

FOREIGN FINANCING PROJECTS MANAGEMENT CENTER
OF THE MINISTRY OF FINANCE OF RA

E-SOCIETY AND INNOVATION FOR COMPETITIVENESS PROJECT
IBRD LOAN No. 7963-AM

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2012

YEREVAN
June 2013

CONTENT

	Page
MEMBERS OF THE MANAGEMENT COUNCIL OF E-SOCIETY AND INNOVATION FOR COMPETITIVENESS PROJECT	3
INDEPENDENT AUDITOR'S REPORT	4
STATEMENT OF FINANCIAL POSITION.....	6
STATEMENT OF CASH RECEIPTS AND PAYMENTS	7
STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY	8
STATEMENT OF SUMMARY REPORTS AND SOEs	9
STATEMENT OF DESIGNATED ACCOUNT.....	10
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS.....	11
ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PROJECT AND DISBURSED BY THE WORLD BANK.....	15

**MEMBERS OF THE MANAGEMENT COUNCIL OF E-SOCIETY AND INNOVATION
FOR COMPETITIVENESS PROJECT**

Chairman of the Management Council

K. Minasyan First deputy of Minister of Economy of RA

Members of the Management Council

T. Harutyunyan Deputy of Minister of Economy of RA

V. Aramyan Deputy of Minister of Finance of RA

A. Orbelyan Deputy of Minister of Justice of RA

R. Vardanyan Deputy of Head of Financial-Economical Department of
Government Staff of RA



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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT N 91

*On the special purpose financial statements of E-society
and innovation for Competitiveness Project
for the year ended 31 December 2012*

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, which comprise the statement of financial position as at 31 December 2012, the statement of cash receipts and payments, the statement of uses of funds by project activity, the statement of summary reports and SOEs, the statement of designated account for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the 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 Standards (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 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 issued by International Auditing and Assurance Standard Board (IAASB) of 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 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

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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.

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 at 31 December 2012, as well as cash receipts and payments, designated accounts movements and its balances for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS): Financial Reporting Under the Cash Basis of Accounting;
2. funds have been used in accordance with the conditions of the Loan Agreement for the E-society and Innovation for Competitiveness Project (Loan No. 7963-AM) signed between the International Bank for Reconstruction and Development and the Republic of Armenia, with due attention to economy and efficiency, and only for the purpose for which the financing was provided;
3. Supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. The expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the Loan Agreement No. 7963-AM.

SOS-Audit LLC
26 June 2013



Manvel Ghazaryan
Director


Nazik Chitchyan
Auditor

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STATEMENT OF FINANCIAL POSITION

*E-society and innovation for Competitiveness Project
IBRD Loan No.7963-AM
As at 31 December 2012
In USD*

	<u>31.12.2012</u>	<u>31.12.2011</u>
ASSETS		
Cash		
Designated account (IBRD Loan No.7963-AM)	239,311.62	11,166.27
Project Account (GoA)	<u>151,192.07</u>	<u>72,764.14</u>
	<u>390,503.69</u>	<u>83,930.41</u>
Cumulative Project expenditures		
Cumulative expenditures (IBRD Loan No.7963-AM)	2,258,870.76	369,152.58
Cumulative expenditures (GoA)	<u>572,482.64</u>	<u>78,734.97</u>
	<u>2,831,353.40</u>	<u>447,887.55</u>
TOTAL CASH AND EXPENDITURES		
	<u>3,221,857.09</u>	<u>531,817.96</u>
FUNDS		
Funding		
IBRD Loan No.7963-AM	2,498,182.38	380,318.85
GoA fund	<u>732,416.15</u>	<u>153,370.01</u>
	<u>3,230,598.53</u>	<u>533,688.86</u>
Foreign currency gain/(loss)	<u>(8,741.44)</u>	<u>(1,870.90)</u>
TOTAL FUNDS	<u>3,221,857.09</u>	<u>531,817.96</u>

The project special purpose financial statements were approved by the management of Foreign Financing Projects Management Center and signed on its behalf on 26 June 2013. The accompanying notes form an integral part of these project special purpose financial statements.

Edgar Avetyan
Executive Director



Armen Shahnazaryan
Financial Manager




STATEMENT OF CASH RECEIPTS AND PAYMENTS

*E-society and innovation for Competitiveness Project
IBRD Loan No. 7963-AM
For the year ended 31 December 2012, In USD*

Items	Actual		Planned		Variance		PAD
	Year to date	Cumulative to Date	Year to date	Cumulative to Date	Year to date	Cumulative to Date	
Opening Cash Balance							
Designated account (IBRD Loan No.7963-AM)	11,166.27						
Project account (GoA)	72,764.14						
Total	83,930.41						
Sources of Funds							
IBRD Loan No.7963-AM	2,117,863.53	2,443,130.21					
IBRD PPA No. P457-AM	-	55,052.17					
GoA fund	579,046.14	716,908.40					
GoA PPA	-	15,507.75					
Total	2,696,909.67	3,230,598.53					
Foreign currency gain/(loss)	(6,870.54)	(8,741.44)					
Uses of Funds							
1. Goods, works, consultants' services, training and operating costs	2,383,465.85	2,700,793.48	3,050,000.00	3,367,327.63	(666,534.15)	(666,534.15)	7,195,400.00
2. Sub-financing:	-	-	-	-	-	-	16,900,000.00
<i>a) Sub-financing under Part A.1(b) of the Project (Nationwide Broadband Backbone and Government Network)</i>	-	-	-	-	-	-	10,000,000.00
<i>b) Sub-financing under Part A.3 of the Project (Computer for All)</i>	-	-	-	-	-	-	3,000,000.00
<i>c) Sub-financing under Part B.1(a) of the Project (Ideas Generation Grants and Innovation Matching Grants)</i>	-	-	-	-	-	-	900,000.00
<i>d) Sub-financing for Sub-projects under Part B.1(b) of the Project (Seed and Early Stage Venture Fund)</i>	-	-	-	-	-	-	3,000,000.00
3. Consultants' services and Training under Part B.3(a) (i) of the Project	-	-	-	-	-	-	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	2,383,465.85	2,831,353.40	3,050,000.00	3,497,887.55	(666,534.15)	(666,534.15)	28,425,400.00
Closing Cash Balance							
Designated account (IBRD Loan No.7963-AM)	239,311.62	239,311.62					
Project account (GoA)	151,192.07	151,192.07					
Total	390,503.69	390,503.69					

*E-society and Innovation for Competitiveness Project
Project Special Purpose Financial Statements
For the year ended 31 December 2012*

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 2012

In USD

Activity	Actual		Planned		Variance		PAD
	Year to date	Cumulative to Date	Year to date	Cumulative to Date	Year to date	Cumulative to Date	
<u>Part A</u>							
E-Society Infrastructure Development	260,845.94	296,362.01	920,000.00	955,516.07	(659,154.06)	(659,154.06)	15,685,200.00
<u>Part B</u>							
Fostering Enterprise Innovation	1,760,278.40	1,810,368.34	1,764,000.00	1,814,089.94	(3,721.60)	(3,721.60)	11,132,700.00
<u>Part C</u>							
Project Management	362,341.51	724,623.05	366,000.00	728,281.54	(3,658.49)	(3,658.49)	1,607,500.00
Total Expenditure	2,383,465.85	2,831,353.40	3,050,000.00	3,497,887.55	(666,534.15)	(666,534.15)	28,425,400.00

STATEMENT OF SUMMARY REPORTS AND SOEs

E-society and innovation for Competitiveness Project
IBRD Loan No. 7963-AM
For the year ended 31 December 2012
In USD

Application number	Goods, works, consultants' services, training and incremental operating costs	Total
	1	
5 DA	188,833.73	188,833.73
6 DA	147,846.59	147,846.59
7 DA	630,729.30	630,729.30
8 DA	600,453.91	600,453.91
Total	1,567,863.53	1,567,863.53

STATEMENT OF DESIGNATED ACCOUNT

E-society and innovation for Competitiveness Project

IBRD Loan No.7963-AM

For the year ended 31 December 2012

In USD

<u>Designated Account</u>	<u>IBRD Loan No.7963-AM</u>
Currency	USD
Account number	900000903071
Bank	Central Treasury
Location	1 Meliq Adamyan Street, Yerevan, 0010 Republic of Armenia
	<u>2012</u>
1. Opening balance	<u>11,166.27</u>
Add:	
2. Cumulative opening discrepancy	-
3. IBRD Fund advance/replenishment	2,117,863.53
Less:	
4. Refund to IBRD from DA	-
5. Present outstanding amount advanced to DA	<u>2,129,029.80</u>
6. DA closing balance	239,311.62
Add:	
7. Amount of eligible expenditures paid	1,889,718.18
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
10. Total advance accounted for	<u>2,129,029.80</u>
11. Discrepancy (5)-(10)	-

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 2012*

1. General Information

1.1. The Project financing

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 31 December 2014.

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	12,384,947.83	3,009,892.25	15,394,840.08
2. Sub-financing	10,900,000.00	1,200,000.00	12,100,000.00
3. Consultants' services and Training under Part B.3(a) (i) of the Project	600,000.00	200,000.00	800,000.00
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

1.4. *Project Implementation*

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

The address of the FFPMC is: Melik Adamyan Street 1, Yerevan, the 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 financial position,
- Statement of cash receipts and payments,
- Statement of uses of funds by project activity,
- Statement of summary reports and SOEs
- Statement of Designated Account,
- 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*

The special purpose 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. Presentation currency

The presentation currency of these special purpose financial statement is United States Dollar (USD).

2.4. Foreign currency transactions

Foreign currency is a currency other than the presentation currency of the Project. Transactions in foreign currencies are translated to functional currency at exchange rates at the dates of the transactions. Settlement rate of foreign currency over presentation currency established by the Central Bank of the Republic of Armenia is taken as the exchange rate.

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 Republic of Armenia expressed in AMD are presented in USD at the official exchange rate defined by the Central Bank of Armenia at the date of transfer.
- Payments to contractors and suppliers expressed in AMD are presented in USD at the exchange rates defined by the CBA at the date of payment.

The currency exchange rate defined by the CBA as at 31.12.2011 is: USD 1 = 385.77 AMD.
The currency exchange rate defined by the CBA as at 31.12.2012 is: USD 1 = 403.58 AMD.

2.5. Taxes

All applicable taxes are paid in accordance to common tax regulations of the Republic of Armenia

3. IBRD Loan No.7963-AM financing

During the reporting period the financing was provided through the following disbursement methods:

	2012	Cumulative
	USD	31.12.2012
	USD	USD
Advance	550,000.00	750,000.00
SOE and Summary Sheet	1,567,863.53	1,687,861.60
Front-end fee	-	60,000.00
PPF charge	-	320.78
	<u>2,117,863.53</u>	<u>2,498,182.38</u>

4. Project expenditures per funds

Expenditure	IBRD Loan USD	GoA Fund USD	Total USD
Reporting year: 2012			
1. Goods, works, consultants' services, training and operating costs	1,889,718.18	493,747.67	2,383,465.85
4. Refund of the Preparation Advance	-	-	-
5. Front-end Fee	-	-	-
	1,889,718.18	493,747.67	2,383,465.85
Cumulative: as at 31.12.2012			
1. Goods, works, consultants' services, training and operating costs	2,143,818.59	556,974.89	2,700,793.48
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	2,258,870.76	572,482.64	2,831,353.40

5. Events after the reporting date

The Project expenditures recognized in the reporting year at the total amount of USD 510,688.38 registered at the application 9DA were submitted to WB on 25 February 2013 and approved on 26 February 2013.

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

*E-society and innovation for Competitiveness Project
IBRD Loan No.7963-AM
For the year ended 31 December 2012
In USD*

Expenditure Category	Appl.	FFPMC	WB	Difference
Advance (recovery)	6 DA	550,000.00	550,000.00	-
		550,000.00	550,000.00	
1.Goods, works, consultants' services, training and incremental operating cost	5 DA	188,833.73	188,833.73	-
	6 DA	147,846.59	147,846.59	-
	7 DA	630,729.30	630,729.30	-
	8 DA	600,453.91	600,453.91	-
		1,567,863.53	1,567,863.53	
Total		2,117,863.53	2,117,863.53	