

E-SOCIETY AND INNOVATION FOR COMPETITIVENESS PROJECT

IBRD LOAN No. 7963-AM

**IMPLEMENTED BY FOREIGN FINANCING PROJECTS MANAGEMENT CENTER
OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF ARMENIA**

**SPECIAL PURPOSE FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

For the year ended 31 December 2014

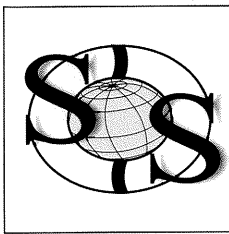
**YEREVAN
June 2015**

E-SOCIETY AND INNOVATION FOR COMPETITIVENESS PROJECT

IBRD LOAN No. 7963-AM

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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT N 60

*On the special purpose financial statements of
E-society and innovation for Competitiveness Project
for the year ended 31 December 2014*

To the Management of the Foreign Financing Projects Management Center (FFPMC)

We have audited the accompanying special purpose financial statements of “E-society and Innovation for Competitiveness Project” (the Project) financed by IBRD Loan No.7963-AM and implemented by the FFPMC, which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activity for the year ended 31 December 2014 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Special Purpose Financial Statements

The management of FFPMC is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with 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), and Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines), 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) within the IFAC. 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 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.

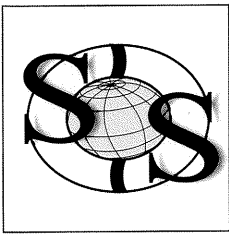
Քրոու Հորվաթ Բիզնես Ալյանսի Ասոցիացված Անդամ

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

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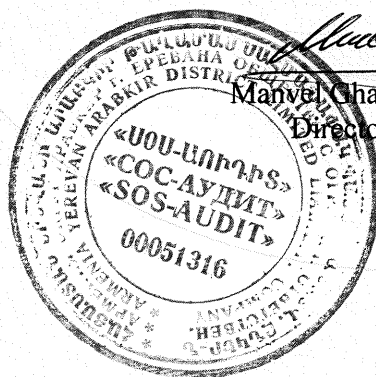
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion


In our opinion,

1. the special purpose financial statements present fairly in all material respects the cash receipts and payments of the Project for the year ended 31 December 2014 in accordance with IPSAS-Cash Basis and World Bank related guidelines;
2. funds have been used in accordance with the conditions of the Loan Agreement No. 7963-AM dated 26 January 2011 between the International Bank for Reconstruction and Development (IBRD) and the Republic of Armenia, 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 Loan Agreement No. 7963-AM dated 26 January 2011;
4. The Designated accounts used have been maintained in accordance with the provision of the Loan Agreement No. 7963-AM dated 26 January 2011, and World Bank related guidelines.

"SOS-Audit" LLC
19 June 2015




Manvel Ghazaryan
Director


Nazik Chitchyan
Auditor

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STATEMENT OF CASH RECEIPTS AND PAYMENTS

E-society and innovation for Competitiveness Project

IBRD Loan No. 7963-AM

For the year ended 31 December 2014

In USD

Items	Actual		Planned		Variance		PAD*
	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	
Opening Cash Balance							
Designated account (IBRD Loan No. 7963-AM)	389,539.61						
Project account (GoA cofinancing)	171,967.42						
Total	561,507.03						
Sources of Funds							
IBRD Loan No. 7963-AM	3,325,956.26	11,397,600.91					
IBRD PPA No. P457-AM	-	55,052.17					
GoA cofinancing	360,188.47	1,610,870.04					
GoA PPA	-	15,507.75					
Total	3,686,144.73	13,079,030.87					
Foreign currency gain/(loss)	(24,283.28)	(35,718.45)					
Uses of Funds							
1. Goods, works, consultants' services, training and operating costs	2,400,163.88	8,044,526.88	2,430,000.00	8,074,363.00	(29,836.12)	(29,836.12)	7,195,400.00
2. Sub-financing:	284,436.60	3,263,697.56	270,739.04	3,250,000.00	13,697.56	13,697.56	16,900,000.00
a) Sub-financing under Part A.1(b) of the Project (Nationwide Broadband Backbone and Government Network)	-	-	-	-	-	-	10,000,000.00
b) Sub-financing under Part A.3 of the Project (Computer for All)	20,215.26	2,999,476.22	20,739.04	3,000,000.00	(523.78)	(523.78)	3,000,000.00
c) Sub-financing under Part B.1(a) of the Project (Ideas Generation Grants and Innovation Matching Grants)	-	-	-	-	-	-	900,000.00
d) Sub-financing for Sub-projects under Part B.1(b) of the Project (Seed and Early Stage Venture Fund)	264,221.34	264,221.34	250,000.00	250,000.00	14,221.34	14,221.34	3,000,000.00
e) Sub-financing for Sub-projects under Part B.1(b)(i) of the Project (Seed and Early Stage Venture Fund management fee)	-	-	-	-	-	-	-
3. Consultants' services and Training under Part B.3(a) (i) of the Project	34,884.34	100,644.40	35,000.00	100,760.06	(115.66)	(115.66)	800,000.00
4. Refund of the Preparation Advance	-	70,559.92	-	70,559.92	-	-	3,470,000.00
5. Front-end Fee	-	60,000.00	-	60,000.00	-	-	60,000.00
Total	2,719,484.82	11,539,428.76	2,735,739.04	11,555,682.98	(16,254.22)	(16,254.22)	28,425,400.00

E-society and Innovation for Competitiveness Project

Project Special Purpose Financial Statements

For the year ended 31 December 2014


STATEMENT OF CASH RECEIPTS AND PAYMENTS (continued)

Items	Actual		Planned		Variance		PAD*
	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	
Closing Cash Balance							
Designated account (IBRD Loan No.7963-AM)	743,361.21	743,361.21					
Second Designated account (IBRD Loan No.7963-AM)	735,778.66	735,778.66					
Project account (GoA cofinancing)	24,743.79	24,743.79					
Total	1,503,883.66	1,503,883.66					

* presented as at initial data of Project Assessment Document


Edgar Avetyan
 Executive Director




Armen Shahnazaryan
 Financial manager

19 June 2015

The notes on pages 8-14 form an integral part of these special purpose project financial statements.

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

*E-society and innovation for Competitiveness Project
IBRD Loan No. 7963-AM*

*For the year ended 31 December 2014
In USD*

Activity	Actual		Planned		Variance		PAD
	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	
<u>Part A</u>							
E-Society Infrastructure Development	591,888.51	4,595,971.34	594,839.04	4,598,921.87	(2,950.53)	(2,950.53)	15,685,200.00
<u>Part B</u>							
Fostering Enterprise Innovation	1,743,909.80	5,522,267.52	1,755,200.00	5,533,557.72	(11,290.20)	(11,290.20)	11,132,700.00
<u>Part C</u>							
Project Management	383,686.51	1,421,189.90	385,700.00	1,423,203.39	(2,013.49)	(2,013.49)	1,607,500.00
Total Expenditure	2,719,484.82	11,539,428.76	2,735,739.04	11,555,682.98	(16,254.22)	(16,254.22)	28,425,400.00

*E-society and Innovation for Competitiveness Project
Project Special Purpose Financial Statements
For the year ended 31 December 2014*

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*E-society and innovation for Competitiveness Project
IBRD Loan No. 7963-AM
For the year ended 31 December 2014*

1. General Information

1.1. The Project

According to the Advance Agreement concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD) on 17 May 2010, IBRD provided the Republic of Armenia Project Preparation Advance P457-AM in an amount not to exceed 3,000,000 United States dollars (USD) for Preparation of E-society and Innovation for Competitiveness Project.

The Loan Agreement for E-society and Innovation for Competitiveness Project IBRD 7963-AM was signed between the Republic of Armenia and International Bank for Reconstruction and Development on 26 January 2011 and became effective on 18 May 2011. IBRD provided the Republic of Armenia Loan in an amount of 24,000,000 United States dollars (USD).

The closing date of the Project is 30 June 2016. The Grace Period for submitting withdrawal applications for the expenditures incurred before the Closing date is four months following the Closing date.

1.2. The Project's objective

The objective of the Project is to:

- (a) increase in number of households, businesses and public institutions with secure and affordable access to broadband, computers and e-services,
- (b) increase in size of knowledge-and technology-intensive sector and better access to markets, finance, skills and employment in the sector.

The Project consists of the following components.

- E-Society Infrastructure Development,
- Fostering Enterprise Innovation,
- Project Management

1.3. Project Budget

The Project is financed from the following sources:

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

Taxes are covered through the Government of Armenia (GoA) cofinancing.

Category	IBRD	Government of the RA	Total*
	USD	USD	USD
1. Goods, works, consultants' services, training, operating costs	15,712,947.83	3,709,892.25	19,422,840.08
2. Sub-financing	7,800,000.00	500,000.00	8,300,000.00
3. Consultants' services and Training under Part B.3(a) (i) of the Project	372,000.00	200,000.00	572,000.00
4. Refund of the Preparation Advance	55,052.17	15,507.75	70,559.92
5. Front-end Fee	60,000.00	-	60,000.00
Total	24,000,000.00	4,425,400.00	28,425,400.00

(*) The budget is presented as reallocated on 10 November 2014.

1.4. Project Implementation

The Project is implemented by E-Governance Infrastructure Implementation Unit CJSC (EGIIU), Enterprise Incubator Foundation (EIF) and Foreign Financing Projects Management Center (FFPMC).

The address of the FFPMC is: 4 Tigran Mets str., 3-rd floor, Yerevan, 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 (IPSAS): *Financial Reporting Under the Cash Basis of Accounting*, issued by the International Public Sector Accounting Standards Board (IPSASB) of International Federation of Accountants (IFAC) and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations: RM 3 – Financial Reporting and Auditing (March 2010).

The special purpose project financial statements consist of:

- Statement of cash receipts and payments,
- Statement of uses of funds by project activity,
- Summary of significant accounting policies and other explanatory notes.

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 United States dollars (USD).

The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into USD 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 2013 is 1 USD =405.64 AMD

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

The year ended 31 December 2014

Withdrawal Application number	Withdrawal Application value date	Disbursement categories			Total
		Goods, works, consultants' services, training and incremental operating costs	Sub-financing under part A.3	Consultants' services and trainings- part B.3	
		1	2(b)	3	
		USD	USD	USD	
17DA	05-Mar-2014	437,235.42	173,224.97	-	610,460.39
18DA	29-Jul-2014	866,764.42	20,215.26	28,516.19	915,495.87
Total		1,303,999.84	193,440.23	28,516.19	1,525,956.26

4. Statement of Designated Account

Designated Account	IBRD Loan No.7963-AM		
	USD	USD	
Currency	USD	USD	
Bank	Central Treasury		
Location	4 Tigran Mets str., 2-rd floor, Yerevan, 0010 Republic of Armenia		
Account number	900000903071 (a)	900000929126 (b)	
	For the year ended 31.12.2014		
	(a)	(b)	Total
1. Opening balance	389,539.61	-	389,539.61
Add:			
2. Cumulative opening discrepancy	-	-	-
3. IBRD Fund advance/replenishment	2,325,956.26	1,000,000.00	3,325,956.26
Less:			
4. Refund to IBRD from DA	-	-	-
5. Present outstanding amount advanced to DA	2,715,495.87	1,000,000.00	3,715,495.87
6. DA closing balance	743,361.21	735,778.66	1,479,139.87
Add:			
7. Amount of eligible expenditures paid	1,972,134.66	264,221.34	2,236,356.00
Less:			
8. Interest earned (if credited into DA)	-	-	-
9. Total advance accounted for	2,715,495.87	1,000,000.00	3,715,495.87
10. 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	31.12.2014 USD	31.12.2013 USD
ASSETS			
Cash	6	1,503,883.66	561,507.03
Prepayments		59,586.78	18,624.21
Total assets		1,563,470.44	580,131.24
LIABILITIES			
Payables		119.99	368,640.05
Total liabilities		119.99	368,640.05
NET ASSETS			
Cumulative income	8		
IBRD Loan No.7963-AM		11,452,653.08	8,126,696.82
Government of RoA		1,626,377.79	1,266,189.32
		13,079,030.87	9,392,886.14
Cumulative expenses			
Project expenses		(11,481,401.70)	(9,167,191.21)
		(11,481,401.70)	(9,167,191.21)
Foreign exchange loss		(34,278.72)	(14,203.74)
Total net assets		1,563,350.45	211,491.19

6. Cash

	Account held at	Underlying Currency	31.12.2014 USD	31.12.2013 USD
Designated account (IBRD Loan No.7963-AM)	Treasury	USD	743,361.21	389,539.61
Second Designated account (IBRD Loan No.7963-AM)*	Treasury	USD	735,778.66	-
Project account (Government of RoA)	Treasury	AMD	24,743.79	171,967.42
Total			1,503,883.66	561,507.03

(* Assigned for financing subcategory 2d. "Sub-financing for Sub-projects under Part B.1(b) of the Project (Seed and Early Stage Venture Fund)".

7. Project Expenditures

7.1. Project expenditures financing per funds

Expenditure	IBRD Loan 7963-AM USD	GoA Fund USD	Total USD
For the year ended 31.12.2014			
1.Goods, works, consultants' services, training and operating costs	1,923,403.21	476,760.67	2,400,163.88
2.Sub-financing	284,436.60	-	284,436.60
3.Consultants' services and Training under Part B.3(a) (i) of the Project	28,516.19	6,368.15	34,884.34
4.Refund of the Preparation Advance	-	-	-
5. Front-end Fee	-	-	-
Total	2,236,356.00	483,128.82	2,719,484.82
Cumulative as at 31.12.2014			
1.Goods, works, consultants' services, training and operating costs	6,508,066.69	1,536,460.19	8,044,526.88
2.Sub-financing	3,263,697.56	-	3,263,697.56
3.Consultants' services and Training under Part B.3(a) (i) of the Project	86,696.79	13,947.61	100,644.40
4. Refund of the Preparation Advance	55,052.17	15,507.75	70,559.92
5. Front-end Fee	60,000.00	-	60,000.00
Total	9,973,513.21	1,565,915.55	11,539,428.76

7.2. Project expenditure budget execution

Category	Cumulative Expenditures as at 31 Dec 2014 USD	Total budget USD	Execution %
1.Goods, works, consultants' services, training and operating costs	8,044,526.88	19,422,840.08	41%
2.Sub-financing	3,263,697.56	8,300,000.00	39%
3.Consultants' services and Training under Part B.3(a) (i) of the Project	100,644.40	572,000.00	18%
4.Refund of the Preparation Advance	70,559.92	70,559.92	100%
5. Front-end Fee	60,000.00	60,000.00	100%
Total	11,539,428.76	28,425,400.00	41%

8. Financing

8.1. IBRD Loan No.7963-AM financing

	Reporting year	Cumulative as at 31 Dec 2014
	USD	USD
Advances/ (advance recovery)	1,800,000.00	2,800,000.00
SOE and Summary Report	1,525,956.26	8,592,332.30
Front-end fee	-	60,000.00
PPF charge	-	320.78
Total	3,325,956.26	11,452,653.08
Total financing budget		24,000,000.00
Percentage of finance provided as at 31 Dec 2014		48%

8.2. Government of RoA

	Reporting year	Cumulative as at 31 Dec 2014
	USD	USD
Financed	360,188.47	1,626,377.79
Total financing budget		4,425,400.00
Percentage of finance provided as at 31 Dec 2014		37%

9. Project 2(d) subcategory (Venture Fund)

In accordance with contract dated 12 October 2013 among the Republic of Armenia Government and some investors (together: "Shareholders"), the Shareholders agreed to invest in "Granatus Venture Fund I" CJSC ("Venture Fund"). The Republic of Armenia makes share contributions in the equal amount of contributions made by other shareholders after getting confirmation on share issuance and payments.

World Bank shall reimburse contributions made by the Republic of Armenia when the Venture Fund invests in Information Technology (IT) entities. As at reporting date, the Government of the Republic of Armenia made 264,221.34 US dollars (equivalent of 109,060 million Armenian drams) contribution into the Venture Fund.

As at 31.12.2014 the Venture Fund made 350,000 USD investments into the IT two entities.

10. Events after the reporting date

The application 20DA at the total amount of 1,056,638.79 USD, that includes expenditures relating to the reporting period (from 1 July 2014 to 31 December 2014) was submitted to WB on 31 March 2015 and approved on 1 April 2015.

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

*E-society and innovation for Competitiveness Project
IBRD Loan No.7963-AM
For the year ended 31 December 2014
In USD*

Expenditure Category	Appl.	FFPMC	WB	Difference
Advance (recovery)	DA2-1	600,000.00	600,000.00	-
	DA2-2	400,000.00	400,000.00	-
	19A	800,000.00	800,000.00	-
		1,800,000.00	1,800,000.00	
1.Goods, works, consultants' services, training and incremental operating cost	17DA	437,235.42	437,235.42	-
	18DA	866,764.42	866,764.42	-
		1,303,999.84	1,303,999.84	
2(b). Sub-financing under part A.3	17DA	173,224.97	173,224.97	-
	18DA	20,215.26	20,215.26	-
		193,440.23	193,440.23	
3. Consultants' services and trainings under part B.3	18DA	28,516.19	28,516.19	-
		28,516.19	28,516.19	
Total		3,325,956.26	3,325,956.26	