



Special Purpose Project Financial Statements and
Independent Auditor's Report

Renewable Resources and Energy Efficiency Fund

Geothermal Project

GEF Grant TF 093653

As of September 30, 2012 and for the period from
January 1, 2012 to September 30, 2012

Geothermal Project
Special purpose project financial statements
As of September 30, 2012 and for the period from January 1, 2011 to September 30, 2012

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Independent auditor's report

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

We have audited the accompanying special purpose project financial statements of the Geothermal Project (the "Project"), financed by the International Bank for Reconstruction and Development (the "IBRD") Grant Agreement TF 093653, acting as an implementing agency of the Global Environment Facility, which comprise the statement of financial position as of September 30, 2012, 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 September 30, 2012 and for the period from January 1, 2012 to September 30, 2012, as well as the statement of expenditures ("SOE") submitted to the World Bank for the period from January 1, 2012 to September 30, 2012 in support of the Grant Agreement TF 093653 withdrawals, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Special Purpose Project Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the accounting polices described in the note 2 to the special purpose project financial statements, the World Bank guidelines and the relevant points of the Grant Agreement TF 093653, and for such internal control as management determines is necessary to enable the preparation of these special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

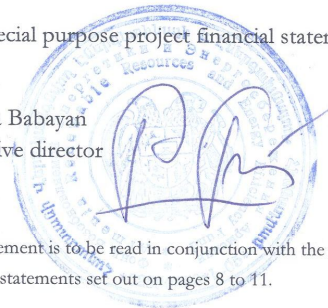
Our responsibility is to express an opinion on these special purpose project financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Statement of financial position

In US dollars	Note	As of September 30, 2012	As of December 31, 2011
<i>Assets</i>			
<i>Non-current assets</i>			
Accumulated Project expenses		1,513,529	987,091
		<u>1,513,529</u>	<u>987,091</u>
<i>Current assets</i>			
Bank balances	4	73,341	147,298
Accounts receivable		37	-
		<u>73,378</u>	<u>147,298</u>
Total assets		<u><u>1,586,907</u></u>	<u><u>1,134,389</u></u>
<i>Funds and liabilities</i>			
<i>Funds</i>			
Accumulated Project financing		1,575,722	1,140,453
Exchange rate difference		11,185	(6,307)
		<u>1,586,907</u>	<u>1,134,146</u>
<i>Liabilities</i>			
Accounts payable		-	243
		<u>-</u>	<u>243</u>
Total funds and liabilities		<u><u>1,586,907</u></u>	<u><u>1,134,389</u></u>

The special purpose project financial statements were approved on October 31, 2012 by:

Tamara Babayan
 Executive director



Roza Manucharyan
 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 8 to 11.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the special purpose project financial statements present fairly the financial position of the Geothermal Project as of September 30, 2012, and the funds received and expenses incurred for the period from January 1, 2012 to September 30, 2012, in accordance with the accounting policies described in the note 2, the World Bank guidelines, and the relevant points of the Grant Agreement TF 093653 and, in all material respects, expenditures have been applied to the purposes intended in Grant Agreement TF 093653.

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 TF 093653 withdrawals.

Emphasis of a Matter

We draw attention to note 3 to the special purpose project financial statements, which states that the closing date of the Project was defined as September 30, 2012. Our opinion is not qualified in respect of this matter.

November 5, 2012

Gagik Gyulbudaghyan
Managing Partner



Emil Vassilyan, FCCA
Engagement Partner

Statement of the Project sources and uses of funds

As of September 30, 2012 and for the period from January 1, 2012 to September 30, 2012
 In US dollars

	Actual		Planned		Variance		Project
	For the period	As of September 30, 2012	For the period	As of September 30, 2012	For the period	As of September 30, 2012	
<i>Sources of funds</i>							
Grant Agreement TF 093653 (note 5)	345,036	1,313,256					
Government co-financing	90,233	262,466					
Total	435,269	1,575,722					
Exchange rate difference	17,492	11,185					
<i>Less: Uses of funds</i>							
Consultants' services and Operating costs under Parts A.1 and B.1 of the Project	5,324	630,603	-	625,279	5,324	5,324	656,800
Consultants' services and Operating costs under Parts A.2 and B.2 of the Project	521,114	882,926	797,000	1,158,812	(275,886)	(275,886)	1,143,200
Total	526,438	1,513,529	797,000	1,784,091	(270,562)	(270,562)	1,800,000
Net increase/(decrease) in working capital (note 6)	(73,677)	73,378					

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 8 to 11.

Statement of uses of funds by Project activities

As of September 30, 2012 and for the period from January 1, 2012 to September 30, 2012
In US dollars

	Actual		Planned		Variance		Project
	For the period	As of September 30, 2012	For the period	As of September 30, 2012	For the period	As of September 30, 2012	
A. Technical Assistance	499,050	1,413,132	775,762	1,689,844	(276,712)	(276,712)	1,740,000
<i>A1. Consultants' services for the geological and geophysical fieldwork</i>	-	552,270	-	552,270	-	-	630,400
<i>A2. Consultants' services for further geophysical investigation works</i>	499,050	860,862	775,762	1,137,574	(276,712)	(276,712)	1,109,600
B. Project implementation	27,388	100,397	21,238	94,247	6,150	6,150	60,000
<i>B1. Support to the Project Implementing Entity for part A.1</i>	5,615	78,624	-	73,009	5,615	5,615	20,000
<i>B2. Support to the Project Implementing Entity for part A.2</i>	21,773	21,773	21,238	21,238	535	535	40,000
Total	526,438	1,513,529	797,000	1,784,091	(270,562)	(270,562)	1,800,000

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 8 to 11.

SOE withdrawal schedule

Grant Agreement TF 093653
For the period from January 1, 2012 to September 30, 2012
In US dollars

Application No.	Category		Total
	Consultants' services and Operating costs under Parts A.1 and B.1 of the Project	Consultants' services and Operating costs under Parts A.2 and B.2 of the Project	
11-SA	2,702	10,869	13,571
13-SA	4,518	42,463	46,981
	7,220	53,332	60,552

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 8 to 11.

Designated account statement

*Grant Agreement TF 093653
 As of September 30, 2012 and for the period from January 1, 2012 to September 30, 2012
 In US dollars*

Opening balance as of January 1, 2012		147,298
Add: Cumulative unexplained discrepancy		-
Grant replenishment during the period	<u>108,722</u>	<u>108,722</u>
	<u>108,722</u>	<u>108,722</u>
Less: Refund to IBRD from the designated account during the period		-
Present outstanding amount advanced to the designated account (1)		<u>256,020</u>
Closing balance as of September 30, 2012		70,410
Add:		
Amount of eligible expenditures paid during the period	185,573	
Other outflow	37	
Service charges (if applicable)	<u>-</u>	<u>185,610</u>
	<u>185,610</u>	<u>185,610</u>
Less: Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		<u>256,020</u>
Discrepancy (1) – (2) to be explained		-

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 8 to 11.

Notes to the special purpose project financial statements

1 Activity

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

The Fund implements the Geothermal Project (the “Project”), which is financed under the Grant Agreement TF 093653 signed between the International Bank for Reconstruction and Development (the “IBRD”), acting as an implementing agency of the Global Environment Facility, and the Government of the Republic of Armenia on February 26, 2009.

The objective of the Project is to assess the feasibility of exploratory drilling of the geothermal site with the highest estimated geothermal potential.

The Project consists of the following parts:

A: Technical Assistance

1. Provision of consultants’ services for the geological and geophysical fieldwork for the technical investigation in Gridzor and Karkar sites, including: (a) geological field works (mapping and scouting); (b) geophysical investigations, specifically, conducting and interpretation of the magneto-telluric (MT) sounding study; and (c) supervision over the implementation of the scope of geological field works and MT sounding study.
2. Provision of consultants’ services for further geophysical investigation works on one selected site as a result of the services provided in 1 above, including: (a) conducting and interpretation of the three dimensional seismic survey (3DSS); (b) supervision over the implementation of the scope of 3DSS; and (c) overall assessment of the economic and financial viability of the selected site.

B: Project Implementation

1. Support to the Project Implementing Entity for the effective implementation and monitoring of the Part A.1 of the Project.
2. Support to the Project Implementing Entity for the effective implementation and monitoring of the Part A. 2 of the Project.

The financing of the Project consists of the following parts:

Category	Percentage of expenses to be financed	Amount of the Grant allocated (in US dollars)
Consultants' Services and Operating Costs under Parts A.1 and B.1 of the Project	83%	540,000
Consultants' Services and Operating Costs under Parts A.2 and B.2 of the Project	83%	960,000
Total		1,500,000

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

The average number of the Fund's staff during 9 months of 2012 was 14 (2011: 17).

2 Significant accounting policies

2.1 Basis of preparation

The special purpose 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 requirements of the Grant Agreement TF 093653. Significant accounting policies are disclosed below.

2.2 Functional and presentation currency

The national currency of the Republic of Armenia is Armenian dram. These special purpose project financial statements are presented in US dollars (presentation currency).

In preparing the special purpose 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. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 406.25 Armenian drams for 1 US dollar as of September 30, 2012 (as of December 31, 2011: 385.77 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 "Funds".

2.3 Project financing

Financing received in the framework of the Grant Agreement TF 093653 is recorded in the statement of financial position as "Accumulated Project financing" and is recognized at each replenishment. In addition, the current year funds received are disclosed in the Statement of the Project sources and uses of funds, showing the sources of funds.

2.4 Project expenses

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

2.5 The World Bank financing

To finance eligible expenditures for the Grant Agreement, the World Bank disburses proceeds from the Project amount 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 refinanced 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 payments

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.

2.6 Planned annual expenses

As of the end of the period "Planned Project expenses" include the amount of "Actual Project expenses" as of the end of the previous period and annual budget expenses of the reporting period.

3. Closing date of the Project

As described in the Grant Agreement TF 093653, the Project closing date was defined as April 30, 2011. According to the letter dated December 15, 2010, the closing date of the Project was extended till September 30, 2012.

4. Bank balances

In US dollars	As of September 30, 2012	As of December 31, 2011
Designated account	70,410	147,298
Local account	2,931	-
	<u>73,341</u>	<u>147,298</u>

5. Sources of funds

Grant Agreement TF 093653

In US dollars	For the period from January 1, 2012 to September 30, 2012
SOE procedures	60,552
Direct payment	236,314
Other procedures	48,170
	<u>345,036</u>

6. Working capital

In US dollars	For the period from January 1, 2012 to September 30, 2012	As of September 30, 2012
Increase/(decrease) in bank balances	(73,957)	73,341
Increase in accounts receivable	37	37
Decrease in accounts payable	243	-
	<u>(73,677)</u>	<u>73,378</u>

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

*Grant Agreement TF 093653
For the period from January 1, 2012 to September 30, 2012
In US dollars*

Category	Appl.	Fund	WB	Difference
Consultants' services and Operating costs under Parts A.1 and B.1 of the Project	11-SA	2,702	2,702	-
	13-SA	4,518	4,518	-
		<u>7,220</u>	<u>7,220</u>	-
Consultants' Services and Operating Costs under Parts A.2 and B.2 of the Project	11-SA	10,869	10,869	-
	12-DA	236,314	236,314	-
	13-SA	90,633	90,633	-
		<u>337,816</u>	<u>337,816</u>	-
Total		<u>345,036</u>	<u>345,036</u>	-