

**TECHNICAL AND FINANCIAL PROGRAMME  
OFFERED BY THE GOVERNMENT OF ROMANIA  
FOR THE PRE-SCHOOL INSTITUTIONS OF THE REPUBLIC OF MOLDOVA**

Funded by  
**GOVERNMENT OF ROMANIA GRANT**

Implemented by  
**MOLDOVA SOCIAL INVESTMENT FUND**

**SPECIAL PURPOSE FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**For the period from 10 June 2014 to 31 December 2015**

**CHISINAU  
March 2016**

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"ՍՕՍ-ԱՈՒԴԻՏ" ՍՊԸ  
"SOS-AUDIT" LTD

**INDEPENDENT AUDITOR'S REPORT**

*On the special purpose financial statements of  
"Technical and Financial Programme offered by the Government of Romania  
for the pre-school institutions of the Republic of Moldova"  
for the year ended 31 December 2015  
financed by the Government of Romania*

To the Management of the Moldova Social Investment Fund

We have audited the accompanying special purpose financial statements of "Technical and Financial Programme offered by the Government of Romania for the pre-school institutions of the Republic of Moldova" project (the Project) financed by Government of Romania, and implemented by Moldova Social Investment Fund (the MSIF), which comprise the statement of sources and uses of funds, the statement of expenditure by project activity, the statement of funds received from 10 June 2014 to 31 December 2015 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 sources and uses of funds for the period from 10 June 2014 to 31 December 2015 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 Government of Moldova Decision No. 436 dated 10 June 2014;
3. adequate supporting documentation has been maintained to support expenditures incurred. The expenditures are eligible for financing under the Decision No.436.

"SOS-Audit" LLC  
10 March 2016

  
Manvel Ghazaryan



  
Gnel Khachatryan, FCCA  
Auditor

## STATEMENT OF SOURCES AND USES OF FUNDS

*“Technical and Financial Programme offered by the Government of Romania for the pre-school institutions of the Republic of Moldova” Project  
Financed by Government of Romania  
For the period from 10 June 2014 to 31 December 2015*

	Note	Year ended 31.12.2014	Year ended 31.12.2015	Cumulative as at 31.12.2015
		EUR	EUR	EUR
<b>TOTAL OPENING CASH</b>		-	16,354,670	-
<b>Sources of Funds</b>	4			
Government of Romania		19,922,506	-	19,922,506
Government of Moldova		-	113,240	113,240
MSIF contribution		-	112,151	112,151
Community Contribution		199,392	490,165	689,557
<b>TOTAL FUNDS</b>		<b>20,121,898</b>	<b>715,556</b>	<b>20,837,454</b>
<b>Interest income</b>		<b>386</b>	<b>6,661</b>	<b>7,047</b>
<b>Project Expenditures</b>	5			
(160) - RO Rehabilitation of Children Centers				
<i>Civil Works</i>		2,395,315	11,361,543	13,756,858
<i>Furniture/Equipment</i>		941,286	2,459,424	3,400,710
<i>Supervision</i>		345,459	35,665	381,124
		3,682,060	13,856,632	17,538,692
(400) - Part D- Project Management		-	113,240	113,240
<b>TOTAL PROJECT EXPENDITURES</b>		<b>3,682,060</b>	<b>13,969,872</b>	<b>17,651,932</b>
<b>Other outflows/(inflows)</b>	6	<b>(87,267)</b>	<b>(2,285,058)</b>	<b>(2,372,325)</b>
<b>Foreign currency gain/(loss)</b>		<b>1,713</b>	<b>(46,829)</b>	<b>(45,116)</b>
<b>TOTAL CLOSING CASH</b>	3	<b>16,354,670</b>	<b>775,128</b>	<b>775,128</b>

*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 EXPENDITURE BY PROJECT ACTIVITY

*“Technical and Financial Programme offered by the Government of Romania  
for the pre-school institutions of the Republic of Moldova” Project  
Financed by Government of Romania  
For the period from 10 June 2014 to 31 December 2015*

EXPENDITURE	TOTAL BUDGET	ACTUAL		
		Year ended 31.12.2014	Year ended 31.12.2015	Cumulative as at 31.12.2015
	EUR	EUR	EUR	EUR
<b>(160)-RO Rehabilitation of Children Centers</b>				
<i>Civil works</i>		2,395,315	11,361,543	13,756,858
<i>Equipment/Furniture</i>		941,286	2,459,424	3,400,710
Subtotal Civil Works and Equipment	19,062,000	3,336,601	13,820,967	17,157,568
Supervision of Construction	447,957	345,459	35,665	381,124
<b>Subtotal</b>	<b>19,509,957</b>	<b>3,682,060</b>	<b>13,856,632</b>	<b>17,538,692</b>
<b>(400)-Part D- Project Management</b>				
Other goods	6,410	-	6,410	6,410
CS/Local Specialists	149,400	-	42,239	42,239
Social and Medical Charges	40,338	-	48,819	48,819
Communications	70,000	-	7,000	7,000
Printing & Comm.	15,400	-	-	-
Project Audit financial	30,000	-	-	-
Office Supplies	32,000	-	-	-
LT Vehicle Rental	60,000	-	-	-
Administrative expenses	9,000	-	8,772	8,772
<b>Subtotal</b>	<b>412,548</b>	<b>-</b>	<b>113,240</b>	<b>113,240</b>
<b>TOTAL</b>	<b>19,922,505</b>	<b>3,682,060</b>	<b>13,969,872</b>	<b>17,651,932</b>

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**Mircea Esanu**  
MSIF Executive Director

**Ludmila Nita**  
MSIF Financial Director

## STATEMENT OF FUNDS RECEIVED

*“Technical and Financial Programme offered by the Government of Romania for the pre-school institutions of the Republic of Moldova” Project  
Financed by Government of Romania  
For the period from 10 June 2014 to 31 December 2015  
In USD*

Donor organization	Currency	Amount in EUR	Exchange rate (EUR/MDL)	Local currency equivalent (MDL)	Date received
Government of Romania	EUR	19,922,505.57	18.5207	368,978,748.91	22 Apr 2014
<b>Total</b>		<b>19,922,505.57</b>		<b>368,978,748.91</b>	

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**Mircea Esanu**  
MSIF Executive Director

**Ludmila Nita**  
MSIF Financial Director

## NOTES TO THE PROJECT SPECIAL PURPOSE FINANCIAL STATEMENTS

*“Technical and Financial Programme offered by the Government of Romania for the pre-school institutions of the Republic of Moldova” Project  
Financed by Government of Romania  
For the period from 10 June 2014 to 31 December 2015*

### **1. General information**

#### ***1.1. The Financing and Project Agreement***

Based on the Cooperation Program signed between the Government of Romania and Government of Republic of Moldova on 27 April 2010, the Moldova Social Investment Fund (the MSIF) was delegated to implement “Technical and Financial Programme offered by the Government of Romania for the pre-school institutions of the Republic of Moldova” project (hereinafter Project) in accordance with Decision No. 436 dated 10 June 2014 of the Government of the Republic of Moldova.

The Project is financed by the Government of Romania grant in the total amount of 19,922,505 EUR.

The expected closing date of the Project is 31 December 2016.

#### ***1.2. The Project objective***

The objective of the Project is renovating and to equipping of 774 kindergartens in the Republic of Moldova. As at 31.12.2015 more than 90% of the planed works were completed.

The list of the beneficiary kindergartens is included as an Annex to the Government of Republic Decision No. 436 dated 10 June 2014 as well as budget amount in EUR (and equivalent MDL) for each of them.

### 1.3. The Budget

The Project is 100% financed by Government of Romania inclusive of taxes.  
The communities can contribute funding over the determined budget for their community kindergarten to perform additional civil works or to acquire furniture/equipment.

Project Activities	Amount
	EUR
<b>RO Rehabilitation of children center</b>	
3101-90-160-60 Small grants	19,062,000
3130-90-160-60 MP-Supervision of Construction	447,957
<b>Subtotal</b>	<b>19,509,957</b>
<b>Part D - Project Management</b>	
3250-40-400-60 Other goods	6,410
3421-40-400-60 CS/Local Specialists	149,400
3425-40-400-60 Social and Medical Charges	40,338
4204-40-400-60 Communications	70,000
4205-40-400-60 Printing & Comm.	15,400
4207-40-400-60 Project Audit financial	30,000
4209-40-400-60 Office Supplies	32,000
4213-40-400-60 LT Vehicle Rental	60,000
4260-40-400-60 Administrative expenses	9,000
<b>Subtotal</b>	<b>412,548</b>
<b>Total</b>	<b>19,922,505</b>

### 1.4. Project Implementation

The Project is implemented by Moldova Social Investment Fund (MSIF) in accordance with Decree N 436 dated 10.06.2014.

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 sources and uses of funds,
- Statement of expenditure by project activity,
- Statement of funds received,
- Significant accounting policies and other explanatory notes.

Reporting currency of special purpose financial statements is United States dollars (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:

- Payments in MDL 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 period from 10 June 2014 to 31 December 2015 is EUR 1 = 20.1200 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.

## 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. Cash

	<u>Underlying Currency</u>	<u>31 Dec 2014 EUR</u>	<u>31 Dec 2015 EUR</u>
<b>Government of Romania Grant (a)</b>			
Designated Account	EUR	16,161,206	568,506
Designated Account	MDL	2,527	108,209
		<u>16,163,733</u>	<u>676,715</u>
<b>Community contribution (b)</b>			
Accounts for Civil Works	MDL	184,373	98,410
Account for Furniture/Equipment	MDL	6,564	3
		<u>190,937</u>	<u>98,413</u>
		<u>16,354,670</u>	<u>775,128</u>

(a) Designated accounts are held at Treasury of the Republic of Moldova.

(b) Community Contributions are held at "Mobiasbanca-Groupe Societe Generale" S.a. (Chisinau, Moldova).

## 4. Project Financing

### 4.1. Government of Romania

	<u>For the year ended 31 Dec 2014 EUR</u>	<u>For the year ended 31 Dec 2015 EUR</u>	<u>Cumulative as at 31 Dec 2015 EUR</u>
Cash contribution	19,922,505	-	19,922,505
<b>Total</b>	<u>19,922,505</u>	<u>-</u>	<u>19,922,505</u>
<b>Total budget</b>			<u>19,922,505</u>
<b>Percentage of finance provided</b>			<u>100%</u>

#### 4.2. Government of Republic of Moldova

	For the year ended 31 Dec 2014	For the year ended 31 Dec 2015	Cumulative as at 31 Dec 2015
	EUR	EUR	EUR
Covering Project Management costs	-	113,240	113,240
<b>Total</b>	-	<b>113,240</b>	<b>113,240</b>

#### 4.3. The MSIF contribution

	For the year ended 31 Dec 2014	For the year ended 31 Dec 2015	Cumulative as at 31 Dec 2015
	EUR	EUR	EUR
Contribution in cash - for Civil Works	-	39,951	39,951
Contribution in cash - for Equipment	-	72,200	72,200
<b>Total</b>	-	<b>112,151</b>	<b>112,151</b>

The FISM contributed funds mostly due to interest accrued on bank balances.

#### 4.4. Community Contribution

	For the year ended 31 Dec 2014	For the year ended 31 Dec 2015	Cumulative as at 31 Dec 2015
	EUR	EUR	EUR
Contributions in cash- for Civil Works	186,593	490,818	677,411
Refunds – relating to Civil Works	-	(40,267)	(40,267)
Contributions in cash- for Equipment	12,799	39,614	52,413
<b>Total</b>	<b>199,392</b>	<b>490,165</b>	<b>689,557</b>

### 5. Project Implementation

Expenditure Category	Actual Cumulative as at 31.12.2015	Budget Total	Implementation Progress
	EUR	EUR	%
160-RO Rehabilitation of Children Centers			
<i>Civil Works-through MSIF</i>	12,495,342		
<i>Civil Works- though CDD (a)</i>	1,261,516		
<i>Equipment/Furniture</i>	3,400,710		
Civil Works and Equipment-total	17,157,568	19,062,000	90%
Supervision of construction works	381,124	447,957	85%
<b>Subtotal- Rehabilitation of Children Centers</b>	<b>17,538,692</b>	<b>19,509,957</b>	<b>90%</b>
400-Part D- Project Management	113,240	412,548	27%
<b>TOTAL</b>	<b>17,651,932</b>	<b>19,922,505</b>	<b>89%</b>

- (a) The CDDs were approved for 15 communities by the Board of MSIF based on the request submitted from the community municipalities to MSIF, where there already was a renovation contract with construction companies done in accordance with public sector procurement system. The grant amounts were send directly to municipals budgets which in their turn paid contracts in accordance to renovation contract terms.

#### 6. Other outflows/(inflows)

	<b>For the year ended 31 Dec 2014</b>	<b>For the year ended 31 Dec 2015</b>	<b>Cumulative as at 31 Dec 2015</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
Transfer/(received) from State Budget (a)	87,267	(87,267)	-
Transferred to State Budget (b)	-	11,000,000	11,000,000
Received from State Budget (c)	-	(8,627,675)	(8,627,675)
<b>Net transferred/(received)</b>	<b>87,267</b>	<b>2,285,058</b>	<b>2,372,325</b>
<b>Closing balance receivable/ (payable) (d)</b>	<b>87,267</b>	<b>2,372,325</b>	<b>2,372,325</b>

- (a) There was short-term balance with state budget at the end of 31.12.2014.
- (b) The transfer to state budget account was performed in two transactions: 4 million EUR and 7 million EUR, based on letters of the Finance Minister of the Republic of Moldova dated 5 February 2015 and 24 February 2015, respectively. The transfers were done for the purpose of effective state budget management.
- (c) The repayments from State budget during May-Dec 2015 are done in 33 installments based in requests submitted by the MSIF to State Budget.
- (d) During period 01.01.2016-10.03.2016, the total repayment from State Budget is 717,465 EUR and the receivable balance is 1,654,860 EUR.