



**“Engaging Communities for Better Schools in the
Kyrgyz Republic”
Grant No. TF0A5035**

Project financial statements
for the period from June 21, 2017 to December 31, 2017 and
for the year ended December 31, 2018

and independent auditors' report

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**"ENGAGING COMMUNITIES FOR BETTER SCHOOLS IN THE KYRGYZ REPUBLIC"
GRANT NO. TF0A5035**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND
APPROVAL OF THE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JUNE 21, 2017 TO
DECEMBER 31, 2017 AND FOR THE YEAR ENDED DECEMBER 31, 2018**

The following statement, which should be read in conjunction with the independent auditors' responsibilities is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the project financial statements of the Project "Engaging communities for better schools in the Kyrgyz Republic", Grant No. TF0A5035 (the "Project").

Management is responsible for the preparation of the project financial statements that present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project components of the Project for the period from June 21, 2017 to December 31, 2017 and for the year ended December 31, 2018 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

In preparing the project financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IPSAS and WB Guidelines have been followed, subject to any material departures disclosed and explained in the project financial statements; and
- preparing the project financial statements on a going concern basis, unless it is inappropriate to presume that the Project will continue its activity for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining effective and sound system of internal control and for revealing risks in system of internal control;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the project financial statements of the Project comply with IPSAS and WB Guidelines;
- compliance with laws and regulations of the Kyrgyz Republic, accounting system of the Project and the requirements of the World Bank;
- taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- detecting and preventing fraud, error and other irregularities.

The project financial statements for the period from June 21, 2017 to December 31, 2017 and for the year ended December 31, 2018 were approved and authorized for issue by the management of the Project on May 24, 2019.

On behalf of the Management:


Jamil Uddin
Chief Executive Officer

May 24, 2019
Bishkek, the Kyrgyz Republic




Indira Uzbekova
Financial Director

May 24, 2019
Bishkek, the Kyrgyz Republic

INDEPENDENT AUDITORS' REPORT

To the Management of the Project "Engaging communities for better schools in the Kyrgyz Republic":

Opinion

We have audited the accompanying project financial statements of the Project "Engaging communities for better schools in the Kyrgyz Republic" (the "Project") which comprise the summary of funds received and expenditures paid and the summary of expenditures paid by project components for the period from June 21, 2017 to December 31, 2017 and for the year ended December 31, 2018, and a summary of significant accounting policies and other explanatory information (the "project financial statements").

In our opinion, the accompanying project financial statements present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project components of the Project for the period from June 21, 2017 to December 31, 2017 and for the year ended December 31, 2018 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 World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the project financial statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without further qualifying our opinion, we draw attention to Note 2 to the project financial statements, which describe the basis of accounting. These project financial statements were prepared for complying with the appropriate World Bank Guidelines and Grant agreement requirements.

Other matter

The project financial statements are prepared to assist the Project to comply with the requirements of the World Bank. As a result, the project financial statements may not be suitable for another purpose.

Responsibilities of management and those charged with governance for the project financial statements

Management is responsible for the preparation and fair presentation of the 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 Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines"), and for such internal control as management determines is necessary to enable the preparation of the project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the project financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 the project financial statements.

As part of an 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 project 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 not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override 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.
- 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 project 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 the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the project 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Kubat Alymkulov



Certified accountant, FCCA
Certificate of auditor of the Kyrgyz Republic No. A 0069
Audit Partner, Baker Tilly Bishkek LLC

"Baker Tilly Bishkek" LLC,
License Series A No. 0049 issued by the State Committee
on Review and Regulation of the financial market of the
Kyrgyz Republic

May 24, 2019
Bishkek, the Kyrgyz Republic

**"ENGAGING COMMUNITIES FOR BETTER SCHOOLS IN THE KYRGYZ REPUBLIC"
GRANT NO. TF0A5035**

**SUMMARY OF FUNDS RECEIVED AND EXPENDITURES PAID
FOR THE PERIOD FROM JUNE 21, 2017 TO DECEMBER 31, 2017 AND
FOR THE YEAR ENDED DECEMBER 31, 2018**

(in US Dollars)

	Notes	For the year ended December 31, 2018	For the period from June 21, 2017 to December 31, 2017	Cumulative
Opening balance	4	224,738	-	-
Funds received				
Grant No. TF0A5035	5	630,615	300,000	930,615
Total funds received		630,615	300,000	930,615
Project expenses				
Goods, works, consultants' services and non-consulting services for the project, including training and operating cost	6	591,147	75,262	666,409
Total project expenses		591,147	75,262	666,409
Foreign exchange differences		52	-	52
Closing balance	4	264,154	224,738	264,154

On behalf of the Management:


Jamil Uddin
Chief Executive Officer

May 24, 2019
Bishkek, the Kyrgyz Republic




Indira Uzbekova
Financial Director

May 24, 2019
Bishkek, the Kyrgyz Republic

The notes on pages 8-14 form an integral part of the project financial statements.
The independent auditors' report is on pages 3-5.

**"ENGAGING COMMUNITIES FOR BETTER SCHOOLS IN THE KYRGYZ REPUBLIC"
GRANT NO. TF0A5035**

**SUMMARY OF EXPENDITURES PAID BY PROJECT COMPONENTS
FOR THE PERIOD FROM JUNE 21, 2017 TO DECEMBER 31, 2017 AND FOR THE YEAR ENDED
DECEMBER 31, 2018**

(in US Dollars)

	For the year ended December 31, 2018	For the period from June 21, 2017 to December 31, 2017	Cumulative
Component A. Community engagement processes and capacity building	428,022	44,961	472,983
Component B. Micro-Grants for priority investments in underprivileged schools	-	-	-
Component C. Project management and administration, monitoring and evaluation and knowledge dissemination	163,125	30,301	193,426
	<u>591,147</u>	<u>75,262</u>	<u>666,409</u>

On behalf of the Management:


Jamil Uddin
 Chief Executive Officer

May 24, 2019
 Bishkek, the Kyrgyz Republic




Indira Uzbekova
 Financial Director

May 24, 2019
 Bishkek, the Kyrgyz Republic

The notes on pages 8-14 form an integral part of the project financial statements.
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**"ENGAGING COMMUNITIES FOR BETTER SCHOOLS IN THE KYRGYZ REPUBLIC"
GRANT NO. TF0A5035**

**NOTES TO THE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM JUNE 21, 2017 TO DECEMBER 31, 2017 AND FOR THE YEAR
ENDED DECEMBER 31, 2018
(in US Dollars)**

1. GENERAL INFORMATION

According to the Grant agreement the International Development Association (the "World Bank"), acting as administrator of grant funds provided by Japan ("Donor") under the Japan Social Development Fund, provided to Aga Khan Foundation Switzerland (the "Recipient") for the benefit of Kyrgyz Republic, a grant in an amount of 2,730,000 US Dollars.

Project purpose

The objective of the Project is to develop inclusive approaches to citizen engagement that support improvements in the accountability and responsiveness of teachers and school management in the poorest districts and contribute to enhancing student performance.

The Project is to be implemented during 2017-2020 and comprises 3 components:

1. Component A: Community Engagement Processes and Capacity-Building;
2. Component B: Micro-grants for Priority Investments in Underprivileged Schools;
3. Component C: Project Management and Administration, Monitoring and Evaluation, and Knowledge Dissemination.

Component A: Community Engagement Processes and Capacity-Building.

Provision of support to:

1. Develop and strengthen the school-level Board of Trustees (the "BoT") as a platform for citizen engagement through: (i) improving the functionality of the BoTs in the selected schools; (ii) strengthen the capacity of BoTs in the selected schools; and (iii) support the development of BoTs networks at the rayon level and national level.
2. Improve access to information and build awareness on budget and performance in education through: (i) supporting public posting of budget and performance information; and (ii) supporting the proactive reporting and awareness building of budget and performance information.
3. Citizen feedback and joint action through: (i) facilitation of citizen engagement; (ii) introducing "social contracts" process at school level; and (iii) introducing a collaborative approach and building partnerships with stakeholders through a community scorecard methodology and process.

Component B: Micro-grants for Priority Investments in Underprivileged Schools.

Provision of Micro-grants to selected underprivileged targeted schools for micro-projects designed to: (i) strengthen the capacity of stakeholders involved in the implementation of Part A of the Project; (ii) assist schools in the preparation of funding proposals; (iii) enable schools to participate in matching funds application process for the implementation of one priority action through a competitive, community-managed micro grants program; and (iv) support and monitor the implementation of funded actions.

Component C: Project Management and Administration, Monitoring and Evaluation, and Knowledge Dissemination.

Provision of support to the Recipient for: (i) Project management and administration, including the Project coordination and capacity building; (ii) Project monitoring and evaluation; and (iii) knowledge dissemination.

Project management

Project is implemented by the Branch office of the Aga Khan Foundation in the Kyrgyz Republic.

The closing date of the Project is September 30, 2020.

2. PRESENTATION OF THE PROJECT FINANCIAL STATEMENTS

Basis of preparation

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard (the "IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Under the cash basis approach income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received or provided.

The Project's approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.

These project financial statements consist of:

- Summary of funds received and expenditures paid;
- Summary of expenditures paid by project components;
- Notes to the project financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these project financial statements is US Dollars (the "USD").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash basis of accounting

The project financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the Project. Project financial statements prepared under the cash basis provide users with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the project financial statements is balances of cash and changes therein.

Foreign currency

Operations in foreign currency initially are accounted in functional currency using currency exchange rate settled by commercial bank on a date of operation.

All payments made in local currency are translated into US dollars at the exchange rate defined by serving commercial bank, at the date of transaction.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate on a date settled by the commercial bank.

Non-monetary items are valued according to their historic cost in foreign currency, which are recalculated on rates of the initial operation date.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term. Balances of advances paid to employees at the end of the period are also part of closing cash position.

Taxes

Calculation and payment of personal income tax and social security contributions from income of local staff and consultants is made in accordance with the requirements and rates of the Tax Code and legislation of the Kyrgyz Republic.

Project expenses

The expenses are recorded in the period when they were actually paid.

Sources of funds

The funds were provided by the World Bank to the Project by advance payment, replenishment of designated account.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2018 and December 31, 2017 comprise:

	Currency	December 31, 2018	December 31, 2017
Special account	USD	262,414	224,531
Transit account	KGS	1,606	87
Advances paid to employees	KGS	134	120
		<u>264,154</u>	<u>224,738</u>

5. FUNDS RECEIVED

The funds received are presented by the following financing methods and sources of financing:

Financing method:	For the year ended December 31, 2018	For the period from June 21, 2017 to December 31, 2017	Cumulative
Advances	-	300,000	300,000
Replenishment	<u>630,615</u>	<u>-</u>	<u>630,615</u>
	<u>630,615</u>	<u>300,000</u>	<u>930,615</u>

6. PROJECT EXPENSES

Project expenses by components are presented in the summary of expenditures paid by project components. Breakdown of Project expenses by nature and sources of financing is presented as follows:

	For the year ended December 31, 2018	For the period from June 21, 2017 to December 31, 2017	Cumulative
Training and workshops	280,960	21,031	301,991
Consultants' services	194,823	27,511	222,334
Goods	33,099	-	33,099
Operating costs:			
Payroll and related taxes	37,911	16,994	54,905
Rent	30,258	6,476	36,734
Office expenses	5,371	651	6,022
Transportation and per diems	2,220	1,451	3,671
Bank services	433	40	473
Other	<u>6,072</u>	<u>1,108</u>	<u>7,180</u>
	<u>591,147</u>	<u>75,262</u>	<u>666,409</u>

7. FINANCIAL POSITION

Financial position as at December 31, 2018 and December 31, 2017 is as follows:

	December 31, 2018	December 31, 2017
ASSETS AND EXPENDITURES		
Cash and cash equivalents	264,154	224,738
Cumulative project expenditures	666,409	75,262
Foreign exchange loss	52	-
TOTAL ASSETS AND EXPENDITURES	<u>930,615</u>	<u>300,000</u>
CUMMULATIVE FINANCING		
Funds received	<u>930,615</u>	<u>300,000</u>
TOTAL FINANCING	<u>930,615</u>	<u>300,000</u>

8. WITHDRAWAL APPLICATIONS

Withdrawal applications for the period from June 21, 2017 to December 31, 2017 and for the year ended December 31, 2018 comprise:

For the year ended December 31, 2018

Sources of financing	#	Dates	Goods, works, consultants' services and non-consulting services, including training and operating cost	Total
Grant No. TF0A5035				
	2	March 13, 2018	134,077	134,077
	3	June 21, 2018	137,987	137,987
	4	September 24, 2018	196,739	196,739
	5	December 20, 2018	161,812	161,812
			<u>630,615</u>	<u>630,615</u>

For the period from January 1, 2017 to December 31, 2017

Sources of financing	#	Dates	Goods, works, consultants' services and non- consulting services, including training and operating cost	Total
Grant No. TF0A5035	1-1	January 17, 2017	<u>300,000</u>	<u>300,000</u>
			<u>300,000</u>	<u>300,000</u>

9. STATEMENT OF DESIGNATED ACCOUNT

Statement of designated account for the period from June 21, 2017 to December 31, 2017 and for the year ended December 31, 2018 comprises:

Special account	Grant No. TF0A5035
Bank	"Kyrgyz Investment and Credit Bank" CJSC
Currency	US Dollars
Bank account	1280016040525401
Bank's location	21 Erkindik avenue, Bishkek, Kyrgyz Republic
Description	US Dollars
Balance as at December 31, 2016	<u>-</u>
Advance	300,000
Total funds received to a designated account	<u>300,000</u>
Expenditures paid	2,651
Transferred to transit account	72,818
Balance as at December 31, 2017	<u>224,531</u>
Replenishment	630,615
Total funds received to a special account	<u>630,615</u>
Expenditures paid	100,291
Transferred to transit account	492,441
Balance as at December 31, 2018	<u>262,414</u>

10. UNDRAWN FUNDS

Undrawn funds as at December 31, 2017 and 2018 comprise:

	Grant No. TF0A5035
Approved grant amount	2,730,000
Disbursed for period from June 21, 2017 to December 31, 2018	<u>930,615</u>
Undrawn amount	<u>1,799,385</u>
	Grant No. TF0A5035
Disbursed for period from June 21, 2017 to December 31, 2017	300,000
Disbursed for the year ended December 31, 2018	<u>630,615</u>
Total	<u>930,615</u>

11. COMMITMENTS

In the normal course of activities, the Project concludes agreements with suppliers of goods and services in accordance with the established budget and procurement plan. As at December 31, 2018 the Project had no any commitments.

12. GOING CONCERN

The closing date of the Project is September 30, 2020.

13. LEGAL CASES

There were no any legal cases related to the Project.

14. EVENTS AFTER THE REPORTING DATE

After the reporting period until the date of issue of the project financial statements the World Bank provided financing to the Project as follows:

Value Date	Financing method	No.	Grant No. TF0A5035
April 5, 2019	Replenishment	6	<u>93,329</u>
			<u>93,329</u>

As at the date of issue of the project financial statements no other significant events or transactions occurred, except for the events or transactions described above.