

IRRIGATION SYSTEM ENHANCEMENT PROJECT

IBRD LOAN 8267-AM

**IMPLEMENTED BY WATER SECTOR PROJECTS IMPLEMENTATION UNIT
STATE INSTITUTION**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

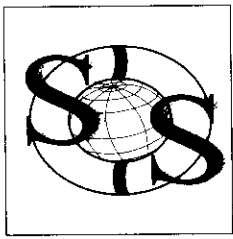
INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2015

**YEREVAN
March 2016**

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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT

*On the special purpose financial statements of
"Irrigation System Enhancement Project"
for the year ended 31 December 2015*

To the management of "Water Sector Projects Implementation Unit" State Institution (the PIU)

We have audited the accompanying special purpose financial statements of "Irrigation System Enhancement Project" (the Project) financed by the IBRD Loan 8267-AM, which comprise the Statement of Financial Position as at 31 December 2015, the Statement of Sources and Uses of Funds, the Statement of Uses of Funds by Project Activity, Summary of summary reports and SOEs, the Statement of Designated Account for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management of the PIU is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the accrual basis of accounting described in the Note 2 accompanying these special purpose financial statements, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain reasonable audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatement of the special purpose financial statements, whether due to fraud or error.

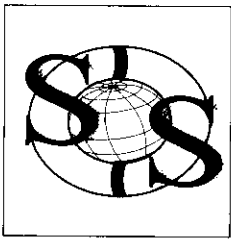
In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special purpose financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

Քրոու Հորվաթ Բիզնես Այլանսի Ասոցիացված Անդամ

Գր: ք. Երևան 0037, Ա.Տիգրանյան 38/55; Հեռ.՝ (+37410) 20 11 51; Ֆաքս՝ (+37410) 20 11 50; www.sosaudit.am; Էլ-փոստ՝ info@sosaudit.am

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management, as well as evaluating the overall presentation of the special purpose financial statements.

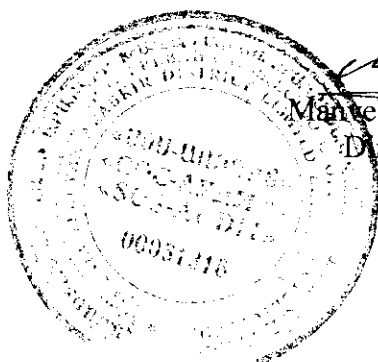
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion,

1. the special purpose financial statements present fairly in all material respects the financial position of the Project as at 31 December 2015, as well as the sources and uses of funds for the year ended 31 December 2015 in accordance with the accrual basis of accounting described in the Note 2 accompanying these special purpose financial statements;
2. funds have been used in accordance with the conditions of the IBRD Loan Agreement 8267-AM dated 29 May 2013 signed between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD), and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included and reimbursed against withdrawal applications are eligible for financing under the IBRD Loan Agreement 8267-AM;
4. the Designated account has been maintained in accordance with the provision of the IBRD Loan Agreement 8267-AM, and World Bank related guidelines.

"SOS-Audit" LLC
18 March 2016



M. Ghazaryan
Mankel Ghazaryan
Director

Gnel Khachatryan
Gnel Khachatryan, FCCA
Auditor

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STATEMENT OF FINANCIAL POSITION

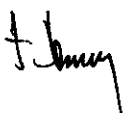
*Irrigation System Enhancement Project
IBRD Loan 8267-AM
As at 31 December 2015*

	<u>Note</u>	<u>31.12.2015 USD</u>	<u>31.12.2014 USD</u>
ASSETS			
Cash			
Designated account –IBRD Loan 8267-AM (in USD)		2,244,686.49	3,535,182.04
Current account – Government of RA (in AMD)		<u>646,998.62</u>	<u>159,793.55</u>
Total Cash		<u>2,891,685.11</u>	<u>3,694,975.59</u>
Prepayments	4	1,832,404.32	587,254.48
Cumulative project expenditures	3	15,423,070.27	5,895,611.88
Foreign exchange loss	7	<u>122,652.08</u>	<u>44,100.08</u>
TOTAL ASSETS		<u>20,269,811.78</u>	<u>10,221,942.03</u>
FUNDS AND LIABILITIES			
Accounts payable	5	360,951.05	172,607.06
Funds			
IBRD Loan 8267-AM	6.1	15,839,698.34	8,603,194.80
Government of the Republic of Armenia	6.2	<u>4,069,162.39</u>	<u>1,446,140.17</u>
Total Funds		<u>19,908,860.73</u>	<u>10,049,334.97</u>
TOTAL FUNDS AND LIABILITIES		<u>20,269,811.78</u>	<u>10,221,942.03</u>

The special purpose financial statements were approved by the management of Water Sector Projects Implementation Unit State Institution and signed on its behalf on March 18, 2016. The accompanying notes form is an integral part of these special purpose financial statements.

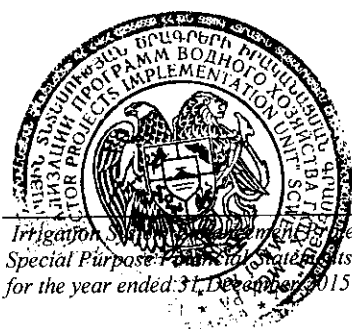
Feliks Meliqyan

Director



Ashkhen Janjughazyan

Chief Accountant

STATEMENT OF SOURCES AND USES OF FUNDS

*Irrigation System Enhancement Project
IBRD Loan 8267-AM
For the year ended 31 December 2015
In USD*

	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting year 2015	Cumulative as at 31.Dec.2015	Reporting year 2015	Cumulative as at 31.Dec.2015	Reporting year 2015	Cumulative as at 31.Dec.2015	
Opening Working Capital							
Cash	3,694,975.59	-					
Prepayments	587,254.48	-					
Accounts payable	(172,607.06)	-					
Total	4,109,623.01	-					
Sources of Funds							
IBRD Loan 8267-AM	7,236,503.54	15,839,698.34	6,366,430.00	16,643,910.00	870,073.54	(804,211.66)	30,000,000.00
Government of Republic of Armenia	2,623,022.22	4,069,162.39	3,341,810.00	5,911,190.00	(718,787.78)	(1,842,027.61)	7,500,000.00
Total	9,859,525.76	19,908,860.73	9,708,240.00	22,555,100.00	151,285.76	(2,646,239.27)	37,500,000.00
Foreign exchange gain/(loss)	(78,552.00)	(122,652.08)					
Uses of Funds							
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	9,527,458.39	15,348,070.27	9,708,240.00	22,555,100.00	(180,781.61)	(7,207,029.73)	37,425,000.00
(2) Front-end Fee	-	75,000.00	-	-	-	75,000.00	75,000.00
Total	9,527,458.39	15,423,070.27	9,708,240.00	22,555,100.00	(180,781.61)	(7,132,029.73)	37,500,000.00
Closing Working Capital							
Cash	2,891,685.11	2,891,685.11					
Prepayments	1,832,404.32	1,832,404.32					
Accounts payable	(360,951.05)	(360,951.05)					
Total	4,363,138.38	4,363,138.38					

*Irrigation System Enhancement Project
Special Purpose Financial Statements
for the year ended 31 December 2015*

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

*Irrigation System Enhancement Project
IBRD Loan 8267-AM
For the year ended 31 December 2015
In USD*

Project Activities	ACTUAL		BUDGET		VARIANCE		FAD
	Reporting year 2015	Cumulative as at 31.Dec.2015	Reporting year 2015	Cumulative as at 31.Dec.2015	Reporting year 2015	Cumulative as at 31.Dec.2015	
Part A- Irrigation system enhancement	8,121,356.31	12,776,176.19	8,694,430.00	18,089,310.00	(573,073.69)	(5,313,133.81)	33,100,000.00
A.1: Conversion of pump-based irrigation to gravity irrigation*	3,039,350.65	7,578,281.38	6,365,500.00	15,492,680.00	(3,326,149.35)	(7,914,398.62)	24,700,000.00
A.2: Upgrading of outlet and other canals conveying pumped water*	5,082,005.66	5,197,894.81	2,328,930.00	2,596,630.00	2,753,075.66	2,601,264.81	8,400,000.00
Part B- Management information	815,712.16	815,712.16	362,820.00	2,104,630.00	452,892.16	(1,288,917.84)	1,700,000.00
B.1: Technical investigations	-	-	5,620.00	938,580.00	(5,620.00)	(938,580.00)	900,000.00
B.2: Supervisory control and data acquisition (SCADA) system installation	815,712.16	815,712.16	357,200.00	1,166,050.00	458,512.16	(350,337.84)	800,000.00
Part C- Project management and WUAs' support	590,389.92	1,756,181.92	650,990.00	2,361,160.00	(60,600.08)	(604,978.08)	2,700,000.00
C.1: Project management	495,901.16	1,482,804.61	601,300.00	1,894,680.00	(105,398.84)	(411,875.39)	1,500,000.00
C.2: WUAs' support	94,488.76	273,377.31	49,690.00	466,480.00	44,798.76	(193,102.69)	1,200,000.00
C.2.1: The WUAs' support group	31,735.14	31,735.14	-	-	31,735.14	31,735.14	800,000.00
C.2.2: Capacity building of WUAs' executive bodies	27,636.71	197,981.82	9,360.00	261,550.00	18,276.71	(63,568.18)	240,000.00
C.2.3: Awareness raising and communication activities	35,116.91	43,660.35	40,330.00	204,930.00	(5,213.09)	(161,269.65)	160,000.00
Project expenditures	9,527,458.39	15,348,070.27	9,708,240.00	22,555,100.00	(180,781.61)	(7,207,029.73)	37,500,000.00
Front-end Fee	-	75,000.00	-	-	-	75,000.00	-
Total Project Expenditures	9,527,458.39	15,423,070.27	9,708,240.00	22,555,100.00	(180,781.61)	(7,132,029.73)	37,500,000.00

(*) in cumulative expenditures USD 115,889.15 was reclassified from component A.1. into A.2.

SUMMARY OF SUMMARY REPORTS AND SOEs

Irrigation System Enhancement Project
IBRD Loan 8267-AM
For the year ended 31 December 2015
In USD

Application N	(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	Total
7	1,464,817.96	1,464,817.96
8	1,416,381.40	1,416,381.40
9	1,004,598.15	1,004,598.15
10	461,469.28	461,469.28
11	2,889,236.75	2,889,236.75
Total	7,236,503.54	7,236,503.54

STATEMENT OF DESIGNATED ACCOUNT

*Irrigation System Enhancement Project
IBRD Loan 8267-AM
For the year ended 31 December 2015*

<u>Designated Account</u>	<u>IBRD Loan 8267-AM</u>
Currency	USD
Account number	900000906132
Bank	Central Treasury 1 Meliq Adamyan Street, Yerevan Republic of Armenia, 0010
Location	
	For the year ended 31.12.2015
	USD
1. Opening balance	3,535,182.04
Add:	
2. Cumulative opening discrepancy	-
3. IBRD advance/replenishment	7,236,503.54
Less:	
4. Refund to IBRD from DA	-
5. Present outstanding amount advanced to DA	10,771,685.58
6. DA closing balance as at 31.12.2015	2,244,686.49
Add:	
7. Amount of eligible expenditures paid	8,526,999.09
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
10. Total advance/replenishment accounted for	10,771,685.58
11. Discrepancy (5)-(10)	-

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Irrigation System Enhancement Project
IBRD Loan 8267-AM
For the year ended 31 December 2015*

1. General Information

1.1. Project Financing

According to the Loan Agreement 8267-AM dated 29 May 2013 concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD), IBRD provided financing in the amount of 30,000,000 United States dollars (USD) for the implementation of "Irrigation System Enhancement Project" (the Project).

The Project financing agreement became effective on 15 July 2013.

The Closing date for the expenditures to be financed by the Loan is set on 30 June 2017. The Grace period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing date: 30 October 2017.

1.2. Project objectives

The objectives of the Project are to:

- a) reduce the amount of energy used and improve irrigation conveyance efficiency in targeted irrigation schemes,
- b) improve the availability and reliability of important sector data and information for decision-makers and other stakeholders.

The Project consists of the following parts:

- A – Irrigation system enhancement project,
- B – Management information,
- C – Project management and WUAs' support.

1.3. Project Budget

The Project is being financed by the following sources:

- International Bank for Reconstruction and Development (IBRD),
- The Government of the Republic of Armenia (Government of RA).

Co-financing rate of 20% is applied for goods, works, non-consulting services, consultants' services, training and operating costs for the Project.

Category	IBRD 8267-AM	Government of RA	Total
	USD	USD	USD
1. Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	29,925,000	7,500,000	37,425,000
2. Front-end fee	75,000	-	75,000
Total	30,000,000	7,500,000	37,500,000

1.4. Project Implementation

The Project is implemented by “Water Sector Projects Implementation Unit” State Institution (the PIU).

The PIU address is: Baghramyan Street 75/44, Yerevan 0033, Republic of Armenia.

2. Accounting policy

2.1 Preparation and presentation of financial statements

The special purpose financial statements have been prepared based on the accrual basis of accounting and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

In accordance with the accrual bases of accounting the expenditure is recognized when the transaction occur (expense incurred), and not only when cash or its equivalent is received or paid. The transactions are recorded in the accounting records and recognized in the special purpose financial statements of the periods to which they relate.

The special purpose financial statements consist of:

- Statement of financial position,
- Statement of sources and uses of funds,
- Statement of uses of funds by project activity,
- Summary of summary reports and SOEs,
- Statement of designated account,
- Notes to the special purpose financial statements.

Reporting currency of special purpose financial statements is US dollar (USD).

2.2 Foreign currency transactions

Project accounts are maintained and transactions are made in USD and Armenian Drams (AMD). Transactions denominated in local currency are translated into USD as follows:

- Contributions of the RA Government expressed in AMD are translated into USD at the average exchange rate at currency market issued by the Central Bank of Armenia (CBA) at the date of transfer.
- Payments to contractors and suppliers expressed in AMD are translated into USD at the average exchange rate at currency market issued by the CBA at the date of payment.
- Monetary assets and liabilities are translated into USD at the average exchange rate at currency market issued by the CBA at the reporting date.
- Transaction and translation exchange differences (gains/losses) are recognized and presented in financial statements in net as an Exchange difference.

The average exchange rate at currency market issued by the CBA as at 31 December 2014 is 1 USD =474.97 AMD

The average exchange rate at currency market issued by the CBA as at 31 December 2015 is 1 USD =483.75 AMD

2.3 Taxes

The Project related taxes and mandatory payments are calculated and paid in accordance with tax regulations of the Republic of Armenia.

3. Project expenditures allocation on funds

Expenditure category	Reporting year 2015			Cumulative As at 31.12.2015		
	IBRD Loan 8267-AM	GoA	Total	IBRD Loan 8267-AM	GoA	Total
	USD	USD	USD	USD	USD	USD
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	7,621,966.91	1,905,491.48	9,527,458.39	12,278,456.34	3,069,613.93	15,348,070.27
(2) Front- end fee	-	-	-	75,000.00	-	75,000.00
Total	7,621,966.91	1,905,491.48	9,527,458.39	12,353,456.34	3,069,613.93	15,423,070.27

4. Prepayments

	As at 31.12.2015 USD	As at 31.12.2014 USD
Works of the Project	1,830,428.21	586,110.26
Operating costs of the Project	1,976.11	1,144.22
Total	1,832,404.32	587,254.48

5. Payables

	As at 31.12.2015 USD	As at 31.12.2014 USD
Works of the Project	360,121.03	170,876.24
Operating costs of the Project	830.02	1,730.82
Total	360,951.05	172,607.06

6. Financing

6.1. IBRD Loan 8267-AM financing

	Reporting year 2015 USD	As at 31.12.2015 Cumulative USD
Advance	-	5,000,000.00
Reimbursement-SOE procedure	6,134,634.30	9,354,541.78
Summary Report	1,101,869.24	1,410,156.56
Front-end fee	-	75,000.00
	7,236,503.54	15,839,698.34
Total financing budget		30,000,000.00
Percentage of finance provided as at 31 Dec 2015		53%

6.2. Government financing

	Reporting year 2015 USD	As at 31.12.2015 Cumulative USD
Contributions	2,623,022.22	4,069,162.39
	2,623,022.22	4,069,162.39
Total financing budget		7,500,000.00
Percentage of finance provided as at 31 Dec 2015		54%

7. Foreign exchange gain/(loss)

	As at 31.12.2015 USD	As at 31.12.2014 USD
Translation of payables	(80,476.18)	(6,006.77)
Translation of cash balances	(42,175.90)	(38,093.31)
	(122,652.08)	(44,100.08)

8. Expenditure budget execution

Category	Cumulative Expenditures as at 31 Dec 2015	Total budget	Execution
	USD	USD	%
1.Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	15,348,070.27	37,425,000.00	41%
2.Front- end fee	75,000.00	75,000.00	100%
Total	15,423,070.27	37,500,000.00	41%

9. Events after the reporting date

The Project expenditures for the reporting period at the total amount of USD 2,755,313.51 registered at the application # 12 were submitted to WB on 13 January 2016 and approved on 26 January 2016.

ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PIU AND DISBURSED BY THE WORLD BANK

*Irrigation System Enhancement Project
IBRD Loan 8267-AM
For the year ended 31 December 2015
In USD*

Category	Appl. N	PIU	WB	Difference
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	7	1,464,817.96	1,464,817.96	-
	8	1,416,381.40	1,416,381.40	-
	9	1,004,598.15	1,004,598.15	-
	10	461,469.28	461,469.28	-
	11	2,889,236.75	2,889,236.75	-
Total		7,236,503.54	7,236,503.54	