

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 2017

**YEREVAN
March 2018**

CONSTRUCTION OF VEDI RESERVOIR AND IRRIGATION SYSTEM PROJECT

AFD CREDIT No. CAM 1002 01 Y

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	3-4
SPECIAL PURPOSE FINANCIAL STATEMENTS For the year ended 31 December 2017:	
Statement of cash receipts and payments	5
Statement of uses of funds by Project activity	6
Notes to the special purpose financial statements	7-12

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 2017*

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 Credit Facility Agreement AFD Credit No. CAM 1002 01 Y ("Financing Agreement"), 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 2017, 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 2017 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 Financing Agreement dated 26 January 2016 between the Agence Française de Développement (AFD) and the Republic of Armenia, and AFD 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 Financing Agreement;
4. The Project account used has been maintained in accordance with the provision of the Financing, and AFD 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.

Emphasis of Matter- Cash Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes that financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes. Our opinion is not modified in respect of this matter.

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.

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:

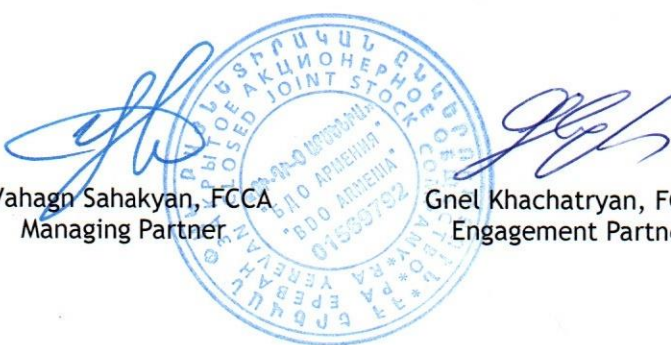
- Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk 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.

5 March 2018
"BDO Armenia" cjsc

Vahagn Sahakyan, FCCA
Managing Partner

Gnel Khachatryan, FCCA
Engagement Partner



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

Statement of cash receipts and payments
For the year ended 31 December 2017
(Amounts are shown in EUR)

	Actual		Planned		Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2017	Reporting year	Cumulative as at 31 Dec 2017	Reporting year	Cumulative as at 31 Dec 2017	
OPENING CASH BALANCE							
Project Account (AFD Credit)	9,661.73						
Project Account (GOA)	-						
	9,661.73						
Sources of Funds							
AFD Credit No. CAM 1002 01 Y	10.1 25,000,000.00	35,000,000.00	24,131,112.65	34,131,112.65	868,887.35	868,887.35	75,000,000.00
Government of Roa	10.2 4,489,770.23	4,942,108.86	5,070,285.85	5,522,624.48	(580,515.62)	(580,515.62)	15,004,358.00
TOTAL FUNDS	29,489,770.23	39,942,108.86	29,201,398.50	39,653,737.13	288,371.73	288,371.73	90,004,358.00
Foreign currency gain/(loss)							
	(30,973.26)	(30,744.99)					
Uses of funds							
1. Consulting services, Civil works, PIU operating costs	28,219,306.02	38,662,211.19	29,201,398.50	39,644,303.67	(982,092.48)	(982,092.48)	90,004,358.00
TOTAL PROJECT EXPENDITURES	28,219,306.02	38,662,211.19	29,201,398.50	39,644,303.67	(982,092.48)	(982,092.48)	90,004,358.00
CLOSING CASH BALANCE							
Project Account (AFD Credit)	1,249,152.68	1,249,152.68					
Project Account (GOA)	-	-					
TOTAL CLOSING CASH	1,249,152.68	1,249,152.68					

Feliqs Meliqyan
Acting Director

Ashkhen Janjughazyan
Financial manager

5 March 2018

The notes on pages 7-12 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 2017
(Amounts are shown in EUR)

Component	Actual		Planned		Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2017	Reporting year	Cumulative as at 31 Dec 2017	Reporting year	Cumulative as at 31 Dec 2017	
Component 1. Construction of the Vedi reservoir and ancillary structures	28,147,399.25	38,483,848.67	29,069,473.51	39,405,922.93	(922,074.26)	(922,074.26)	77,185,592.00
Component 2. Rehabilitation, modernisation, extension of the irrigated perimeter	-	-	-	-	-	-	11,939,166.00
Component 3. Project implementation	71,906.77	178,362.52	131,924.99	238,380.74	(60,018.22)	(60,018.22)	879,600.00
Total Project Expenditure	28,219,306.02	38,662,211.19	29,201,398.50	39,644,303.67	(982,092.48)	(982,092.48)	90,004,358.00



Feliqs Meliqyan
Acting Director


Ashkhen Janjughazyan
Financial manager

5 March 2018

The notes on pages 7-12 form an integral part of these special purpose project financial statements.

1. General information

1.1. The Project

In accordance with the Credit Facility 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), the AFD provided a credit to the Republic of Armenia in the amount not exceed 75,000,000 EUR. The Credit is provided for the purpose of improving sustainability of the national rural irrigation system by financing the construction of several dams such as the Vedi reservoir in the Ararat Valley of Armenia.

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 RA) - expenditures related taxes.

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

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: Vardanants blind alley 8, Yerevan 0010, 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

The average exchange rate at currency market issued by the CBA as at 31 December 2017 is 1 EUR =580.10 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.

3. Summary of Drawdown Requests

For the year ended 31 Dec 2017

Drawdown request No	Drawdown request date	Amount of request	Drawdown confirmation date
		EUR	
2	25/01/17	6,000,000.00	16/02/17
3	03/05/17	12,000,000.00	17/05/17
4	17/10/17	7,000,000.00	02/11/17
		25,000,000.00	

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

	AFD Credit No. CAM 1002 01 Y For the year ended 31 December, 2017
1. Opening balance	9,661.73
2. Add: opening discrepancy	
3. AFD advance/replenishment	25,000,000.00
4. Less: Refund to AFD from PA	-
5. Present outstanding amount advanced to PA	25,009,661.73
6. PA closing balance as at 31.12.2017	1,249,152.68
7. Add: Amount of eligible expenditures paid	23,760,509.05
8. Less: interest earned (if credited to PA)	-
9. Total advance accounted for	25,009,661.73
10. Closing discrepancy (5)-(9)	-

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	31.12.2017 EUR	31.12.2016 EUR
ASSETS			
Cash	6	1,249,152.68	9,661.73
Prepayments	7	10,339,293.71	9,000,641.53
Total assets		11,588,446.39	9,010,303.26
LIABILITIES			
Payables	8	2,208,187.51	-
Total liabilities		2,208,187.51	-
NET ASSETS			
Cumulative income			
AFD Credit No. CAM 1002 01 Y	10.1	35,000,000.00	10,000,000.00
Government of RA	10.2	4,942,108.86	452,338.63
		39,942,108.86	10,452,338.63
Cumulative expenses			
Project expenses		(30,321,831.99)	(1,436,117.11)
		(30,321,831.99)	(1,436,117.11)
Foreign exchange gain/(loss)		(240,017.99)	(5,918.26)
Total net assets		9,380,258.88	9,010,303.26

6. Cash

	Account held at	Underlying Currency	31.12.2017 EUR	31.12.2016 EUR
Project account (AFD Credit No. CAM 1002 01 Y)	Treasury	EUR	1,249,152.68	9,661.73
Total			1,249,152.68	9,661.73

7. Prepayments

	31.12.2017 EUR	31.12.2016 EUR
Civil Works (a)	10,016,645.18	9,000,000.00
Consulting Services	321,743.84	-
Operating costs	904.69	641.53
	10,339,293.71	9,000,641.53

(a) Prepayments were provided in the amount of 20% of the corresponding construction contract price. Prepayments were secured by Bank Guarantees. The Bank Guarantees shall expire upon completion of 90/100% of Works. The prepayments were repaid by deducting the corresponding percent from submitted Interim Payment Certificate.

8. Payables

	31.12.2017	31.12.2016
	EUR	EUR
Civil Works (warranty amounts) (a)	2,036,132.35	-
Consulting Services	172,042.64	-
Operating costs	12.52	-
	2,208,187.51	-

(a) Post warranty amounts are retained at 5 or 10% (according to the contract conditions).

9. Project Expenditures

9.1 Project expenditures financing per funds

Expenditure category	Reporting year			Cumulative As at 31 Dec 2017		
	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	23,760,509.05	4,458,796.97	28,219,306.02	33,750,847.32	4,911,363.87	38,662,211.19
Total	23,760,509.05	4,458,796.97	28,219,306.02	33,750,847.32	4,911,363.87	38,662,211.19

9.2 Project expenditure budget execution

Expenditure category	Cumulative Expenditures as at 31 Dec 2017	Total budget	Execution
	EUR	EUR	%
1. Consulting services, Civil works, PIU operating costs	38,662,211.19	90,004,358.00	43%
Total	38,662,211.19	90,004,358.00	43%

10 Financing

10.1 AFD Credit No. CAM 1002 01 Y

	Reporting year	Cumulative as at 31 Dec 2017
	EUR	EUR
Initial Advances	-	10,000,000.00
Additional Advances	25,000,000.00	25,000,000.00
Total	25,000,000.00	35,000,000.00
Total financing budget		75,000,000.00
Percentage of finance provided as at 31 Dec 2017		47%

10.2 Government of RoA

	Reporting year EUR	Cumulative as at 31 Dec 2017 EUR
Financed	<u>4,489,770.23</u>	<u>4,942,108.86</u>
Total financing budget		<u>15,004,358.00</u>
Percentage of finance provided as at 31 Dec 2017		<u>33%</u>