

**COMMUNITY DEVELOPMENT AND INVESTMENT AGENCY
RURAL WATER SUPPLY AND SANITATION IMPROVEMENT IN BATKEN
AND TALAS PROJECT
ISFD LOAN № KGZ-1020 AND SFD LOAN № 6/750**

**FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 1, 2021 TO DECEMBER 31, 2021**

**AND
INDEPENDENT AUDITOR'S REPORT**

TABLE OF CONTENTS

Independent Auditor's report	3
Statement of management's responsibility for preparation and approval of financial statements	6
Financial statements for the year ended 31 December 2021:	
Statement of Financial Position	7
Statement of Sources and Uses of Funds	8
Statement of Reconciliation of the ISFD Special Account Balance	9
Notes to the special purpose financial statements	11

**INDEPENDENT AUDITOR'S REPORT
HLB MARKA AUDIT LLC
ON SPECIAL PURPOSE FINANCIAL STATEMENTS OF
RURAL WATER SUPPLY AND SANITATION IMPROVEMENT IN BATKEN AND TALAS
PROJECT
ISFD LOAN № KGZ-1020 AND SDF LOAN № 6/750**

**Islamic Development Fund
Community Development and Investment Agency**

Opinion

We have audited the accompanying financial statements of the Rural Water Supply and Sanitation Improvement in Batken and Talas Project (the 'Project') for the period from 1 January 2021 to 31 December 2021, prepared as per the special purpose framework and implemented by the Community Development and Investment Agency (ARIS) and funded by the Islamic Solidarity Fund for Development under the Loan Agreement: Loan No. KGZ-1020, the Saudi Fund for Development Fund (SDF) – Loan № 6/750 (hereafter the "Agreements") and co-financed by the Government of the Kyrgyz Republic (GKR) that include the Statement of Financial Position at 31 December 2021, Statement of Sources and Uses of Funds, Statement of Reconciliation of the ISFD Special Account Balance as of December 31, 2021, and a summary of significant accounting policies and other explanatory notes.

In our opinion,

- The financial statements of the Rural Water Supply and Sanitation Improvement in Batken and Talas Project prepared as per the special purpose framework for the period from 1 January 2021 to 31 December 2021 and the notes hereto reliably represents, in all material aspects, the receipt and expenditure of the Project's funds in accordance with the cash basis of the International Public Sector Accounting Standards described in Note 2 to the financial statements;
- the Community Development and Investment Agency (ARIS), in all material respects, has used all the funds provided for the Project in accordance with the terms of the Agreement, with due regard to economy and efficiency and only for the purposes for which the funding was provided;
- Goods and services for the implementation of the Project were purchased and provided in accordance with the terms of the Agreement, including specific rules of the Islamic Development Bank procurement guidelines;
- The cash flow of special accounts, as well as supporting documents and information provided with it, may truthfully rely on corroboration with applications for replenishment in accordance with the requirements described in the Agreement;
- During the reporting period, the ratios of financing and expenditures from the Saudi Fund for Development, the Islamic Solidarity Fund for Development with a view to reimbursement and the Government of the Kyrgyz Republic, established in the Agreement, were respected.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audited financial statements of the Project prepared in accordance with special purpose framework* section of our report. We are independent of the Community Development and Investment Agency (ARIS) in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code applicable to our audit of the financial statements in accordance with a special purpose framework in the Kyrgyz Republic, and we have fulfilled other ethical responsibilities in accordance with those requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of accounting and restrictions on use

Without modifying our opinion, we draw your attention to Note 2 to the Project's financial statements prepared in accordance with a special purpose framework, which describes the basis of accounting. The financial statements of the Project have been prepared in order to help the management of the Community Development and Investment Agency comply with the requirements of the Islamic Development Bank and the Government of the Kyrgyz Republic, as a result of which the project financial statements cannot be used for another purpose.

Responsibilities of the management and those charged with governance for the Project's financial statements

The management of the Community Development and Investment Agency is responsible for the preparation and fair presentation of these Project financial statements, prepared in accordance with the special purpose concept and in accordance with the terms of the Agreement, the requirements of the Islamic Development Bank and the cash method of International Public Sector Accounting Standards described in note 2, and for ensuring and maintaining internal controls appropriate for the preparation and fair presentation of the financial statements, free from material misstatement, whether due to fraud or error.

The persons who have the management authority for the financial statements prepared in accordance with the Project's special purpose concept are responsible for overseeing the preparation of the Project's financial statements.

Auditor's responsibilities for the audited financial statements of the Project prepared in accordance with special purpose framework

Our objectives are to obtain reasonable assurance about whether the financial statements prepared in accordance with the special purpose concept are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it does not guarantee that an audit conducted in accordance with International Standards on Auditing will always detect material misstatements, if any.

Misstatements may result from fraud or error and are considered material if, individually or in the aggregate, they can reasonably be expected to influence the economic decisions of users made on the basis of these Project financial statements prepared in accordance with the special purpose concept.

As part of the audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non-detection of material misstatement due to fraud is higher than the risk of non-detection of material misstatement due to error, as fraud may include collusion, forgery, intentional omission, misrepresentation, or circumvention of internal control;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether there is a material uncertainty related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that there is a material uncertainty, we should draw attention in our auditor's report to the relevant disclosures in the Project's financial statements prepared in accordance with the special purpose concept or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on audit evidence obtained prior to the date of our audit opinion. However, future events or conditions may cause the Project to lose its ability to continue operating continuously;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Project to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

HLB MARKA AUDIT LLC

License registration No.0146 dated November 13, 2018, issued by the Public Service of Regulation and Supervision over the Financial Market under the Government of the Kyrgyz Republic

Registration certificate No.4850-3301-000 issued by the Kyrgyz Republic Ministry of Justice dated October 11, 2019

38, Professor Zima Street, Bishkek,

The Kyrgyz Republic, Telephone/fax: (312) 32-05-75



A.M. Asylbekova, auditor, director

Qualified Auditor Certificate Series AD No.0012, registration No.0461, dated 7 August 2019

A.T. Tilemishov, auditor, audit team leader

Qualified Auditor Certificate No. 0042 of 11 March 2008

31 March 2022

**MANAGEMENT STATEMENT ON RESPONSIBILITY
FOR PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS**

The statement below, which should be considered together with the description of obligations of independent auditors, accompanied the report of independent auditors, is made with the purpose to delimit obligations of auditors and the Community Development and Investment Agency (ARIS)' management in regard to the financial statements of the Rural Water Supply and Sanitation Improvement in Batken and Talas Project (the "Project"). The ARIS management is responsible for preparation of the financial statements of the Project funded by the Islamic Solidarity Fund for Development under the Loan Agreement: Loan No. KGZ-1020 and the Saudi Development Fund (SDF) – Loan № 6/750 reliably reflecting in all material aspects the sources and use of Project funds for the period from January 1, 2021 to December 31, 2021 in accordance with the International Public Sector Accounting Standards (IPSAS - cash method), the requirements of the Islamic Development Bank and the relevant articles of the Agreements.

While preparing, as per the special purpose framework, the financial statements, the ARIS management is responsible for:

- selection of appropriate accounting principles and their consistent use;
- use of reasonable evaluations and estimations;
- compliance with the IDB requirements and disclosure of all materials deviations from the IFRS in commentaries to the Project financial statements as per the special purpose framework;

Besides, the ARIS management is responsible for

- development, implementation and maintenance of an effective and reliable internal control system in projects;
- maintaining an accounting system that allows the preparation of information on the financial position of the Project with a sufficient degree of accuracy at any time and ensures that the financial statements with the special purpose concept comply with the requirements of the Islamic Development Bank;
- taking measures within its competence to ensure the safety of Project assets;
- detection and prevention of fraud and other abuses.

These financial statements of the Project, prepared in accordance with the special purpose framework for the period from January 1 to December 31, 2021, were approved by the ARIS management on March 31, 2022

Mambetkulova Asel Jenishovna
Deputy Executive Director of ARIS

March 31, 2022

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Statement of Financial Position

at December 31, 2021

(Amounts in tables are in US dollars)

ASSETS	Note	December 31, 2021	December 31, 2020
Cash	4	606 432,32	145 076,69
Project expenses	6	312 957,63	18 480,22
Foreign exchange losses		207,34	140,18
TOTAL ASSETS		919 597,29	163 697,09
LIABILITIES			
ISFD Loan № KGZ-1020	5	660 000,00	160 000,00
SFD Loan № 6/750	5	200 757,78	
GKR co-financing	5	54 865,94	2 431,19
Community contributions		0,00	
Other income		3 973,57	1 265,90
TOTAL LIABILITIES		919 597,29	163 697,09



A. Mambetkulova
Deputy Executive Director of ARIS

U. Zainalov
Financial Manager of ARIS



Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Statement of Sources and Uses of Funds

for the period from January 1, 2021 to December 31, 2021

(Amounts in tables are in US dollars)

	Note	2021	From the Project launch to 31.12.2021	2020	From the Project launch to 31.12.2020
Opening balance, including:	4	145 076,69			
ISFD Loan № KGZ-1020 funds		143 842,04			
Other funds		1 234,65			
Sources of financing:					
ISFD Loan № 1020		500 000,00	660 000,00	160 000,00	160 000,00
SFD Loan № 6/750		200 757,78	200 757,78		
Government of the Kyrgyz Republic		52 434,75	54 865,94	2 431,19	2 431,19
Community contributions			0,00		
Other income		2 707,67	3 973,57	1 265,90	1 265,90
Total funding:	5	755 900,20	919 597,29	163 697,09	163 697,09
Project expenditures:					
A. Improvement of Rural Water supply and Sanitation		28 113,58	36 615,91	8 502,33	8 502,33
ISFD Loan № 1020		654,97	8 259,98	7 605,01	7 605,01
Government of the Kyrgyz Republic		27 458,61	28 355,93	897,32	897,32
C. Capacity Building on Sanitation and Institutional Development		73,52	73,52		
ISFD Loan № 1020		70,46	70,46		
Government of the Kyrgyz Republic		3,06	3,06		
D. Detailed Design and Supervision		220 446,26	220 446,26		
SFD Loan № 6/750		200 757,78	200 757,78		
Government of the Kyrgyz Republic		19 688,48	19 688,48		
E. Project Management	6	45 844,05	55 821,94	9 977,89	9 977,89
ISFD Loan № 1020		40 591,22	49 144,17	8 552,95	8 552,95
Government of the Kyrgyz Republic		5 217,44	6 611,13	1 393,69	1 393,69
Others		35,39	66,64	31,25	31,25
Total Project costs:		294 477,41	312 957,63	18 480,22	18 480,22
ISFD Loan № 1020		41 316,65	57 474,61	16 157,96	16 157,96
SFD Loan № 6/750		200 757,78	200 757,78		
Government of the Kyrgyz Republic		52 367,59	54 658,60	2291,01	2291,01
Others		35,39	66,64	31,25	31,25
Foreign exchange losses		67,16	207,34	140,18	140,18
Government of the Kyrgyz Republic		67,16	207,34	140,18	140,18
Ending balance, including:	4	606 432,32	606 432,32	145 076,69	145 076,69
ISFD Loan № 1020		602 525,39	602 525,39	143 842,04	143 842,04
Other funds		3 906,93	3 906,93	1234,65	1234,65



A. Mambetkulova
Deputy Executive Director of ARIS



U. Zainalov
Financial Manager of ARIS

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Statement of Reconciliation of the ISFD Special Account Balance

for the period from January 1, 2021 to December 31, 2021

(Amounts in tables are in US dollars)

Index	Item	US dollars
A	Incoming balance at 1 January 2021	143 842,04
B	Payment from ISFD	499 970,00
	- Current account replenishment Date: 30/12/21	499 970,00
C	Reimbursement of non-targeted expenses	
	Shared resources (1)	643 812,04
D	Component A - Improvement of Rural Water Supply and Sanitation	654,97
	Component C - Capacity Building on Sanitation and Institutional Development	70,46
	Component E - Project Management	40 561,22
	Total expenses (2)	41 286,65
	Special Account balance (3)=(1)-(2)	602 525,39
E	Special Account balance at 31.12.2020 and as per a bank statement (4)	602 525,38
	Transit Account balance at 31.12.2020 and as per a bank statement (4)	0,01
	Difference (5)=(3)-(4)	-
F	Justified difference (6)	-
	Difference to be justified (7)=(5)-(6)	-



A. Mambetkulova
Deputy Executive Director of ARIS


U. Zainalov
Financial Manager of ARIS



Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements

for the period from January 1, 2021 to December 31, 2021

(Amounts in tables are in US dollars)

1. PROJECT BACKGROUND

The Rural Water Supply and Sanitation Improvement in Batken and Talas Project is being implemented in accordance with the Loan Agreement concluded between the Government of the Kyrgyz Republic and the Islamic Development Bank (IDB).

The ISFD is a special fund within the IDB, established to finance various projects and programs aimed at developing production and access to services that lead to poverty reduction in the member countries of the Organization of Islamic Cooperation (OIC); and

The Government of the Kyrgyz Republic (GKR) and the Saudi Fund for Development (SFD) will co-finance this Project;

The Project aims to assist the Kyrgyz Republic in (i) improving the availability and quality of sustainable water and sanitation services in the target rural communities, (ii) strengthening the capacity of institutions in the water and sanitation sector.

The Project will be implemented in Batken and Talas regions of the Kyrgyz Republic.

The Project consists of the following five components:

Component A: Improvement of Rural Water Supply and Sanitation: Rehabilitation and construction of (i) a water supply systems for 15 sub-projects, including the installation of electromechanical water production equipment (i.e. wells, pumps, water intakes, reservoirs, main treatment/decontamination plants), trunk and distribution pipelines with household connections; (ii) Rehabilitation of 60 sanitation facilities in social institutions (primarily schools); and (iii) land acquisition (as required).

Component B: Supply of Machinery and Equipment: to ensure the sustainable functioning of the water supply system in the project area, essential equipment and equipment for operation and maintenance will be supplied, as well as IT equipment for Ayil Okmotu (local government) and Community Drinking Water Users Union (CDWUU). The Sanitary and Epidemiology Surveillance (SES) will be equipped with laboratory and IT equipment to improve the control and monitoring of water quality and sanitation.

Component C: Capacity Building on Sanitation and Institutional Development: This component will support the improvement of water, sanitation and hygiene (WASH) practices in target rural communities and the strengthening of institutional capacity at the local level, which includes: (i) tariff setting, billing system and service delivery; (ii) enhanced communications and public awareness campaigns; and (iii) Baseline study and evaluation of project completion, including social and environmental impact assessment.

Component D: Detailed Design and Supervision: The service includes (i) the development of design and estimate documentation by local licensed consulting firms under the financing of the Government of the Kyrgyz Republic (GKR); and (ii) consulting service for the review of design and estimate documentation and the supervision of construction will be performed by an international qualified consulting firm under the financing of the SFD.

Component E: Project Management: This component provides funding for the Project management costs related to (i) providing the Project Management Unit (PMU) and administrative costs of ARIS (ii) introductory seminars and training of Project personnel; (iii) financial audit service.

The Project Budget stipulated by the Loan Agreement (million US dollars).

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

Components	Loan				GKR		Total
	IDB – ISFD Loan	%	SFD Loan	%	Amount	%	Amount
A: Improvement of Rural Water Supply and Sanitation	13,83	30,01	25,00	54,25	7,25	15,74	46,08
B Supply of Machinery and Equipment	1,14	89,29	-		0,14	10,71	1,28
C Capacity Building in Sanitation and Institutional Development	1,86	85,46	-		0,32	14,54	2,18
D Detailed Design and Supervision	-		2,50		1,33		3,83
D.1 Detailed Design and Supervision preparation	-	-	-	-	1,00	100,00	1,00
D.2 Review of Detailed Design and Supervision and civil works supervision	-	-	2,50	88,34	0,33	11,66	2,83
E Project Management	1,35	87,15	-	-	0,20	12,85	1,54
Basic cost	18,18	33,11	27,50	50,08	9,23	16,81	54,91
Physical contingencies	0,91		1,25		0,38		2,54
Price contingencies	0,91		1,25		0,39		2,55
Total cost	20,00	33,33	30,00	50,00	10,00	16,66	60,00

The total Budget of the Project, financed in the share of the ISFD, the SFD and, accordingly, the GKR amounts to 11 million US dollars, including:

	Total finance		Factually allocated since the beginning of the Project, million US dollars	Balance for financing, mln. US dollars
	mln. US dollars	in %		
Islamic Development Bank:				
<i>ISFD Loan</i>	20,00	33%	0,160	19,8
Saudi Fund for Development				0,0
<i>SFD Loan</i>	30,00	50%		30,0
Government (GKR) of the Kyrgyz Republic	10,00	17%	0,002	10,0
Total	60,00	100	0,162	59,8

The Project will be implemented within 4,5 years from the date of entry into force of the Loan Agreement.

According to the Loan Agreement, the repayment of the ISCFR loan will be made from 2019 for 30 years. The Government of the Kyrgyz Republic is the guarantor of the Loan repayment.

The Department for the Development of Drinking Water Supply and Sanitation under the State Agency for

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements

for the period from January 1, 2021 to December 31, 2021

(Amounts in tables are in US dollars)

Architecture, Construction and Housing and Communal Services under the Government of the Kyrgyz Republic will act as the Executing Agency

The implementing agency of the Project, responsible for the timely and efficient execution of the Project work, is the Community Development and Investment Agency of the Kyrgyz Republic (ARIS).

ARIS was established by the Decree of the President of the Kyrgyz Republic on October 15, 2003 in order to deepen the measures taken to attract investment to overcome poverty, develop and support private entrepreneurship within the framework of the National Poverty Reduction Strategy, strengthen the activities of local governments and strengthen local communities and community organizations. ARIS is a non-profit organization with the status of a legal entity. The founders of ARIS are:

- Office of the President of the Kyrgyz Republic;
- Association of Local Self-Government Bodies of Villages and Settlements of the Kyrgyz Republic;
- Public Association "Counterpart-Sheriktesh".

The operational management and implementation of the Project is run by the Project Management Unit (PMU) of ARIS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for preparation of the financial statements

These financial statements were prepared in accordance with the cash basis of the International Public Sector Accounting Standards (IPSAS) and corresponding provisions of the Loan Agreement (the "Agreement").

The accounting policy was applied consistently throughout the period, with the exception of the procedures for reimbursing funds to a special account. Since 2019, according to the "Guidelines for the use of loan funds", when forming an application, the Project fills in expense statements based on the actual expenses incurred and projected data, with the reconciliation account signed by the responsible persons.

Accounting basis

These special-purpose financial statements have been prepared on the basis of the cash accounting method, which is as follows:

- Income is considered to be all funds, regardless of their source (the Islamic Development Bank, the Government, or other donors), held in a special account in the dollar equivalent, a settlement account in the national currency and which are reflected in the reports on the date of their receipt.
- Expenses are funds allocated for the payment of works, goods and services, and which are reflected in the report on the date of their payment.

Reporting currency and transaction currency

These special-purpose financial statements are expressed in US dollars, which allows for reconciliation between the credit account and the records of the IDB and ISFD. The primary accounting for the Project is conducted in the national currency (Kyrgyz som). For the purposes of preparing the financial statements in US dollar:

- at the expense of the ISFD funds, the payments made in soms were denominated in US dollars at the commercial exchange rate of "RSK Bank" OJSC, effective on the day of the transaction;
- at the expense of co-financing funds, the GKR produced in soms were denominated in US dollars at the commercial exchange rate of OJSC "RSK Bank", effective on the day of the operation;

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements

for the period from January 1, 2021 to December 31, 2021

(Amounts in tables are in US dollars)

Financing

The financing from the ISFD presents a procedure for the operating fund – the IDB makes an advance payment from the account of the loan on deposit, forming the expense of current expenditures, which is used exclusively to finance the share of eligible costs of the IDB and ISFD.

The financing through the current expenditure fund procedure is recognized when the money is actually received.

The amount of GKR funding is recognized as such and is included in the financial statements if the funds were transferred to the current account of the Project (the State Funding Account).

Other income and expenses

Income received from the interest accrued on cash balances in local commercial banks (interest-bearing accounts) and sales of tender documents (tender accounts) are recognized as other Project income. Accordingly, the expenses incurred from the interest and tender accounts for the replication of tender documents, advertising expenses related to tender procedures, and other expenses are recognized as other Project expenses. The financial statements are recorded on a net basis.

Other income and other expenses related to similar types of activities (tender documents and bank services) are recorded on a net basis.

Expenses

The Project expenses are recognized as such and included in the financial statements if a payment is made to suppliers of goods, works and/or services.

To confirm the expenditure of the Project funds, the procedure for submitting expense statements indicating the expenses for the categories specified in the Loan Agreement is used. The expense statements are compiled on the basis of actual expenses incurred.

In accordance with the method of projected expenditure statements, ARIS sends an Application for withdrawal of funds to the Islamic Development Bank in the prescribed form.

Fixed assets

The fixed purchased from Project funds for use in the office are measured at cost of acquisition and recorded as expenses under the “Project Management” line-item.

Procurement of consulting services

The selection and recruitment of consultants for detailed design and supervision was carried out through International Competitive Bidding among consulting firms from the IDB member countries included in the short List in accordance with the the "Guidelines for Procurement of Goods and Works under IDB Financing" and the terms of the Loan Agreement.

The evaluation of commercial proposals is carried out by a tender evaluation commission established by the Executive Agency and approved by the IDB.

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

Procurement of consulting services

Selection and recruitment of consultants for the detailed design and supervision was carried out through International Competitive bidding among consulting firms from the IDB member countries included in the short list in accordance with the "IDB Guidelines for the Procurement of Goods and Works" and the terms of the Loan Agreement.

When evaluating the commercial offers:

- Advisory firms are evaluated using a selection method based on "Quality and value";
- The Project management consultants are hired on a case-by-case basis.

Procurement of financial audit services

The annual financial audit of the Project was conducted by a local audit company selected from a short list in accordance with the "Guidelines for Procurement of Goods and Works under IDB Financing" and the terms of the Loan Agreement.

2.2. *Internal control system*

- The actual implementation of the Project Forecast is monitored on a quarterly basis by submitting reports to the IDB;
- For the effective functioning of the process, information on operational results is analyzed in a timely manner on the basis of the previous period within the Project Budget.

Using the automated program

ARIS uses the automated program 1C: "Enterprise 8.3", which generates the required books: cash book, a special bank account in U.S. dollars and a transit account in KGS, interest accounts, banking accounts of the GKR.

Access to the automated program is granted to the Financial Manager, Payment Specialist and the software IT specialist who has their own individual password in order to access the system:

The Financial Manager has a full set of access rights, i.e. data entry, review, and correction, confirmation of processed transactions and control over data deletion;

The Payment Specialist has the right to enter data, review, and correct, confirm processed transactions in the current non-closed period;

Cash

- Reconciliation of the bank accounts. Cash account balances according to their accounting data are checked against bank statements on a monthly basis.
- Reconciliation of the loan account is made for payments periodically on the basis of statements from the IDB.

Procurements and expenditures

The expenditure of funds is recorded in the corresponding accounts, and only for the permitted purposes, and according to the budget lines of the Project.

All expenses are approved by the ARIS Financial Manager and the Project Coordinator in accordance with the contracts, invoices, and receipts.

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements

for the period from January 1, 2021 to December 31, 2021

(Amounts in tables are in US dollars)

For the purpose of reasonable reflection on the accounts of accounting of the expenses, the following documents may be the basis:

- Invoices with a receipt for the receipt of the payment order;
- Receipt for the receipt of the payment order;
- Product receipt with the stamp "paid to the cashier";
- Cash receipt (upon approval of this amount by the director of ARIS).

During the employees stay on a business trip, the guaranteed payment from the Project was the reimbursement of the employee's travel expenses to the place of business trip and back, accommodation expenses (hotel expenses) and daily expenses, according to the norms established by the legislation of the Kyrgyz Republic.

Remuneration

- The HR specialist keeps a record of working hours, and the report cards are approved by the Executive Director of ARIS.
- Accounting documents data is stored in separate files with the specified access rights.
- According to the decree of the Government of the Kyrgyz Republic of August 5, 2015 "On the conditions of remuneration of employees engaged in the preparation and implementation of projects financed by international financial organizations and donor countries (loans and grants)", the Ministry of Finance of the Kyrgyz Republic sets the official salaries of employees and approves staffing tables.

Fixed assets

For the purpose of preservation and control over the fixed assets acquired at the expense of the Project funds, registers of fixed assets are maintained. All the equipment has an identification number. Fixed assets are recorded in the inventory statements. The annual inventory of the fixed assets is carried out with the mandatory comparison of data with the previous inventory and documentation of the results of the inventory.

3. TAXATION

According to the Loan Agreement, the funds of the loan should not be used to pay any taxes and duties, the payment of all taxes and duties is the responsibility of the Government of the Kyrgyz Republic.

In accordance with the resolution of the Board of the Social Fund of the Kyrgyz Republic and the approved procedure for registration, payment and accounting of insurance premiums for mandatory state social insurance of entities participating in Development Projects funded by international financial organizations, the Project pays insurance premiums from the employer in the amount of 17,25% of the funds from the republican budget to the Social Fund of the Kyrgyz Republic.

4. CASH

According to the Loan Agreement, special accounts were used to make payments of credit funds for the operational financing of the expenses necessary for the implementation of the Project:

- Special Account of the ISFD (Loan No.1020) in US dollars No.1299003250030586 opened in JSC "RSK Bank".
- Special Account for the GKR financing of the in soms No.4402011101080696 opened in the Pervomaisky Regional Department of the Treasury (RDT). The Government funding account is used for expenditures funded by the GKR.

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

	31 December 2021	31 December 2020
Funds of ISFD		
Special Account of the ISFD Loan No.1020;	602 525,38	143 842,03
Sub-total	602 525,38	143 842,03
Funds of ISFD		
Transit Account of the ISFD Loan No.1020;	0,01	0,01
Sub-total	0,01	0,01
Sub-total ISFD	602 525,39	143 842,04
Other Project funds:		
Interest account	3 906,93	1 234,65
Sub-total other Project funds	3 906,93	1 234,65
Total funds	606 432,32	145 076,69

The cash flows for the period from January 1, 2021 to December 31, 2021 for the Project accounts (both the ISFD and the Government of the Kyrgyz Republic) are presented below:

	Funds of ISFD Loan	GKR	Others	Total Project funds
Opening balance	143 842,04	-	1 234,65	145 076,69
Replenishment of the account (with the initial advance and other receipts)*	500 000,00	96 518,74	2 707,67	599 226,41
Use of funds	41 316,65	52 367,59	35,39	93 719,63
Exchange rate difference		67,16		67,16
Refunding		(44 083,99)		(44 083,99)
Ending balance	602 525,39	-	3 906,93	606 432,32

The cash flows for the period from January 1, 2020 to December 31, 2020 for the Project accounts (both the ISFD and the Government of the Kyrgyz Republic) are presented below:

	Funds of ISFD Loan	GKR	Others	Total Project funds
Opening balance	-	-	-	-
Replenishment of the account (with the initial advance and other receipts)*	160 000,00	28 248,59	1 265,90	189 514,49
Use of funds	16 157,96	2 291,01	31,25	18 480,22
Exchange rate difference		140,18		140,18
Refunding		(25 817,40)		(25 817,40)
Ending balance	143 842,04	-	1 234,65	145 076,69

The cash flow from the start of the Project on the Project accounts (both the ISFD and the Government of the Kyrgyz Republic) are presented below:

	Funds of ISFD Loan	GKR	Others	Total Project funds
Opening balance	-	-	-	-
Replenishment of the account (with the initial advance and other receipts)*	660 000,00	124 767,33	3 973,57	788 740,90
Use of funds	57 474,61	54 658,60	66,64	112 199,85

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

Exchange rate difference		207,34		207,34
Refunding		(69 901,39)		(69 901,39)
Ending balance	602 525,39	-	3 906,93	606 432,32

Replenishment of the ISFD Special Account

	Payment date	Amount
Initial advance	July 2, 2020	160,000.00
Replenishment of current account	December 30, 2021	500 000,00
Replenishment during the Project		660,000,00

ISFD SOEs

Application #	SOE #	Expenditure period	Amount
1	SOE № 1	01.08.2020-31.12.2020	16 157,96
2	SOE № 2	01.01.2021-31.12.2021	41 316,65
Total for the Project implementation			57 4,74,61

5. FINANCING

	2021	2020	From the beginning of the Project to December 31, 2021
IDB Loan № KGZ			
Replenishment of the current account	500 000,00		500 000,00
Initial advance		160 000,00	160 000,00
IDB Total	500 000,00	160 000,00	660 000,00
SFD Loan № KGZ			
Direct payments	200 757,78		200 757,78
Advance			0,00
Sub-total SFD	200 757,78		200 757,78
TOTAL IDB and SFD	700 757,78	160 000,00	860 757,78
GKR			
Replenishment of the current account	96 518,74	28 248,58	124 767,32
Refunding	(44 083,99)	(25 817,39)	(69 901,38)
GKR total	52 434,75	2 431,19	54 865,94

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

	2021	2020	From the beginning of the Project to December 31, 2021
Other sources:			
Other incomes <i>of which</i>	2 707,67	1 265,90	3 973,57
<i>Interest account</i>	2 707,67	1 265,90	3 973,57
Total other sources	2 707,67	1 265,90	3 973,57
	755 900,20	163 697,09	919 597,29

6. EXPENDITURES

Expenses for the reporting period from January 1, 2021 to December 31, 2021:

Project Components	IDB Loan	SFD Loan	GKR	Others	Total
A. Improvement of Rural Water Supply and Sanitation	654,97		27 458,61		28 113,58
<i>Rehabilitation and construction of rural water supply systems</i>			27 380,01		27 380,01
<i>Rehabilitation of sanitation facilities</i>	654,97		78,60		733,57
B. Supply of Machinery and Equipment					
C. Capacity Building on Sanitation and Institutional Development	70,46		3,06		73,52
<i>Institutional development and billing system</i>	70,46		3,06		73,52
D. Detailed Design and Supervision		200 757,78	19 688,48		220 446,26
<i>Preparation of civil works and design budgets</i>		200 757,78	19 688,48		220 446,26
E. Project Management	40 591,22		5 217,44		45 808,66
<i>Operating expenses</i>	33 876,05		4 411,62		38 287,67
<i>Audit</i>	6 715,17		805,82		7 520,99
Bank fees				35,39	35,39
Total expenses	41 316,65	200 757,78	52 367,59	35,39	294 477,41
Exchange rate difference			67,16		67,16
TOTAL	41 316,65	200 757,78	52 434,75	35,39	294 544,57

Expenses for the reporting period from January 1, 2020 to December 31, 2020:

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

Project Components	IDB Loan	KGR	Others	Total
A. Improvement of Rural Water Supply and Sanitation	7 605,01	897,32		8 502,33
<i>Rehabilitation of sanitation facilities</i>	7 605,01	897,32		8 502,33
B. Supply of Machinery and Equipment				
C. Capacity Building on Sanitation and Institutional Development				
D. Detailed Design and Supervision				
E. Project Management	8 552,95	1 393,69		9 946,64
<i>Operating expenses</i>	8 552,95	1 393,69		9 946,64
Bank fees			31,25	31,25
Total expenses	16 157,96	2 291,01	31,25	18 480,22
Exchange rate difference		140,18		140,18
TOTAL	16 157,96	2 431,19	31,25	18 620,40

Expenditures since the Project launch:

Project Components	IDB Loan	SFD Loan	GKR	Others	Total
A. Improvement of Rural Water Supply and Sanitation	8 259,98		28 355,93		36 615,91
<i>Rehabilitation and construction of rural water supply systems</i>			27 380,01		27 380,01
<i>Rehabilitation of sanitation facilities</i>	8 259,98		975,92		9 235,90
B. Supply of Machinery and Equipment					
C. Capacity Building on Sanitation and Institutional Development	70,46		3,06		73,52
<i>Institutional development and billing system</i>	70,46		3,06		73,52
D. Detailed Design and Supervision		200 757,78	19 688,48		220 446,26
<i>Preparation of civil works and design budgets</i>		200 757,78	19 688,48		220 446,26
E. Project Management	49 144,17		6 611,13		55 755,30
<i>Operating expenses</i>	42 429,00		5 805,31		48 234,31
<i>Audit</i>	6 715,17		805,82		7 520,99
Bank fees				66,64	66,64
Total expenses	57 474,61	200 757,78	54 658,60	66,64	312 957,63
Exchange rate difference			67,16		67,16
TOTAL	57 474,61	200 757,78	54 725,76	66,64	313 024,79

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

7. PROJECT BUDGET PERFORMANCE

ISFD Loan

Item	Funds used since the beginning of the Project		Total Budget		Available Project funds (budgeted-fact)	
	Amount	%	Amount	%	Amount	%
A Improvement of Rural Water Supply and Sanitation	8 259,98	0,06%	13 831 304,35	69,16%	13 823 044,37	99,94%
B Supply of Machinery and Equipment			1 143 750,00	5,72%	1 143 750,00	100,00%
C Capacity Building in Sanitation and Institutional Development	70,46	0,00%	1 859 456,95	9,30%	1 859 386,49	100,00%
D Detailed Design and Supervision						
E Project Management	49 144,17	3,65%	1 345 937,50	6,73%	1 296 793,33	96,35%
Total basic cost	57 474,61	0,32%	18 180 448,80	90,90%	18 122 974,19	99,68%
Physically unforeseen costs			909 775,60	4,55%	909 775,60	100,00%
Price contingencies			909 775,60	4,55%	909 775,60	100,00%
Total cost	57 474,61	0,29%	20 000 000,00	100,00%	19 942 525,39	99,71%

SFD Loan

Item	Funds used since the beginning of the Project		Total Budget		Available Project funds (budgeted-fact)	
	Amount	%	Amount	%	Amount	%
A: Improvement of Rural Water Supply and Sanitation			25 000 000,00	83,33%	25 000 000,00	100,00%
D Detailed Design and Supervision	200 757,78	8,03%	2 500 000,00	8,33%	2 299 242,22	91,97%
Total basic cost	200 757,78	0,73%	27 500 000,00	91,67%	27 299 242,22	99,27%
			1 250 000,00	4,17%		
			1 250 000,00	4,17%		
Total cost	200 757,78	0,73%	30 000 000,00	100,00%	27 299 242,22	99,27%

8. LIABILITIES

As of December 31, 2020, the Project in the Construction Works category had the following liabilities under the invoices issued (withheld guarantee amounts of 5% in accordance with the terms of the construction works contract).

Community Development and Investment Agency
Rural Water Supply and Sanitation Improvement in Batken and Talas Project

Notes to the special purpose financial statements
for the period from January 1, 2021 to December 31, 2021
(Amounts in tables are in US dollars)

Contractor	Contract №	Withheld guarantee amounts	
		USD	in KGS equivalent
Capital Building Ltd. LLC	ARIS-IsDB-RWSSIP-BT-SH-19-1	223	18 900
"Arkstroyinvest" LLC	ARIS-ISDB-RWSSIPBT-NCB-2021-1/1	186 047	15 758 205
"Yug Stroyservis" JSC	ARIS-ISDB-RWSSIPBT-NCB-2021-1/2	55 354	4 688 502
Total		241 625	20 465 607

9. EVENTS AFTER THE REPORTING DATE

Since the date of approval of the financial statements prepared in accordance with the special purpose framework, there have been no events requiring disclosure.



A. Mambetkulova
Deputy Executive Director of ARIS

U. Zainalov
Financial Manager of ARIS