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ARMENIAN WATER AND SEWERAGE CJSC

MUNICIPAL WATER PROJECT

IBRD Loan 8129-AM

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the period from 24 February 2012 to 31 December 2012

YEREVAN
May 2013

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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT N 30

On the special purpose financial statements of
Municipal Water Project
for the period from 24 February 2012 to 31 December 2012

To the management of "Armenian Water and Sewerage" CJSC (the Company)

We have audited the accompanying special purpose financial statements of Municipal Water Project (the Project) financed by IBRD Loan 8129-AM, which comprise the Statement of Financial Position as at 31 December 2012, the Statement of Sources and Uses of Funds, the Statement of Uses of Funds by Project Activity, Summary of summary reports and SOEs, Statement of Designated Account for the period from 24 February 2012 to 31 December 2012, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management of the Company is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board, 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. 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 management, as well as evaluating the overall presentation of the special purpose financial statements.

ՀՀ; ք. Երևան 0037, Ա. Տիգրանյան 38/55; Հեռ.՝ (+37410) 201151; Ֆաքս՝(+37410) 201150
էլ-փոստ՝ sosaudit@web.am, sosaudit@yandex.ru «Յունիբանկ» ՓԲԸ; h/h 241061006276

38/55 A. Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 201151; Fax:(+37410) 201150
E-mail: sosaudit@web.am, sosaudit@yandex.ru "Unibank" CJSC; CA 241061006276

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 of 31 December 2012, as well as sources and uses of funds, designated account movement and its balance for the period from 24 February 2012 to 31 December 2012 in accordance with International Financial Reporting Standards;
2. funds have been used in accordance with the conditions of the Loan Agreement 8129-AM 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 in the withdrawal applications and reimbursed against are eligible for financing under the IBRD Loan 8129-AM.

SOS-Audit LLC
6 May 2013

Manvel Ghazaryan
Director

Nazik Chitchyan
Auditor

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«СОС-АУДИТ»
«SOS-AUDIT»
00051316

ՀՀ; ք. Երևան 0037, Ա. Տիգրանյան 38/55; Հեռ.՝ (+37410) 201151; Ֆաքս՝(+37410) 201150
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38/55 A. Tigranyan, 0037 Yerevan, RA; Tel.: (+37410) 201151; Fax:(+37410) 201150
E-mail: sosaudit@web.am, sosaudit@yandex.ru "Unibank" CJSC; CA 241061006276

STATEMENT OF FINANCIAL POSITION

Municipal Water Project
IBRD Loan 8129-AM
As at 31 December 2012

	Note	31.12.2012 USD
ASSETS		
Cash		
Designated account (USD)		343,388.54
Local currency account (AMD)		90,846.89
Total Cash		**434,235.43**
Prepayments	5	647,981.70
Cumulative project expenditures	3	2,540,572.15
Foreign exchange loss		18,728.64
TOTAL ASSETS		**3,641,517.92**
FUNDS AND LIABILITIES		
Accounts payable	4	31,685.22
Funds		
IBRD Loan 8129-AM	6	2,974,530.64
GoA		635,302.06
Total Funds		**3,609,832.70**
TOTAL FUNDS AND LIABILITIES		**3,641,517.92**

The special purpose financial statements were approved by the management of the Armenian Water and Sewerage CJSC and signed on its behalf on 6 May 2013. The accompanying notes form an integral part of these special purpose financial statements.

Norik Gevorgyan
Director of Investment Projects Coordination Department

Davit Gasparyan
Head of Financial and Accounting Department

STATEMENT OF SOURCES AND USES OF FUNDS

Municipal Water Project
IBRD Loan 8129-AM
For the period from 24 February 2012 to 31 December 2012
In USD

	ACTUAL		PLANNED		VARIANCE		PAD
	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	
Opening Working Capital							
Cash	-	-					
Prepayments	-	-					
Accounts payable	-	-					
Total	-	-					
Sources of Funds							
IBRD Loan 8129-AM	2,974,530.64	2,974,530.64	3,340,000.00	3,340,000.00	(365,469.36)	(365,469.36)	15,000,000.00
GoA funds	635,302.06	635,302.06	668,000.00	668,000.00	(32,697.94)	(32,697.94)	3,000,000.00
Total	3,609,832.70	3,609,832.70	4,008,000.00	4,008,000.00	(398,167.30)	(398,167.30)	18,000,000.00
Foreign exchange gain/(loss)	(18,728.64)	(18,728.64)					
Uses of Funds							
1. Category							
Works	629,614.15	629,614.15	832,352.94	832,352.94	(202,738.79)	(202,738.79)	8,390,000.00
Goods	113,060.96	113,060.96	901,094.57	901,094.57	(788,033.61)	(788,033.61)	1,890,000.00
Consultants' services and operating costs	1,760,397.04	1,760,397.04	2,237,052.49	2,237,052.49	(476,655.45)	(476,655.45)	7,682,500.00
Subtotal	2,503,072.15	2,503,072.15	3,970,500.00	3,970,500.00	(1,467,427.85)	(1,467,427.85)	17,962,500.00
2. Front-end Fee	37,500.00	37,500.00	37,500.00	37,500.00	-	-	37,500.00
Total	2,540,572.15	2,540,572.15	4,008,000.00	4,008,000.00	(1,467,427.85)	(1,467,427.85)	18,000,000.00
Closing Working Capital							
Cash	434,235.43	434,235.43					
Prepayments	647,981.70	647,981.70					
Accounts payable	(31,685.22)	(31,685.22)					
Total	1,050,531.91	1,050,531.91					

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Municipal Water Project
IBRD Loan 8129-AM
For the period from 24 February 2012 to 31 December 2012
In USD

Project Activities	ACTUAL		PLANNED		VARIANCE		PAD
	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	Reporting period	Cumulative to Date	
1. AWSC Project Management	1,643,833.32	1,643,833.32	1,975,143.60	1,975,143.60	(331,310.28)	(331,310.28)	6,482,500.00
2. AWSC Investment, Institutional Improvements and Special Equipment Procurement	113,060.96	113,060.96	901,094.57	901,094.57	(788,033.61)	(788,033.61)	2,520,000.00
3. Capital Investment in the WSS	746,177.87	746,177.87	1,094,261.83	1,094,261.83	(348,083.96)	(348,083.96)	8,960,000.00
Front-end Fee	37,500.00	37,500.00	37,500.00	37,500.00	-	-	37,500.00
Total Project Expenditures	**2,540,572.15**	**2,540,572.15**	**4,008,000.00**	**4,008,000.00**	**(1,467,427.85)**	**(1,467,427.85)**	**18,000,000.00**

SUMMARY OF SUMMARY REPORTS AND SOEs

Municipal Water Project
IBRD Loan 8129-AM
For the period from 24 February 2012 to 31 December 2012
In USD

Loan account - IBRD 8129-AM		
Application number	1. Goods, works, non-consulting services, and consultants' services and operating costs for the Project	Total
1 reimbursement	430,021.98	430,021.98
3	580,940.69	580,940.69
4	926,067.97	926,067.97
	1,937,030.64	**1,937,030.64**

STATEMENT OF DESIGNATED ACCOUNT

Municipal Water Project
IBRD Loan 8129-AM
For the period from 24 February 2012 to 31 December 2012
In USD

Designated Account	IBRD Loan 8129-AM
Currency	USD
Account number	900000920018
Bank	Central Treasury
Location	1 Meliq Adamyan Street, Yerevan Republic of Armenia, 0010

	2012 USD
1. Opening balance as at 24.02.2012	-
Add:	
2. Cumulative opening discrepancy	-
3. IBRD advance/replenishment	2,507,008.66
Less:	
4. Refund to IBRD from DA	-
5. Present outstanding amount advanced to DA	**2,507,008.66**
6. DA closing balance as at 31.12.2012	343,388.54
Add:	
7. Amount of eligible expenditures paid	2,163,620.12
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
10. Total advance accounted for	**2,507,008.66**
11. Discrepancy (5)-(10)	-

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Municipal Water Project
IBRD Loan 8129-AM
For the period from 24 February 2012 to 31 December 2012

1. General Information

1.1. Project Financing

In accordance with the Loan Agreement concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD) on 24 February 2012, IBRD provided the Republic of Armenia Loan 8129-AM in the amount of 15,000,000 United States dollars (USD).
The Loan was provided for implementation of the Municipal Water Project (the Project).
The Project implementing entity is the "Armenian Water Sewerage" CJSC (AWSC) with whom the IBRD concluded a relevant Project Agreement and the Ministry of the Finance of the Republic of Armenia concluded a relevant Sub-loan Agreement.

The Loan Agreement became effective on 23 June 2012. The expenditures on the Project incurred since May 2012 were financed from the Government of the Republic of Armenia (the GoA) cofinancing funds quarterly reallocation. The expenditures incurred before the effective date to be financed the loan were covered by the IBRD through retroactive financing.

The closing date of the Project is 30 June 2015.

1.2. Project objectives

The objective of the Project is to support improvement of the quality and availability of water supply in selected AWSC Service Area.

The Project consists of the following parts:

A – Investments in water supply systems (WSS),
B – Project implementing entity Investments,
C – Project implementing entity management strengthening.

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 (GoA),

Co-financing rate of 17% is applied for goods, works, non-consulting services, and consultants' services and operating costs for the Project.

Category	IBRD 8129-AM	Government of the RA	Total
	USD	USD	USD
1.Goods, works, non-consulting services, and consultants' services and operating costs for the Project	14,962,500	3,000,000	17,962,500
2.Front-end fee	37,500	-	37,500
Total	**15,000,000**	**3,000,000**	**18,000,000**

1.4. Project Implementation

The Project is implemented by the "Armenian Water and Sewerage" CJSC (AWSC).
The address of the AWSC is: 8a Vardanants deadlock, Yerevan, the Republic of Armenia.

2. Accounting policy

2.1 Preparation and presentation of financial statements

The special purpose financial statements have been prepared in compliance with International Financial Reporting Standards issued by the International Federation of Accountants (IFAC) and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

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 2012 is 1 USD =403.58 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 period 2012			Cumulative As at 31.12.2012		
	IBRD Loan 8129-AM	GoA	Total	IBRD Loan 8129-AM	GoA	Total
	USD	USD	USD	USD	USD	USD
1.Goods, works, non-consulting services, and consultants services and operating costs for the Project	2,077,549.87	425,522.28	2,503,072.15	2,077,549.87	425,522.28	2,503,072.15
2.Front-end fee	37,500.00	-	37,500.00	37,500.00	-	37,500.00
Total	**2,115,049.87**	**425,522.28**	**2,540,572.15**	**2,115,049.87**	**425,522.28**	**2,540,572.15**

4. Accounts payable

	31.12.2012 USD
Works Guaranty payables	31,511.00
Other	174.22
Total	**31,685.22**

5. Prepayments

	31.12.2012 USD
Civil works	560,556.63
Goods	45,200.00
For services	42,225.07
Total	**647,981.70**

6. IBRD Loan 8129-AM financing

Financing was provided with the following disbursement methods:

	For the year 2012 USD	Cumulative as at 31.12.2012 USD
Advance	1,000,000.00	1,000,000.00
Reimbursement- Summary Sheet	1,365,359.48	1,365,359.48
Reimbursement- SOE procedure	571,671.16	571,671.16
Front-end fee	37,500.00	37,500.00
	2,974,530.64	**2,974,530.64**

7. Events after the reporting date

The expenditures financed through IBRD Loan 8129-AM incurred during the reporting period were included in withdrawal applications number 5 dated 16 January 2013 with total amount of 656,611.46 USD submitted to the World Bank and approved in 17 January 2013.

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

Municipal Water Project
IBRD Loan 8129-AM
For the period from 24 February 2012 to 31 December 2012
In USD

Category	Appl. N	PIU	WB	Difference
Advance	2	1,000,000.00	1,000,000.00	-
1.Goods, works, non-consulting services,	1	421,813.45	430,021.98	(8,208.53)*
and consultants services	3	580,940.69	580,940.69	-
and operating costs for the Project	4	926,067.97	926,067.97	-
2. Front-end fee		-	37,500.00	
Total		**2,928,822.11**	**2,974,530.64**	

** The difference is due to foreign exchange differences of retroactive financing by the WB of expenditures incured in AMD.*