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Financial Statement and Independent Auditor's Report

The Urban Foundation of Sustainable Development

“Project for Renovation of Drinking Water Supply System and Public School in Gargar Village”

For the period from 31 March 2022 to 21 December 2024





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The Board of Trustees of the Foundation of Sustainable Development

Opinion

We have audited the statement of Project sources and uses of funds for the Project for Renovation of Existing High-Speed Trains and Public School in Durgam Cheruvu, India (Project) under the grant contract dated 22 December 2021, signed between the Executive of Urban Foundation and the Urban Foundation of Sustainable Development (the Foundation) as of and for the period from 31st March 2022 to 31st December 2024 and notes to the statement of Project sources and uses of funds, including a summary of significant accounting policies (together the financial statements).

In our opinion, the accompanying financial statements have been drawn up, in all material aspects, in accordance with the conditions of the grant contract dated 22 December 2021 referred to above.

Scope for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by the ICAI (ISAs). Our responsibilities under those standards are further defined in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Restrictions on Use and Distribution

Our report is intended solely for the use of the Board of Trustees of the Foundation of Sustainable Development and is not to be distributed outside the grant contract. As a consequence, the financial statements may not be suitable for other purposes. Our audit opinion has been drawn up solely for the use of the Urban Foundation of Sustainable Development and the Executive of Urban Foundation and must not be distributed to or used by other parties.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The financial statements, drawn up in accordance with the conditions of the grant contract dated 22 December 2021 and the modified cash basis of accounting as described in note 2, is the responsibility of the management of the Foundation. The management is also responsible for such internal control as it deems necessary to the financial statements to be drawn up without material misstatement or omission, of fraud or error.



Grant Thornton

Independent auditor's report

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To the Board of "URBAN" Foundation of Sustainable Development

Opinion

We have audited the statement of Project sources and uses of funds of the "Project for Renovation of Drinking Water Supply System and Public School in Gargar Village" (the "Project") under the grant contract dated 22 December 2021, signed between the Embassy of Japan in Armenia and the "Urban" Foundation of Sustainable Development (the "Foundation"), as of and for the period from 22/12/2022-21/12/2024 and notes to the statement of Project sources and uses of funds, including a summary of significant accounting policies (together the "financial statement").

In our opinion, the accompanying financial statement has been drawn up, in all material aspects in accordance with the conditions of the grant contract dated 22 December 2021 referred to above.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") (in particular ISA 800/805). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Foundation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statement in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Restrictions on Use and Distribution

The financial statement has been drawn up for the Embassy of Japan in Armenia, so that the Foundation can fulfil the reporting obligations pertaining to their grant contract. As a consequence, the financial statement may not be suited to other purposes. Our audit opinion has been drawn up solely for the use of the "Urban" Foundation of Sustainable Development and the Embassy of Japan in Armenia and must not be distributed to or used by other parties.

Responsibilities of Management and Those Charged with Governance for the Financial Statement

The financial statement, drawn up in accordance with the conditions in the grant contract dated 22 December 2021 and the modified cash basis of accounting as described in note 2, is the responsibility of the management of the Foundation. The management is also responsible for such internal control as it deems necessary for the financial statement to be drawn up without material misstatement as a result of fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

It is our responsibility to issue an opinion on the financial statement, based on our audit. We conducted our audit in accordance with the applicable legislation and International Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain information on the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. The activities depend on the auditor's approach, which includes assessing the risk of the financial statement containing material misstatement as a result of fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances.

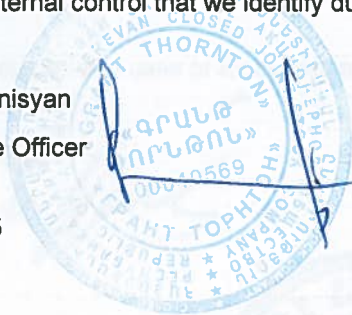
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Armen Hovhannisyan
Chief Executive Officer

15 January 2025

Narine Achemyan, FCCA
Engagement Partner



Summary of significant accounting policies and other explanatory information

1 Activity

The Urban Foundation for Sustainable Development (the "Foundation") has been operating in Armenia since 2004. During these years the organization has been trying to contribute to democratization of Armenia and dignified life standards of citizen, through strengthening the local self-government, local civil non-governmental organization, mobilizing the community, as well as promoting regional cooperation.

On 22 December 2021 the Foundation has signed a grant contract with the Embassy of Japan in Armenia for implementation of the "Project for Renovation of Drinking Water Supply System and Public School in Gargar Village" (the "Project"). The Project seeks to enhance the educational environment in Gargar Village by renovating school facilities. Additionally, it will improve the overall quality of life for villagers by upgrading the water supply system and ensuring access to safe drinking water at public facilities, including the school. The main goal is to elevate the standard of living in Gargar Village by addressing key issues related to education infrastructure, such as space adequacy, energy efficiency, and the availability of clean water.

The aim is to assist the Gyulagarak community in the Lori region of the Republic of Armenia by carrying out the following projects in the village of Gargar:

1. Construction and renovation of a branch for the internal drinking water supply network, ensuring that public buildings, including the village school, will have access to clean drinking water.
2. In Gargar, Lori marz, the construction of a second floor for the eastern building of the Balayan secondary school. This will add four new classrooms, incorporate a heating system, and install a solar photovoltaic system, all of which will enhance the learning environment for students attending the school.

The Project's direct beneficiaries are around 189 schoolchildren studying in secondary school, 35 specialists and employees of the school, 4 personnel from the medical center, both schoolchildren and 30 beneficiary attendants of sport hall, as well as 1492 residents (421 households) that will have improved access to drinking water.

The legal address of the Fund is 2/2 Melik-Adamyán, Yerevan, 0001, Republic of Armenia.

1.1 Description of transaction details

1. Implementation of construction works for the construction of a new branch of the internal network of the drinking water supply system: 15,107,002 AMD.
2. Implementation of construction works for the construction of the 2nd floor of the building of the "Secondary School of Gargar V. Balayan of the Republic of Armenia Lori Region" SNCO: 27,175,000 AMD.
3. Installation of a heating system in 4 classrooms on the 2nd floor of the building of the "Secondary School of Gargar V. Balayan of the Republic of Armenia Lori Region" SNCO: 1,117,175 AMD.
4. Installation of a solar photovoltaic station on the roof of the "Secondary School of Gargar V. Balayan of the Republic of Armenia Lori Region" SNCO: 1,709,000 AMD.
5. Procurement of audit services: 800,000 AMD.

In accordance with the decision of the Deputy Prime Minister of the Republic of Armenia (N 966-A), the Project with a total value of 45,908,177 AMD has been classified as charitable and is exempt from value-added tax. 38,079,861 AMD from this amount is attributable to the Embassy of Japan in Armenia and the remaining amount of 7,828,616 AMD to other donors.

2 Significant accounting policies

2.1 Statement of compliance

The financial statement is prepared in accordance with the modified cash basis of accounting. Under this basis of accounting, financing is recognized when received rather than when earned and expenses are recognized when paid rather than when incurred, with exception of financial audit expense, which is included in the financial statement, but not paid as of the report date.

2.2 Functional and presentation currency

US dollar ("USD") is the donor currency. The activities have been carried out in Armenia, where the national currency is Armenian dram ("AMD"). This financial statement is presented in AMD for the convenience of users.

The reporting currency of the Foundation is AMD. For reporting purposes, the project expenses were translated into donor currency using the conversion exchange rate of the Foundation's commercial bank applicable on the date of actual conversion equal to 392.75 AMD for 1 USD.

3 Financing received

On 28 March 2022 the Foundation received a financing at the amount of USD 96,957 as budgeted, which was fully converted into KAMD 38,079 on 31 January 2023.

4 Uses of funds by project activity

Date:	Description	Payee	Amount in USD	Amount in KAMD
02/02/2023	Design activities	Mara ev Dustrer LLC	9,930	3,900
17/04/2024	Audit services	Grant Thornton CJSC	1,019	400
22/04/2024	Renovation and construction	Harshin LLC	9,668	3,797
12/06/2024	Renovation and construction	Harshin LLC	18,947	7,442
12/08/2024	Renovation and construction	Harshin LLC	12,581	4,941
01/12/2024	Renovation and construction	Harshin LLC	17,763	6,976
09/12/2024	Renovation and construction	Harshin LLC	25,903	10,173
17/12/2024	Design activities	Mara ev Dustrer LLC	127	50
18/12/2024	Audit services	Grant Thornton CJSC	1,019	400
			96,957	38,079