

**CONSTRUCTION OF VEDI RESERVOIR AND IRRIGATION SYSTEM PROJECT**

**AFD CREDIT No. CAM 1002 01 Y**

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

**Special Purpose Project Financial Statements  
and  
Independent Auditor's Report**

**For the year ended 31 December 2016**

**YEREVAN  
March 2017**

# CONSTRUCTION OF VEDI RESERVOIR AND IRRIGATION SYSTEM PROJECT

AFD CREDIT No. CAM 1002 01 Y

---

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITOR'S REPORT	3-4
SPECIAL PURPOSE FINANCIAL STATEMENTS For the year ended 31 December 2016:	
Statement of cash receipts and payments	5
Statement of uses of funds by Project activity	6
Notes to the special purpose financial statements	7-11



"ՍՕՍ-ԱՈՒԴԻՏ" ՍՊԸ

"SOS-AUDIT" LTD

## INDEPENDENT AUDITOR'S REPORT

*On the special purpose financial statements of the  
"Construction of Vedi Reservoir and Irrigation System Project"  
for the year ended 31 December 2016*

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

### **Opinion**

We have audited the accompanying special purpose financial statements of the "Construction of Vedi Reservoir and Irrigation System Project" ("Project") financed by AFD Credit No. CAM 1002 01 Y, and implemented by the "Water Sector Projects Implementation Unit" State Institution (WSPIU), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activity for the year ended 31 December 2016, and a summary of significant accounting policies and other explanatory notes.

In our opinion,

1. the special purpose financial statements present fairly in all material respects the cash receipts and payments of the Project for the year ended 31 December 2016 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis);
2. funds have been used in accordance with the conditions of the Credit Agreement ADF No. CAM 1002 01 Y dated 26 January 2016 between the Agence Française de Développement (AFD) and the Republic of Armenia, and ADF 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 in the Drawdown Requests and reimbursed against are eligible for financing under the ADF CREDIT No. CAM 1002 01 Y dated 26 January 2016;
4. The Project account used has been maintained in accordance with the provision of the ADF CREDIT No. CAM 1002 01 Y dated 26 January 2016, and ADF related guidelines.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Project and the WSPIU in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled out other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Management's Responsibility for the Special Purpose Financial Statements**

The management of WSPIU is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC), 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.



# "ՍՕՍ-ԱՌԻԴԻՏ" ՍՊԸ "SOS-AUDIT" LTD

## *Auditor's Responsibility for the Audit of the Special Purpose Financial Statements*

Our objectives are to obtain reasonable assurance about whether the special purpose 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 high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and 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 financial statements.

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

- Identify and assess the risks of material misstatement of the special purpose 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 internal control.
- Evaluate the overall presentation, structure and content of the special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

"SOS-Audit" LLC  
20 March 2017



  
Nazik Chitchyan  
Auditor

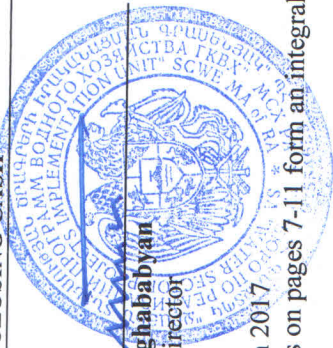
Construction of Vedd Reservoir and Irrigation System Project  
AFD CREDIT No. CAM 1002 01 Y

Statement of cash receipts and payments

For the year ended 31 December 2016

(Amounts are shown in EUR)

	Actual		Planned		Variance		PAD
	Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016	
<b>TOTAL OPENING CASH</b>							
<b>Sources of Funds</b>							
AFD Credit No. CAM 1002 01 Y	9.1	10,000,000.00	4,281,238.67	4,281,238.67	5,718,761.33	5,718,761.33	75,000,000.00
Government of RoA	9.2	452,338.63	691,249.93	691,249.93	(238,911.30)	(238,911.30)	15,004,358.00
<b>TOTAL FUNDS</b>		<b>10,452,338.63</b>	<b>4,972,488.60</b>	<b>4,972,488.60</b>	<b>5,479,850.03</b>	<b>5,479,850.03</b>	<b>90,004,358.00</b>
<b>Foreign currency gain/(loss)</b>							
		228.27					
<b>Uses of funds</b>							
1. Consulting services, Civil works, PIU operating costs	8						
		10,442,905.17	4,972,488.60	4,972,488.60	5,470,416.57	5,470,416.57	90,004,358.00
<b>TOTAL PROJECT EXPENDITURES</b>		<b>10,442,905.17</b>	<b>4,972,488.60</b>	<b>4,972,488.60</b>	<b>5,470,416.57</b>	<b>5,470,416.57</b>	<b>90,004,358.00</b>
<b>CLOSING CASH BALANCE</b>	6						
Project Account (AFD Credit)		9,661.73					
Project Account (GOA)		-					
<b>TOTAL CLOSING CASH</b>		<b>9,661.73</b>	<b>9,661.73</b>	<b>9,661.73</b>			



**Kamo Aghababyan**  
Acting Director

**Ashkhen Janjughazyan**  
Financial manager

20 March 2017

The notes on pages 7-11 form an integral part of these special purpose project financial statements.

Construction of Vedi Reservoir and Irrigation System Project  
AFD CREDIT No. CAM 1002 01 Y

**Statement of uses of funds by Project activity**  
*For the year ended 31 December 2016*  
*(Amounts are shown in EUR)*

Component	Actual		Planned		Variance		PAD
	Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016	Reporting period	Cumulative as at 31 Dec 2016	
<b>Component 1.</b> Construction of the Vedi reservoir and ancillary structures	10,336,449.42	10,336,449.42	4,835,871.44	4,835,871.44	5,500,577.98	5,500,577.98	77,185,592.00
<b>Component 2.</b> Rehabilitation, modernisation, extension of the irrigated perimeter	-	-	-	-	-	-	11,939,166.00
<b>Component 3.</b> Project implementation	106,455.75	106,455.75	136,617.16	136,617.16	(30,161.41)	(30,161.41)	879,600.00
<b>Total Project Expenditure</b>	<b>10,442,905.17</b>	<b>10,442,905.17</b>	<b>4,972,488.60</b>	<b>4,972,488.60</b>	<b>5,470,416.57</b>	<b>5,470,416.57</b>	<b>90,004,358.00</b>

**Construction of Vedi Reservoir and Irrigation System Project**  
**AFD CREDIT No. CAM 1002 01 Y**

**Notes to the special purpose financial statements**  
*For the year ended 31 December 2016*

---

**1. General information**

**1.1. The Project**

The Credit Agreement AFD No. CAM 1002 01 Y was concluded on 26 January 2016 between the Republic of Armenia and the Agence Française de Développement (AFD), intends to improve the sustainability of the national rural irrigation system, provided a credit in the amount not exceed 75,000,000 EUR.

In the Schedule 3-Financing Plan of Credit Facility Agreement the amount of estimated expenses to be financed by AFD is 75,003,631 EUR.

The Credit is provided for the implementation of "Construction of Vedi Reservoir and Irrigation System Project" (the Project).

The Project Effective Date is May 12, 2016 and Technical Completion Date is March 31, 2021. The Deadline for Drawdown requests under Credit AFD No. CAM 1002 01 Y is May 31, 2021 and deadline for final payments for works and services provided is November 30, 2021.

**1.2. The Project objectives**

The objective of the Project is to improve the sustainability of water resources and irrigated agriculture in the fertile Ararat plain via:

- (i) The securing of additional renewable water resources from the construction of the Vedi reservoir and
- (ii) The improvement of irrigation efficiency, through to renovation work and the modernization of the network.

By lifting the constraints related to water and the irrigation network, the Project aims to reverse the trend towards the abandonment of agricultural land in the Ararat plain.

The Project consists of the following components:

- Component 1. Construction of the Vedi reservoir and ancillary structures,
- Component 2. Rehabilitation, modernisation, extension of the irrigated perimeter,
- Component 3. Project implementation.

**1.3. The Project Budget and Financing**

The Project is being financed by the following sources:

- AFD Credit No. CAM 1002 01 Y – 100% of all expenditures, exclusive of taxes,
- The Government of the Republic of Armenia (Government of RoA) - expenditures related taxes.

Category	AFD Credit No. CAM 1002 01 Y	Government of the RoA	Total
	EUR	EUR	EUR
1. Consulting services, Civil works, PIU operating costs	75,000,000.00	15,004,358.00	90,004,358.00
<b>Total</b>	<b>75,000,000.00</b>	<b>15,004,358.00</b>	<b>90,004,358.00</b>

**Notes to the special purpose financial statements**  
*For the year ended 31 December 2016*

---

***Drawdown requests***

The Credit is provided on the basis of Drawdown Requests as advances. The Request for the first Drawdown includes the amount requested for (i) the refinancing of Eligible Expenses and (ii) the initial Advance.

Subsequent advances are provided on condition that at least eighty per cent (80%) of the Advance immediately preceding the Advance requested in the Drawdown Request and one hundred per cent (100%) of the penultimate Advance have been utilized.

***1.4. Project Implementation***

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

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

**2. Summary of significant accounting policies**

***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).

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

***2.2. Cash basis of accounting***

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of project funds when the payments are made.

***2.3. Reporting currency***

The reporting currency of these special purpose financial statements is EUR. The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into EUR based at the exchange rate defined by the Central Bank of the Republic of Armenia (CBA) at the date of the transaction. The effect of exchange rate changes on cash held on local currency is reported as separate line item in the statement of cash receipts and payments.

The average exchange rate at currency market issued by the CBA as at 31 December 2016 is 1 EUR =512.20 AMD

***2.4. Taxes***

Taxes are paid in accordance with the tax regulations of the Republic of Armenia.

***2.5. Budget***

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated procurement plans for the reporting period.



Notes to the special purpose financial statements  
For the year ended 31 December 2016

**3. Summary of Drawdown Requests**

Drawdown request No	Drawdown request date	Amount of request	Drawdown confirmation date
		EUR	
1	20.07.2016	10,000,000.00	03.08.2016

**4. Statement of Project Account**

Bank account number	900000902255
Bank	Central Treasury
Bank location	4 Tigran Mets str., 1-st floor, Yerevan, 0010 Republic of Armenia
Currency	EUR

	<b>AFD Credit No. CAM 1002 01 Y</b>
	<u>For the year ended 31 December, 2016</u>
1. Opening balance	-
2. Add: opening discrepancy	
3. AFD advance/replenishment	10,000,000.00
4. Less: Refund to AFD from PA	-
<b>5. Present outstanding amount advanced to PA</b>	<b><u>10,000,000.00</u></b>
6. PA closing balance as at 31.12.2016	9,661.73
7. Add: Amount of eligible expenditures paid	9,990,338.27
8. Less: interest earned (if credited to PA)	-
<b>9. Total advance accounted for</b>	<b><u>10,000,000.00</u></b>
10. Closing discrepancy (5)-(9)	-

**Construction of Vedi Reservoir and Irrigation System Project**  
**AFD CREDIT No. CAM 1002 01 Y**

**Notes to the special purpose financial statements**  
*For the year ended 31 December 2016*

**5. Statement of Financial Position**

The Statement of Financial Position discloses assets, liabilities and net assets of the Project as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	note	31.12.2016 EUR
<b>ASSETS</b>		
Cash	6	9,661.73
Prepayments	7	9,000,641.53
<b>Total assets</b>		<u><b>9,010,303.26</b></u>
<b>LIABILITIES</b>		
Payables		-
<b>Total liabilities</b>		<u>-</u>
<b>NET ASSETS</b>		
<b>Cumulative income</b>		
AFD Credit No. CAM 1002 01 Y	9.1	10,000,000.00
Government of RoA	9.2	452,338.63
		<u><b>10,452,338.63</b></u>
<b>Cumulative expenses</b>		
Project expenses		(1,436,117.11)
		<u><b>(1,436,117.11)</b></u>
Foreign exchange gain/(loss)		(5,918.26)
		<u><b>(5,918.26)</b></u>
<b>Total net assets</b>		<u><b>9,010,303.26</b></u>

**6. Cash**

	Account held at	Underlying Currency	31.12.2016 EUR
Project account (AFD Credit No. CAM 1002 01 Y)	Treasury	EUR	9,661.73
<b>Total</b>			<u><b>9,661.73</b></u>

**7. Prepayments**

		Contract		Amount EUR
1.	JV "Sahakyanshin" CJSC (Armenia) – "PEGA Construction" PJS (Iran)	AFD/ICB/CW- 15/001	Contract price 20% , transferred on Dec 2016	9,000,000.00
2.	For operation costs			641.53
				<u><b>9,000,641.53</b></u>

## 8. Project Expenditures

### 8.1 Project expenditures financing per funds

Expenditure category	Reporting period			Cumulative As at 31 Dec 2016		
	AFD Credit No. CAM 1002 01 Y	Government of RA	Total	AFD Credit No. CAM 1002 01 Y	Government of RA	Total
	EUR	EUR	EUR	EUR	EUR	EUR
1. Consulting services, Civil works, PIU operating costs	9,990,338.27	452,566.90	10,442,905.17	9,990,338.27	452,566.90	10,442,905.17
<b>Total</b>	<b>9,990,338.27</b>	<b>452,566.90</b>	<b>10,442,905.17</b>	<b>9,990,338.27</b>	<b>452,566.90</b>	<b>10,442,905.17</b>

### 8.2 Project expenditure budget execution

Expenditure category	Cumulative Expenditures as at 31 Dec 2016	Total budget	Execution
	EUR	EUR	%
1. Consulting services, Civil works, PIU operating costs	10,442,905.17	90,004,358.00	12%
<b>Total</b>	<b>10,442,905.17</b>	<b>90,004,358.00</b>	<b>12%</b>

## 9 Financing

### 9.1 AFD Credit No. CAM 1002 01 Y

	Reporting period EUR	Cumulative as at 31 Dec 2016 EUR
Advances	10,000,000.00	10,000,000.00
<b>Total</b>	<b>10,000,000.00</b>	<b>10,000,000.00</b>
Total financing budget		<b>75,000,000.00</b>
Percentage of finance provided as at 31 Dec 2016		<b>13%</b>

### 9.2 Government of RoA

	Reporting period EUR	Cumulative as at 31 Dec 2016 EUR
Financed	452,338.63	452,338.63
Total financing budget		<b>15,004,358.00</b>
Percentage of finance provided as at 31 Dec 2016		<b>3%</b>