

“SOCIAL INFRASTRUCTURE AND ENERGY EFFICIENCY” PROJECT

KfW Grant No. 2014 68 719

**IMPLEMENTED BY
MOLDOVA SOCIAL INVESTMENT FUND**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR’S REPORT

For the period from 1 May 2018 to 31 December 2018

**CHISINAU
April 2019**

CONTENT

| | Page |
|---|------|
| INDEPENDENT AUDITORS' REPORT..... | 3 |
| STATEMENT OF FINANCIAL POSITION..... | 5 |
| STATEMENT OF SOURCES AND USES OF FUNDS..... | 6 |
| STATEMENT OF EXPENDITURE BY PROJECT ACTIVITY..... | 8 |
| STATEMENT OF WITHDRAWAL APPLICATIONS | 9 |
| STATEMENT OF DESIGNATED ACCOUNT..... | 10 |
| NOTES TO THE PROJECT SPECIAL PURPOSE FINANCIAL STATEMENTS | 13 |

INDEPENDENT AUDITORS' REPORT

To the Management of Social Infrastructure and Energy Efficiency Project

Report on the Special Purpose Project Financial Statements

Opinion

- [1] We have audited the special purpose project financial statements of “Social Infrastructure and Energy Efficiency” project (the “Project”), partially financed by KfW Grant No. 2014 68 719 and managed by Moldova Social Investment Fund (the MSIF) which comprise the statement of financial position, the statement of sources and uses of funds, the statement of expenditure by project activity, the statement of withdrawal applications, the statement of designated account for the period from 1 May 2018 to 31 December 2018 and a summary of significant accounting policies and other explanatory information (notes to the special purpose project financial statements).

In our opinion, the accompanying special purpose project financial statements of the project for the period from 1 May 2018 to 31 December 2018 present fairly in all material respects the financial position and sources and uses of funds for the year then ended in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants and the Financial Management Manual for World Bank’s Financed Investment Operations.

Basis for Opinion

- [2] We conducted our audit in accordance with International Standards on Auditing. Our responsibility under those standards are further described in the Auditors’ Responsibility for the Audit of special purpose project financial statements section of our report. We are independent from the Project in accordance with ethical requirements that are relevant to our audit of the financial statements in the Republic of Moldova, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting and restriction on Distribution and Use

- [3] We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements were prepared to assist the project in complying with the financial reporting provisions of the Financing and Project Agreement referred to above. As a result, may not be suitable for another purpose. Our report is intended solely for use by the management of the Project and the financing organization, and should not be distributed to or used by anyone other than these specified parties. Our report is not qualified in respect of this matter.

Responsibilities of Those Charged with Governance for the special purpose project financial statements

- [4] Management is responsible for the preparation of the special purpose project financial statements in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, 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 the special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using the going concern basis of accounting unless management intends to cease operations of the Project or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Project’s financial reporting process.

Responsibilities for the Audit of the Special Purpose Project Financial Statements

- [5] Our objective is to obtain reasonable assurance about whether the special purpose project financial statements as a whole 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 is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose project financial statements.

Baker Tilly Klitou and Partners SRL

Baker Tilly Klitou and Partners

Chisinau, R. Moldova
April 26, 2019



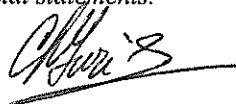
STATEMENT OF FINANCIAL POSITION

*"Social Infrastructure and Energy Efficiency" Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2014 68 719
As at 31 December 2018*

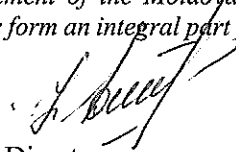
| | 31.12.2018 |
|---|-------------------|
| | EUR |
| ASSETS | |
| Cash and cash equivalents | |
| Undisbursed Balance - KfW Grant No. 2014 68 719 | 1,315,912 |
| Designated Account - KfW Grant No. 2014 68 719 | 385,358 |
| Designated Account - CCKFW3 | 724,661 |
| Designated Account - GRM | - |
| Total cash and cash equivalents | 2,425,931 |
| Cumulative project expenditures | |
| KfW Grant No. 2014 68 719 | 298,629 |
| CCKFW3 | 14,641 |
| GRM | 95,962 |
| Total cumulative project expenditures | 409,232 |
| TOTAL CASH AND EXPENDITURES | 2,835,163 |
| FINANCING | |
| Funding | |
| KfW Grant No. 2014 68 719 | 2,000,000 |
| CCKFW3 | 729,216 |
| GRM | 95,962 |
| Total funding | 2,825,178 |
| Interest | |
| Sources of funds- KfW Grant No. 2014 68 719 | 118 |
| TOTAL INTEREST | 118 |
| Foreign Exchange Difference | |
| KfW Grant No. 2014 68 719 | 17 |
| CCKFW3 | 10,085 |
| Total Foreign Exchange Gain/(Loss) | 10,103 |
| TOTAL FINANCING | 2,835,163 |

The project special purpose financial statements were approved by the management of the Moldova Social Investment Fund on 25 April 2019 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Iurie Chiorescu
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. 2014 68 719

As at 31 December 2018

| | 31.12.2018 |
|--|-------------------|
| | EUR |
| OPENING CASH BALANCE | |
| Designated Account - KfW Grant No. 2014 68 719 | - |
| Designated Account - CCKFW3 | - |
| Designated Account - GRM | - |
| TOTAL OPENING CASH BALANCE | - |
| ADD: SOURCES | |
| Funds | |
| KfW Grant No. 2014 68 719 | 683,852 |
| CCKFW3 | 729,216 |
| GRM | 95,962 |
| TOTAL Funds | 1,509,030 |
| Interest | |
| KfW Grant No. 2014 68 719 | 118 |
| TOTAL INTEREST | 118 |
| Foreign Exchange Difference | |
| KfW Grant No. 2014 68 719 | 17 |
| CCKFW3 | 10,085 |
| Total Foreign Exchange Gain/(Loss) | 10,103 |
| TOTAL SOURCES | 1,519,251 |

STATEMENT OF SOURCES AND USES OF FUNDS (continued)

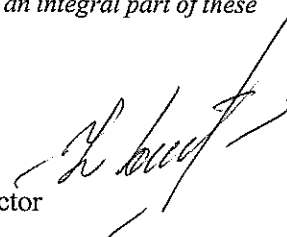
| | 31.12.2018 |
|---|-------------------|
| | EUR |
| LESS: USES OF FUNDS | |
| KfW Grant No. 2014 68 719 | |
| Nationwide individual sub-projects according to general MSIF guidelines | 212,881 |
| Individual sub-projects on the other side of Nistru/Dniestr river | 87 |
| Public Relations/Visibility | 8,244 |
| Administrative costs MSIF | 77,417 |
| TOTAL KfW Grant No. 2014 68 719 | 298,629 |
| CCKFW3 | |
| Grants Nationwide individual sub-projects | 14,540 |
| Grants Nistru river | 101 |
| TOTAL CCKFW3 | 14,641 |
| GRM | |
| Administrative costs MSIF | 95,962 |
| TOTAL GRM | 95,962 |
| TOTAL USED FUNDS | 409,232 |
| CLOSING CASH BALANCE | |
| Designated Account - KfW Grant No. 2014 68 719 | 385,358 |
| Designated Account - CCKFW3 | - |
| Designated Account - GRM | 724,661 |
| TOTAL CLOSING CASH BALANCE | 1,110,019 |

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MSIF Executive Director



Ludmila Nita
MSIF Financial Director



STATEMENT OF EXPENDITURE BY PROJECT ACTIVITY

*"Social Infrastructure and Energy Efficiency" Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2014 68 719
As at 31 December 2018*

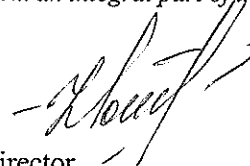
| | 31.12.2018 |
|--|-------------------|
| | EUR |
| Component | |
| 1. Nationwide individual sub-projects according to MSIF guidelines (social infrastructure, gas and electricity, rural paths/streets) | 212,881 |
| 2. Individual sub-projects on both sides of Nistru/Dniestr river | 87 |
| 3. Public Relations/Visibility | 8,244 |
| 4. Administrative costs MSIF | 77,417 |
| Total | 298,629 |

The project special purpose financial statements were approved by the management of the Moldova Social Investment Fund on 25 April 2019 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

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Ludmila Nita
MSIF Financial Director



STATEMENT OF WITHDRAWAL APPLICATIONS

*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2014 68 719
As at 31 December 2018
In EUR*

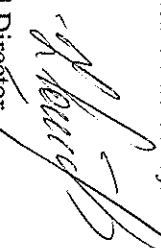
| App. # | Value date | Expenditure category | | | | Advance | Total EUR |
|--------------|------------|--|--|-----------------------------|---------------------------|----------------|----------------|
| | | Nationwide individual sub-projects according to general MSIF guidelines (social infrastructure, gas and electricity supply, rural paths/streets) | Individual sub-projects on both sides of Nistru/ Dniestr river | Public Relations/Visibility | Administrative costs MSIF | | |
| 1 | 5/7/2018 | 1 | 2 | 3 | 4 | 5 | |
| | | - | - | - | - | 50,000 | 50,000 |
| 2 | 8/20/2018 | - | - | 4,205 | 30,016 | | 49,983 |
| 3 | 12/19/2018 | 34,180 | 87 | 3,388 | 26,613 | | 485,379 |
| Total | | 34,180 | 87 | 7,593 | 56,629 | 585,362 | 683,852 |

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Iurie Chiorescu
MSIF Executive Director



Ludmila Nita
MSIF Financial Director



*Special Purpose Financial Statements
“Social Infrastructure and Energy Efficiency” Project (KfW Grant No. 2014 68 719)
Under the Moldova Social Investment Fund Project
for the period from 1 May 2018 to 31 December 2018*

STATEMENT OF DESIGNATED ACCOUNT

*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2014 68 719
As at 31 December 2018*

| | |
|-----------------|--|
| Account No. | EUR MD27MO2271ASV11089957100 MDL MD35MO2271ASV11089797100 |
| Depository Bank | BC “Mobiasbanca-Groupe Societe Generale” SA |
| Address | Bd. Stefan cel Mare 81a, MD-2012, Chisinau, Republic of Moldova |

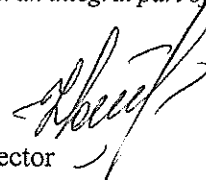
| | KfW Grant No. 2014 68 719 EUR |
|---|--|
| Opening balance as at 01.05.2018 | - |
| Add: | |
| Funds | 683,852 |
| Interest | 118 |
| Foreign currency gain/(loss) | 17 |
| Deduct: | |
| Uses of funds | 298,629 |
| Closing balance as at 31.12.2018 | 385,358 |

The project special purpose financial statements were approved by the management of the Moldova Social Investment Fund on 25 April 2019 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

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MSIF Executive Director



Ludmila Nita
MSIF Financial Director



**STATEMENT OF DESIGNATED ACCOUNT
(Continued)**

*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2014 68 719
As at 31 December 2018*

| | |
|--------------------|---|
| Underling currency | MDL |
| Account No. | 227101/131121C00498AB |
| Depository Bank | State Treasury |
| Address | 7 Constantin Tănase str., Chisinau, MD-2005, Republic of Moldova |

| | Contribution of Community CCKFW3 EUR |
|---|---|
| Opening balance as at 01.05.2018 | - |
| Add: | |
| Funds received | 729,216 |
| Interest | - |
| Foreign currency gain/(loss) | 10,085 |
| Deduct: | |
| Uses of funds | 14,641 |
| Closing balance as at 31.12.2018 | 724,661 |

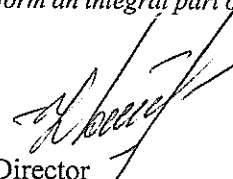
Account 227101/131121C00498AB at the State Treasury (C. Tanase Street 7, Chisinau, Moldova) is also being used for other projects within a certain activity. Amounts related to other projects are not presented in the above table. All amounts relate only to KfW project.

The project special purpose financial statements were approved by the management of the Moldova Social Investment Fund on 25 April 2019 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

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MSIF Executive Director



Ludmila Nita
MSIF Financial Director



**STATEMENT OF DESIGNATED ACCOUNT
(Continued)**


*“Social Infrastructure and Energy Efficiency” Project
Under the Moldova Social Investment Fund Project
Financed by KfW Grant No. 2014 68 719
As at 31 December 2018*

| | |
|---|---|
| Underling currency | MDL |
| Account No. | MD82TRPBAA281600D00498AC |
| Depository Bank | State Treasury |
| Address | 7 Constantin Tanase str., Chisinau, MD-2005, Republic of Moldova |
| | Contribution of Government GRM Trez |
| | EUR |
| Opening balance as at 01.05.2018 | - |
| Add: | |
| Funds received | 95,962 |
| Interest | - |
| Foreign currency gain/(loss) | - |
| Deduct: | |
| Uses of funds | 95,962 |
| Closing balance as at 31.12.2018 | - |

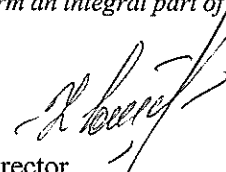
Account MD82TRPBAA281600D00498AC at the State Treasury (C. Tanase Street 7, Chisinau, Moldova) is also being used for other projects within a certain activity. Amounts related to other projects are not presented in the above table. All amounts relate only to KfW project.

The project special purpose financial statements were approved by the management of the Moldova Social Investment Fund on 25 April 2019 and signed on its behalf. The accompanying notes form an integral part of these project special purpose financial statements.

Iurie Chiorescu
MSIF Executive Director



Ludmila Nita
MSIF Financial Director



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. 2014 68 719
As at 31 December 2018*

1. General information

1.1. The Financing and Project Agreement

According to the separate agreement 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 12 December 2014, the KfW provided Grant No. 2014 68 719 in the amount of 2,000,000 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 period of the Project, according to the Minutes of Meeting signed in February 2018, starts in May 01, 2018 and all sub-projects was expected to be completed by the end of the first quarter of 2020.

1.2. The Project objective

The objective of the Project is to contribute to financing of municipal and social infrastructure (assuring access to social services, improving economic environment, environment protection and efficient use of energy) 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. 2014 68 719
- Community contribution of target group (CCKFW3)
- Government of Republic of Moldova (GRM).

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

| # | Category | KfW Grant No. 2014 68 719 | CCKFW3 | GRM | Total |
|--------------|---|------------------------------|----------------|----------------|------------------|
| 1 | Nationwide individual sub-projects | 1,340,000 | 270,000 | - | 1,610,000 |
| 2 | Individual sub-projects on both sides of Nistru/Dniestr river | 400,000 | 60,000 | - | 460,000 |
| 3 | Public Relations/Visibility | 20,000 | - | - | 20,000 |
| 4 | Administrative costs MSIF | 240,000 | - | 160,000 | 400,000 |
| Total | | 2,000,000 | 330,000 | 160,000 | 2,490,000 |

1.4. Project Implementation

The Project is implemented by Moldova Social Investment Fund (MSIF), established by a Decree of the Government of Moldova nr.1188/2018, 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 (NBM) 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 NBM 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 NBM as at 31 December 2018 is EUR 1 = 19.5212 MDL.
The average exchange rate established by NBM for the period from 1 May 2018 to 31 December 2018 is EUR 1 = 19.5335 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 exempt from VAT with the right of deduction.

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. 2014 68 719

| | as at 31 December 2018 |
|--|-----------------------------------|
| | EUR |
| Advance | 385,223 |
| Statement of Expenditures | 298,629 |
| Total | 683,852 |
| Total budget | 2,000,000 |
| Percentage of finance provided as at 31 December 2018 | 34,19% |

3.2. Community contribution

| | as at 31 December 2018 |
|--|-----------------------------------|
| | EUR |
| Contributions in cash | 729,216 |
| Refunds in cash | - |
| Total | 729,216 |
| Total budget | 330,000 |
| Percentage of finance provided as at 31 December 2018 | 220,97% |

The community contribution (CC) in eastern side of Nistru river is paid directly from community to contractors (e.g. to construction companies).

A minimum community contribution of 15% (for rural area) and 30% (for towns) of the sub-project costs (net of taxes) is required from the beneficiary communities.

3.3. Contribution of Government of Republic of Moldova

| | as at 31 December 2018 |
|--|-----------------------------------|
| | EUR |
| Contribution in cash* | 95,962 |
| Total | 95,962 |
| Total budget | 160,000 |
| Percentage of finance provided as at 31 December 2018 | 59,98% |

(*) 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 01.12.2018-28.02.2019 registered at the application No.4 in the total amount of EUR 467,685 were submitted to KfW on 28 February 2019.