of GRM is used to cover costs relating to various projects implemented by the MSIF.

4. Events after the reporting date

The Project expenditures for the period 01.10.2015-31.12.2015 registered at the application No.14 in the total amount of EUR 55,950.25 were submitted to KfW on 5 January 2016.