

**NORTH-SOUTH ROAD CORRIDOR INVESTMENT PROGRAM-  
PROJECT 1**

**LOAN NUMBER 2561-ARM(COL)**

**FINANCED BY ASIAN DEVELOPMENT BANK**

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**For the year ended 31 December 2016**

**YEREVAN  
June 2017**

## CONTENT

	Page
THE MANAGEMENT COUNCIL.....	3
INDEPENDENT AUDITOR'S REPORT .....	4
STATEMENT OF CASH RECEIPTS AND PAYMENTS.....	6
STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY.....	7
STATEMENT OF LOAN WITHDRAWALS .....	8
STATEMENT OF CURRENT ACCOUNT .....	9
REPORT ON PROJECT'S DISBURSEMENT PROGRESS.....	10
NOTES TO THE FINANCIAL STATEMENTS.....	11
ANNEX 1. SOE SCHEDULE.....	167
ANNEX 2. EXPENDITURE DETAILS BY ITEMS.....	18

**THE MANAGEMENT COUNCIL  
OF NORTH-SOUTH ROAD CORRIDOR INVESTMENT PROGRAM\***

**Chairman of the Management Council**

Karen Karapetyan      Prime Minister of the Republic of Armenia

**Members of the Management Council**

Vache Gabrielyan	Vice Prime Minister, Minister of International Economic Integration and Reforms of the Republic of Armenia
Vardan Aramyan	Minister of Finance of the Republic of Armenia
Suren Karayan	Minister of Economic Development and Investments of the Republic of Armenia
Davit Harutyunyan	Minister of Justice of the Republic of Armenia
Ashot Manukyan	Minister of Energy Infrastructures and Natural Resources
Vahan Martirosyan	Minister of Transport, Communication and Information Technologies
Taron Margaryan	Yerevan Mayor (by consent, under Sustainable Urban Development Investment Program)
Kamo Areyan	First Deputy Mayor of Yerevan (by consent, under Sustainable Urban Development Investment Program)
Gagik Grigoryan	Deputy of Minister of Transport and Communication of the Republic of Armenia
Garegin Melqonyan	Deputy of Minister of Economic Development and Investments
Vahe Nikoyan	Deputy Mayor of Yerevan (by consent, under Sustainable Urban Development Investment Program)
Nerses Yeritsyan	Deputy Chairman of the Central Bank of the Republic of Armenia (by consent)
Ashot Musayan	Deputy Chairman of the State Committee of Real Estate Cadastre adjunct to the Republic of Armenia
Nora Martirosyan	Deputy Director of the Yerevan Urban Development Investment Programs Implementation Agency, Projects Manager (by consent)

(\* ) The list of the Management Board is at the stage of amendment and re-approval as of the date of approval of these financial reports.



# "ՍՕՍ-ԱՈՒԴԻՏ" ՍՊԸ

## "SOS-AUDIT" LTD

### INDEPENDENT AUDITOR'S REPORT

To the Management of the "Transport Project Implementation Organization" State Non-Commercial Organization (the Organization)

#### *Opinion*

We have audited the special purpose financial statements of "North-South Road Corridor Investment Program – Project 1" (the Project) financed by the Asian Development Bank Loan 2561-ARM(COL) ("Loan Agreement") concluded between the Republic of Armenia and Asian Development Bank ("ADB"), and implemented by Organization, which comprise the statement of cash receipts and payments, the statement of uses of funds by project activity, the statement of loan withdrawals, the statement of current account, and the report on project's disbursement progress for the year ended 31 December 2016, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion,

1. the special purpose financial statements present fairly in all material respects the cash receipts and payments, current account movements and its balance 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. expenditures have been incurred in all material respects and current account was used in accordance with the Loan Agreement and "Loan Disbursement Handbook" (updated) issued by Asian Development Bank on 2007;
3. SOE adequate supporting documentation has 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 Loan Agreement.

#### *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 of the Organization in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our 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.

#### *Responsibilities of the Management for the Financial Statements*

Management of the Organization is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the IFAC and "Loan Disbursement Handbook" (updated) issued by Asian Development Bank on 2007, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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  
29 June 2017



Manvel Ghazaryan  
Director



Gnel Khachatryan, FCCA  
Auditor

## STATEMENT OF CASH RECEIPTS AND PAYMENTS

North-South Road Corridor Investment Program -Project 1  
 ADB Loan 2561-ARM(COL)  
 For the year ended 31 December 2016

	Note	Year ended 31.12.2015 USD	Cumulative as at 31.12.2015 USD
<b>Cash Receipts</b>			
ADB Loan 2561-ARM(COL) financing	3.1	-	57,038,940
ADB Loan 2729-ARM financing	3.2	2,996,620	2,996,620
The Republic of Armenia financing		3,293,710	12,555,814
<b>Total financing</b>		<b>6,290,330</b>	<b>72,591,374</b>
<b>Payments for</b>	5		
Works		2,996,620	53,614,621
Consulting Services		-	3,630,796
Goods		-	-
Project Management Support		-	1,897,628
Interest		-	916,213
Fines, penalties		3,293,599	12,516,762
<b>Total Payments</b>		<b>6,290,219</b>	<b>72,576,020</b>
Other inflows/(outflows)	6	(676)	(1,846)
Foreign currency loss		(9,429)	(12,964)
<b>Net increase in cash</b>		<b>(9,994)</b>	<b>544</b>
<b>Opening cash balance</b>		<b>10,538</b>	<b>-</b>
<b>Closing cash balance</b>	4	<b>544</b>	<b>544</b>

The project financial statements were approved by the management of "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization on 29 June 2017 and signed on its behalf. The accompanying notes form an integral part of these project financial statements.

**Vardan Karapetyan**  
 Acting General Director

**Marina Safaryan**  
 Finance Management and Accounting Specialist

**STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY**

*North-South Road Corridor Investment Program - Project 1  
ADB Loan 2561-ARM(COL)  
For the year ended 31 December 2016  
USD*

Project Activity	Expenditures		Financing source			Financing source		
	Total		ADB Loan 2561-ARM(COL)	RoA financing	ADB Loan 2729-ARM	ADB Loan 2561-ARM(COL)	RoA financing	ADB Loan 2729-ARM
	Year ended 31.12.2016	Cumulative as at 31.12.2016	Year ended 31.12.2016			Cumulative as at 31.12.2016		
Reconstruction and/or rehabilitation of 18.4 km of four-lane road section between Yerevan and Asharak	2,302,011	23,895,106	-	1,148,798	1,153,213	18,707,608	4,074,285	1,153,213
Road safety enhancement of four-lane road section between Yerevan and Ararat	3,973,137	41,142,864	-	2,128,739	1,843,407	31,884,849	7,414,608	1,843,407
Project management support, including detailed design of subsequent project(s) proposed financing under the Investment Program, supervision consultancy, and preparation of tender documents and procurement	16,071	6,621,837	-	16,071	-	5,528,624	1,093,413	-
Interest	-	916,213	-	-	-	916,213	-	-
<b>Total</b>	<b>6,290,219</b>	<b>72,576,020</b>	<b>-</b>	<b>3,293,599</b>	<b>2,996,620</b>	<b>57,037,094</b>	<b>12,542,306</b>	<b>2,996,620</b>

*North-South Road Corridor Investment Program - Project 1  
Financial Statements  
For the year ended 31 December 2016*

## STATEMENT OF LOAN WITHDRAWALS

North-South Road Corridor Investment Program-Project I  
ADB Loan 2561-ARM(CSL)  
For the year ended 31 December 2016  
USD

Applicati on number	Expenditure category				Advance	Total
	Civil works	Consulting services	Project Management Support	Interest		
	1	2	4	5		
48	-	6,166	278,297	-	(284,463)	-
	-	6,166	278,297	-	(284,463)	-



## STATEMENT OF CURRENT ACCOUNT

North-South Road Corridor Investment Program-Project 1  
ADB Loan 2561-ARM(COL)  
For the year ended 31 December 2016

<u>Current account</u>		
Currency	USD	
Account number	900000900028	
Bank	Republic of Armenia Treasury	
Location	Melik-Adamyan Street 1, Yerevan, Republic of Armenia, 0010	
		<u>ADB Loan 2561-ARM(COL) USD</u>
Opening balance as at 01.01.2016		-
Opening discrepancy*		(1,846)
ADB deposits replenishment		-
Payments substantiated		-
Closing balance as at 31.12.2016		-
Closing discrepancy*		(1,846)
<i>* Discrepancy consists of:</i>		
	31.12.2016	01.01.2016
	USD	USD
Amount temporary provided to other fund (note 6)	1,846	1,846
	<u>1,846</u>	<u>1,846</u>

## REPORT ON PROJECT'S DISBURSEMENT PROGRESS

North-South Road Corridor Investment Program - Project 1  
 ADB Loan 2561-ARM/COL  
 For the year ended 31 December 2016  
 USD

Category	Actual		Budget		Variance	
	Year ended 31.12.2016	Cumulative as at 31.12.2016	Year ended 31.12.2016	Cumulative as at 31.12.2016	Year ended 31.12.2016	Cumulative as at 31.12.2016
Works	2,996,629	52,614,621	438,905	51,014,106	2,557,715	2,600,515
Consulting Services	-	3,630,796	-	3,673,596	-	(42,800)
Goods	-	-	-	-	-	-
Project Management Support	-	1,897,628	14,201	1,911,829	(14,201)	(14,201)
Interest	-	916,213	-	916,213	-	-
Other (taxes)	3,293,599	12,516,762	3,392,324	12,615,487	(98,725)	(98,725)
<b>Total</b>	<b>6,290,219</b>	<b>72,576,020</b>	<b>3,845,430</b>	<b>70,131,231</b>	<b>2,444,789</b>	<b>2,444,789</b>

## NOTES TO THE FINANCIAL STATEMENTS

*North-South Road Corridor Investment Program–Project 1  
ADB Loan 2561-ARM(COL)  
For the year ended 31 December 2016*

### 1. General information

#### 1.1. Project financing

According to the Scope Financing Agreement between the Republic of Armenia (RoA) and the Asian Development Bank (ADB) signed on 15 September 2009, ADB agreed to provide the Government of Armenia multi-tranche financial facility in the total amount of 500 million USD (United States Dollars) to finance the “North-South Road Corridor Investment Program” (the Project).

Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based. Each loan constitutes a separate tranche. Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. Tranches may be provided in sequence or simultaneously.

According to the Loan Agreement “North-South Road Corridor Investment Program–Project 1” (special operations) (hereafter: the Project) between the Republic of Armenia and the Asian Development Bank (ADB) on 12 October 2009, ADB provided the Government of Armenia the loan 2561-ARM(SF) in the total amount of 38,443,000 SDR (Special Drawing Rights).

The loan closing date is set at 30 June 2017 as updated.

The deadline for paying expenses incurred before closing date (in particular, warranty amounts on constructions) is set at 31 October 2017.

In accordance with letter agreement dated 17 June 2016, submitted between Ministry of Transport, Communication and Information Technology of the Republic of Armenia and the ADB, a reallocation of ADB 2729-ARM loan was agreed to fund USD 6,000,000 USD expenditures of the Project.

Cofinancing is provided through the state budget resources of the Republic of Armenia.

#### 1.2. Project objectives

The Project’s goals financed by the loan 2561-ARM(COL) are:

- (i) reconstruction and/or rehabilitation of 18.4 km of four-lane road section between Yerevan and Ashtarak;
- (ii) road safety enhancement of four-lane road section between Yerevan and Ararat;
- (iii) project management support, including detailed design of subsequent project(s) proposed financing under the Investment Program, supervision consultancy, and preparation of tender documents and procurement, and
- (iv) support for implementing road subsector plan under the transport sector strategy.

### 1.3. The Project Budget

The Project corrected budget as at 31 December 2016 totals to 73,118,489 US dollars equivalent.

Category	ADB Loan 2561-ARM(SF)				ADB Loan 2729- ARM(SF)	The Republic of Armenia	Total
	SDR Initial	USD Initial	USD	USD reallocated and corrected *	USD	USD	
Works	24,347,000	38,800,000	34,129,279	50,603,199	6,000,000	-	56,603,199
Consulting Services	3,204,000	5,000,000	2,404,000	3,656,190	-	-	3,656,190
Goods	641,000	1,000,000	-	-	-	-	-
Project Management Support	641,000	1,000,000	1,282,000	1,942,886	-	-	1,942,886
Interest	1,281,000	2,000,000	627,721	916,213	-	-	916,213
Unallocated	8,329,000	13,000,000	-	-	-	-	-
Other (including local taxes)	-	-	-	-	-	10,000,000	10,000,000
<b>Total</b>	<b>38,443,000</b>	<b>60,000,000</b>	<b>38,443,000</b>	<b>57,118,489</b>	<b>6,000,000</b>	<b>10,000,000</b>	<b>73,118,489</b>

\* Budget USD equivalent of SDR underlined loan is calculated based on cumulative funds received in USD plus USD equivalent of undisbursed funds in SDR. As at 31.12.2016 the SDR/USD rate is set 1 SDR=1.344330 USD (31.12.2015: 1.385730 USD).

### 1.4. The Project Implementation Unit

The Project was implemented by "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization which was established by the decree of N 446-N dated 11 March 2010 by the Government of the Republic of Armenia.

According to the Government of the Republic of Armenia Decree N 1304-A dated 15.12.2016, the "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization and "Transport Project Implementation Unit" State Institution will reorganized by through merger into "Transport Project Implementation Organization" State Non-Commercial Organization (the Organization).

The Organization is the legal successor of the "Organization for Implementation of North-South Road Corridor Investment Program" State Non-Commercial Organization and "Transport Project Implementation Unit" State Institution.

The main goal is the efficient implementation of projects in the transport sector in Republic of Armenia, including the implementation program of modernization of North-South Road Corridor Investment Program and Northern Corridor.

The Organization is a non-commercial legal entity. The governing state authority of the Organization is the Ministry of Transport, Communication and Information Technology of the Republic of Armenia.

The legal address of the Organization is: 28, Nalbandyan Street, Yerevan, the Republic of Armenia. The operating address of the Organization is: 58 Pushkin Street, Yerevan, the Republic of Armenia.

## **2. Significant accounting policies**

### ***2.1 Preparation and presentation of financial statements***

The Project financial statements are prepared in accordance with the International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” issued by the International Federation of Accountants (IFAC) and presented in accordance with “Loan Disbursement Handbook” (updated) issued by Asian Development Bank on 2007.

The Project financial statements consist of:

- Statement of cash receipts and payments,
- Statement of uses of funds by project activity,
- Statement of loan withdrawals,
- Statement of current account,
- Report on Project’s disbursement progress,
- Notes to the financial statements, comprising:
  - Summary of significant accounting policies,
  - SOE schedule,
  - Other explanatory notes.

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

### ***2.2 Cash basis of accounting***

The financial statements are prepared and presented using the cash basis of accounting. Cash basis means a basis of accounting under which transactions and other events are recognized only when cash or its equivalent is received or paid. Financial statements prepared under the cash basis provide information about the sources of cash raised during the period, the purpose for which cash was used and the cash balances at the reporting date.

### ***2.3 Reporting currency***

The project financial statements are presented in United States Dollars (USD).

### ***2.4 Foreign currency transactions***

Foreign currency is a currency other than the reporting currency of the Project.

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

- Contributions of the Republic of Armenia and expenditures covered through them expressed in AMD are translated into USD at the exchange rate defined at the date of transfer.
- Payments to contractors and suppliers expressed in AMD that are covered through the financing received from ADB are translated into USD at the exchange rates defined at the date of payment.

The exchange rate defined by the CBA as at 31 December 2016 is USD 1=483.94 AMD (in 31.12.2015: USD 1=483.75 AMD).

## **2.5 Cash**

Cash comprise bank accounts balances.

## **2.6 Project Financing**

The Project financing through ADB Loan 2561-ARM(COL) in the total amount of 38,443,000 SDR is done 100% for all expenditure categories defined in the credit agreement.

Taxes and duties imposed by the tax laws of the Republic of Armenia are not paid through the credit funds. Those are paid from cofinancing funds provided by the Republic of Armenia.

## **2.7 Taxes**

All applicable taxes are paid in accordance with tax regulations of the Republic of Armenia.

### 3. Funding of the Project

#### 3.1. ADB Loan 2561- ARM (COL) financing

	Year ended 31.12.2016 USD	Cumulative as at 31.12.2016 USD
Reimbursement-SOE procedure	278,297	2,024,290
Reimbursement-Summary Sheet procedure	6,166	1,925,266
Direct Payment	-	52,173,171
Interest	-	916,213
Advance	(284,463)	-
<b>Total</b>	-	<b>57,038,940</b>

#### 3.2. ADB Loan 2729- ARM financing (from reallocated part)

	Year ended 31.12.2016 USD	Cumulative as at 31.12.2016 USD
Direct Payment	2,996,620	2,996,620
<b>Total</b>	<b>2,996,620</b>	<b>2,996,620</b>

### 4. Cash

	As at 31.12.2016 USD	As at 31.12.2015 USD
Current account at		
<b>RoA Government co-financing</b>		
RoA Treasury (AMD)*	544	10,538
	<b>544</b>	<b>10,538</b>
<b>Total</b>	<b>544</b>	<b>10,538</b>

(\*) The closing balance at cofinancing account was returned to the state budget on 2017.

### 5. Budget implementation

Category	As at 31.12.2016	Budget	Implementation
	USD	USD	%
Works	53,614,621	56,603,569	95
Consulting Services	3,630,796	3,657,044	99
Goods	-	-	-
Project Management Support	1,897,628	1,944,382	98
Interest	916,213	916,213	100
Other (including local taxes)	12,516,762	10,000,000	125
<b>Total</b>	<b>72,576,020</b>	<b>73,121,209</b>	<b>99</b>

## 6. Other inflows/(outflows)

	As at 31.12.2016
	USD
Amounts temporary provided to Tranche 2	(1,846)
	<u>(1,846)</u>

## 7. Prepayments and payables

Outstanding prepayments and payables as at the reporting date are set presented below for information purposes.

Prepayments	As at 31.12.2016 USD	As at 31.12.2015 USD
On civil works (a)	-	13,391,023
On consultancy (a)	-	55,500
<b>Total</b>	-	13,446,523

Payables	As at 31.12.2016 USD	As at 31.12.2015 USD
On civil works (b)	-	489,000
Post warranty amounts (c)	3,378,402	5,020,926
On consultancy	11,303	-
<b>Total</b>	3,389,705	5,509,926

(a) Prepayments are wholly settled as at reporting date.

(b) The payables on civil works are wholly settled as reporting date.

(c) Post warranty amounts are retained 10% of the amount on the presented invoices on civil works, 5% of which is payable after the approval of the certificate of acceptance of the construction works (taking over certificate), and the remaining 5% one year after the acceptance of certificate. The certificate was approved on June 2016, so 5% of warranty was settled then, and the whole balance on warranty amounts as at reporting date will be settled by September 2017, considering that need to fix some works.

## 8. Litigations

There are no pending litigations related to the Project as at reporting date and as at approval date of these financial statements.



## ANNEX I. SOE SCHEDULE

*North-South Road Corridor Investment Program - Project 1  
ADB Loan 2561-ARM(CCL)  
For the year ended 31 December 2016  
In USD*

Application number	Expenditure category	Total
	Project Management Support	
	4	
48	278,297	278,297
	278,297	278,297

## ANNEX 2. EXPENDITURE DETAILS BY ITEMS

North-South Road Corridor Investment Program - Project 1  
ADB Loan 2561-ARM(CCL)  
For the year ended 31 December 2016  
In USD

Description	Paid amount	Contract
<b>Civil works</b>		
Civil works Tranche 1	181,284	T1-T2-CW-01
Civil works Tranche 1 return of 5 %guarantee amount	2,815,336	T1-T2-CW-01
<b>Total civil works</b>	<b>2,996,620</b>	
<b>Taxes, duties</b>		
Civil works Tranche 1	3,277,528	
<b>Subtotal</b>	<b>3,277,528</b>	
<b>Consulting service</b>		
For services defined according to technical task	13,804	No 02-CS-002
For Audit	2,266	No IC004
<b>Subtotal</b>	<b>16,071</b>	
<b>Total taxes, duties</b>	<b>3,293,599</b>	
<b>Total Expenditures</b>	<b>6,290,219</b>	