

**CENTRE FOR EDUCATION PROJECTS  
EDUCATION IMPROVEMENT PROJECT**

**CREDIT No. 5387-AM**

**LOAN No. 8342-AM**

**SPECIAL PURPOSE FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**For the period from 20 November 2014 to 31 December 2015**

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Փի-Էյ-Փի Աուդիտ ՓԲԸ  
PHP Audit CJSC

Իրավաբանական հասցե. Նալբանդյան 47/4, Երևան, ՀՀ

Registration address: 47/4 Nalbandyan str., Yerevan, Armenia

Գործունեության հասցե. Ադոնցի 2, Երազ բիզնես կենտրոն, Երևան, ՀՀ

Activity address: 2 Adonts str., Eraz Business Centre, Yerevan, Armenia

Հեռ. (010) 20 40 90

Tel. (011) 20 40 90

Էլ-փոստ general@php.am

E-mail

## INDEPENDENT AUDITORS' REPORT

To the Director of Centre for Education Projects

We have audited the accompanying special purpose financial statements of the Education Improvement Project, which comprise Summary of Funds Received, Summary of Expenditures, Summary of Summary Reports or SOEs, Statement of Designated Accounts for the period from 20 November 2014 to 31 December 2015, and Statement of Financial Position as at 31 December 2015 and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Special Purpose Financial Statements*

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the accrual basis of accounting. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these special purpose financial statements that are free from material misstatements, whether due to fraud or error and selecting and applying appropriate accounting policies.

### *Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free of material misstatement.

An audit involves performing procedures to obtain 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 risks 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 financial statements 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 evaluating the appropriateness of accounting principles used 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 appropriate to provide a basis for our opinion.

*Opinion*

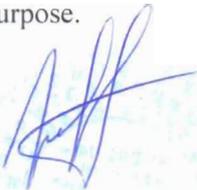
In our opinion, the special purpose financial statements present fairly in all material respects the project sources and uses of funds, uses of funds by project activity and its cash flows for the period from 20 November 2014 to 31 December 2015 in accordance with the accrual basis of accounting as described in Note 2 (a).

*Emphasis of matter*

Without qualifying our opinion, we draw attention to Summary of Project Sources and Uses of Funds for the period from 20 November 2014 to 31 December 2015. CFEP presented expertise services of five high schools under the heading of Goods for USD 14,456 in accordance with No Objection provided by the World Bank.

*Restriction on Use and Distribution*

The special purpose financial statements have been prepared for providing information to the Government of the Republic of Armenia, the International Development Association and the International Bank for Reconstruction and Development to assist them in evaluating the Project implementation. As a result, the special purpose financial statements may not be suitable for another purpose.



Davit Yedigaryan  
Director

PHP Audit cjsc  
20 June 2016



Lilit Minasyan  
Manager, Audit Department

*Education Improvement Project*  
*Summary of Project Sources and Uses of Funds for the period from 20 November 2014 to 31 December 2015*

<i>USD</i>	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>	<b>Project Appraisal Document Life of Project</b>
<b>Opening Working Capital</b>				
Cash and cash equivalents	-			
Prepayments	-			
Payables	-			
Payables to Government (income from sales of bidding documents)	-			
<b>Total</b>	<b>-</b>			
<b>Sources of Funds</b>				
IDA financing	1,283,372			
IBRD financing	1,320,872			
Government financing	235,897			
<b>Total donor funds</b>	<b>2,840,141</b>			
<b>Foreign Exchange Difference</b>	<b>(291)</b>			
<b>Uses of Funds</b>				
Goods	31,189	690,695	(659,506)	
Consultant's services	289,737	281,652	8,085	
Trainings	13,715	7,490	6,225	
Grants	381,524	105,259	276,265	
Operating expenses	341,164	314,252	26,912	
<b>Total</b>	<b>1,057,329</b>	<b>1,399,348</b>	<b>(342,019)</b>	<b>37,500,000</b>
<b>Front end fee</b>	<b>37,500</b>	<b>37,500</b>	<b>-</b>	<b>37,500</b>

*Education Improvement Project*

*Summary of Project Sources and Uses of Funds for the period from 20 November 2014 to 31 December 2015*

<i>USD</i>	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>	<b>Project Appraisal Document Life of Project</b>
<b>Closing Working Capital</b>				
Cash and cash equivalents	1,605,419			
Prepayments	172,472			
Payables	(32,870)			
<b>Total</b>	<b><u>1,745,021</u></b>			

The project special purpose financial statements were approved by the management of Center efor Education Projects and signed on its behalf on 20 June 2016.

Hasmik Ghazaryan  
Director



Armine Khachatryan  
Financial Manager

USD	Actual	Planned	Variance	PAD Life of Project
<b>Project Activities</b>				
Component 1. Enhancing the Quality of General Education				
Sub-component 1.1. Promoting School Readiness and equal opportunities at the start of General Education	408,093	116,619	291,474	1,875,000
Sub-component 1.2. Enriching Upper Secondary Schools	208,374	747,654	(539,280)	22,500,000
Sub-component 1.3. Improving data- collection and monitoring of the education system performance	8,570	360	8,210	2,500,000
Sub-component 1.4. Supporting Further Improvements in the Quality of Education through Curriculum Revision	47,337	64,342	(17,005)	625,000
	<b>672,374</b>	<b>928,975</b>	<b>(256,601)</b>	<b>27,500,000</b>
Component 2. Mainstreaming of the Competitive Innovation Fund (CIF) for Higher Education Institutions (HEI) into full implementation	18,412	24,669	(6,257)	6,250,000
Component 3. Project Management and Implementation	366,543	445,704	(79,161)	3,712,500
	<b>1,057,329</b>	<b>1,399,348</b>	<b>(342,019)</b>	<b>37,462,500</b>
Front End Fee	37,500	37,500	37,500	37,500
<b>Total project expenditure</b>	<b>1,094,829</b>	<b>1,436,848</b>	<b>(342,019)</b>	<b>37,500,000</b>

*Education Improvement Project*  
*Statement of Financial Position as at 31 December 2015*

<i>USD</i>	<b>31 December 2015</b>
<b>ASSETS</b>	
<i>Cash and cash equivalents</i>	
Designated account for IDA funds	802,232
Designated account for IBRD funds	802,232
Government financing account	955
	<b>1,605,419</b>
 <i>Cumulative Project Expenditure</i>	
IDA financed cumulative expenditure	422,932
IBRD financed cumulative expenditure	422,932
Government financed cumulative expenditure	211,465
	<b>1,057,329</b>
<b>Prepayments</b>	172,472
<b>Front end fee</b>	37,500
<b>Total assets</b>	<b>2,872,720</b>
 <b>FUNDS</b>	
<i>Project financing</i>	
IDA financing	1,283,372
IBRD financing	1,320,872
Government financing	235,897
<b>Total funds</b>	<b>2,840,141</b>
 <b>Payables</b>	32,870
<b>Foreign exchange difference</b>	(291)
<b>Total liabilities</b>	<b>2,872,720</b>

*Education Improvement Project*  
*Statement of Designated Account for IDA Funds*  
*for the period from 20 November 2014 to 31 December 2015*

<i>USD</i>	<b>From 20 November 2014 to 31 December 2015</b>
<b>Opening balance</b>	-
Advance/replenishment received from IDA during the reporting period	1,283,372
<b>Present outstanding amount advanced to the designated account</b>	<b>1,283,372</b>
<b>Closing balance carried forward to next period</b>	802,232
Amount of eligible expenditures paid during the reporting period	481,140
<b>Total advance accounted for</b>	<b>1,283,372</b>

*Education Improvement Project  
Statement of Designated Account for IBRD Funds  
for the period from 20 November 2014 to 31 December 2015*

<i>USD</i>	<b>From 20 November 2014 to 31 December 2015</b>
<b>Opening balance</b>	-
Advance/replenishment received from IBRD during the reporting period	1,283,372
<b>Present outstanding amount advanced to the designated account</b>	<b>1,283,372</b>
<b>Closing balance carried forward to next period</b>	802,232
Amount of eligible expenditures paid during the reporting period	481,140
<b>Total advance accounted for</b>	<b>1,283,372</b>

*Education Improvement Project  
Summary of SOEs of IDA Funds  
for the period from 20 November 2014 to 31 December 2015*

	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
CDA-C2	-	-	-	-	20,282	20,282
CDA-C3	-	558	-	-	32,599	33,157
CDA-C4	6,745	3,518	-	86,979	25,373	122,615
CDA-C5	-	33,569	2,967	49,999	20,783	107,318
	<b>6,745</b>	<b>37,645</b>	<b>2,967</b>	<b>136,978</b>	<b>99,037</b>	<b>283,372</b>

*Education Improvement Project  
Summary of SOEs of IBRD Funds  
for the period from 20 November 2014 to 31 December 2015*

	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
LDA-B2	-	-	-	-	20,282	20,282
LDA-B3	-	558	-	-	32,599	33,157
LDA-B4	6,745	3,518	-	86,979	25,373	122,615
LDA-B5	-	33,569	2,967	49,999	20,783	107,318
	<b>6,745</b>	<b>37,645</b>	<b>2,967</b>	<b>136,978</b>	<b>99,037</b>	<b>283,372</b>

## **1 Background**

### **(a) Organization and operations**

The Centre for Education Projects (CFEP) State Institution was established in 2010 under the structure of the RoA Ministry of Education and Science. The main objective of its operation is to implement projects in the sector of education.

The Government of Armenia has signed the Financing and Loan Agreements with the World Bank (IDA Credit 5387 and IBRD Loan 8342) to support the implementation of Education Improvement Project (Project).

The Project Development Objectives are to improve school readiness of children entering primary education, improve physical conditions and the availability of educational resources in upper secondary schools, and support improved quality and relevance in higher education institutions in Armenia.

The Project is implemented by the CFEP, which is responsible for the general administration, ongoing coordination, implementation, and monitoring of activities under the Project. The CFEP is also responsible for financial management, disbursements, accounting and accountability of Project funds, as well as for ensuring safeguards compliance, procurement of all goods, works, and services, and monitoring of the grant projects. In particular, there are two grant projects under the Project: grants to institutions for the implementation of preschool micro projects and grants to higher education institutions for the implementation of innovative projects (CIF).

The Total Project cost is about USD 37,500 thousand, from which the amount of the World Bank financing is about USD 30,000 thousand consisting of two equal parts from International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD). The co-financing provided by RoA Government is in the amount of about USD 7,500 thousand.

The Project consists of three components:

- Component 1 - Enhancing the Quality of General Secondary Education
  - Subcomponent 1.1 - Promoting School Readiness and Equal Opportunities at the Start of General Education;
  - Subcomponent 1.2 - Enrichment of the Upper Secondary Schools;
  - Subcomponent 1.3 - Improving Data Collection and the Monitoring of the education System Performance;
  - Subcomponent 1.4 - Supporting Further Improvement in the Quality of Education through Curriculum Revisions;
- Component 2 - Mainstreaming of the Competitive Innovation Fund (CIF) for Higher Education Institutions into full implementation
- Component 3 - Project Management, Monitoring and Evaluation

Closing date of the Project is 30 September 2019.

## **2 Basis of preparation**

### **(a) Statement of compliance**

The special purpose financial statements are prepared in accordance with the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the special purpose financial statements of the periods to which they relate. The special purpose project financial statements consist of:

- Summary of Project Sources and Uses of Funds,
- Summary of Uses of Funds by Project Activity,
- Statement of Financial Position,
- Statement of Designated Accounts,
- Summary of SOEs.

### **(b) Reporting currency**

The reporting currency of special purpose financial statements is US dollar (USD). All financial information presented in USD has been rounded to the nearest USD.

## **3 Significant accounting policies**

### **(a) Foreign currency transactions**

In the scope of the Project disbursements are made in USD on the designated accounts of the Project. Payment of eligible and accepted expenditures (goods, services and other) are made by the CFEP out of designated accounts.

The outstanding balances of the project account are translated to USD based on the USD exchange rate defined by the Central Bank of the Republic of Armenia as at 31 December 2015 amounts to AMD 483.75. Project expenditures are presented in USD using the USD exchange rate defined by the Central Bank of the Republic of Armenia on the transaction date.

### **(b) Taxes**

All the applicable tax liabilities are calculated and paid in accordance to tax regulations of the Republic of Armenia.