

SECOND SCIENCE AND TECHNOLOGY PROJECT

CROATIAN SCIENCE FOUNDATION

UNITY THROUGH KNOWLEDGE FUND

**International Bank for Reconstruction and Development
Loan no. 8258-HR**

FUND FINANCIAL STATEMENTS

AND

SPECIAL ACCOUNT STATEMENT

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS FOR THE YEAR
ENDED 31 December 2019**

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INDEPENDENT AUDITOR'S REPORT

1. We have audited the attached Financial Statements for the year ended 31 December 2019 of the SECOND SCIENCE AND TECHNOLOGY PROJECT (Project) – UNITY THROUGH KNOWLEDGE FUND (Fund) financed under the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8258 - HR, which comprise the Statement of Sources and Uses of Funds, Statement of Expenditure and Special Account Statement (all together, the "Fund Financial Statements").

2. The Fund Financial Statements are the responsibility of the Project's management and management of the Croatian Science Foundation. Our responsibility is to express an opinion on the Fund Financial Statements based on our audit.

3. We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

The Project management's policy is to prepare the accompanying financial statements on the cash receipts and payments basis in conformity with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants. On this basis, cash receipts are recognized when received and cash expenditures are recognized when paid rather than when incurred.

According to Act on financial operations and accountancy of non-profit organizations (Official Gazette, number 121/14, Article 26) Croatian Science Foundation has obligation to recognize revenues and expenses along with the application of the accounting principle on the occurrence of the event. For management project needs, Croatian science Foundation is preparing financial statements for special purpose „Project Sources & Uses of Fund“ and „Special Account (SA) Statements,, (financial statements for special purpose) based on cash receipts and payments, in accordance with the agreed procedures. This difference leads to significant discrepancies in the presentation of the same business events in the Croatian Science Foundation's business books and in the financial statements for special purposes. Consequently, financial statements for special purposes may not be appropriate for other purposes.

4. In our opinion, Financial Statements of the SECOND SCIENCE AND TECHNOLOGY PROJECT – UNITY THROUGH KNOWLEDGE FUND present fairly in all material respects the cash receipts and payments of the Fund during the year ended 31 December 2019, in accordance with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants.

5. With respect to Summary Statement of Expenditure ("SOE")

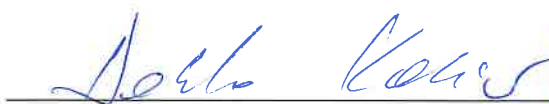
(a) adequate supporting documentation has been maintained to documenting the requests for their settlement;

(b) the Summary Statement of Expenditure has been reconciled to the other Project Financial Statements and

(c) the expenditure disbursements underlying the Summary Statement of Expenditure have been made in accordance with the purposes intended in the Loan Agreement No. 8258-HR.

Zagreb, 29 May, 2020

Audit d.o.o.
Benkovićeva 2
10000 Zagreb



Darko Karić, director, certified auditor



STATEMENT OF SOURCES AND USES OF FUNDS
For the year ended 31 December 2019

STATEMENT OF SOURCES AND USES OF FUNDS FOR SUB-FINANCING (EUR)

	EUR		
	2019.	2012 -2018.	Cumulative until 31 December 2019.
Sources of Funding			
Government funds	29.494	1.370.839	1.400.333
Project expenditures by loan categories			
Sub-financing	29.494	1.370.839	1.400.333
Sources of Funding			
IBRD Loan Funds	48.042	3.321.470	3.369.512
Project expenditures by loan categories			
Sub-financing	48.042	3.321.470	3.369.512
Sources of Funding			
TOTAL	77.536	4.692.309	4.769.845
Project expenditures by loan categories			
SUB-FINANCING	77.536	4.692.309	4.769.845

STATEMENT OF SOURCES AND USES OF FUNDS
For the year ended 31 December 2019

**STATEMENT OF SOURCES AND USES OF FUNDS FOR OPERATING COSTS AND
TRAINING (HRK)**

	2019.	2012 -2018.	HRK Cumulative until 31 December 2019.
Opening balance of the Special account	0	0	0
Sources of Funding / IBRD Loan Funds			
Sources for Operating costs	50.118	515.003	565.121
Sources for Training	119.190	224.581	343.771
Total	169.308	739.584	908.892
Less: Return IDA / IBRD from Special account	(21.114)	(109.054)	(130.168)
Use of funds:			
Operating costs	49.983	494.648	544.631
Training	98.211	135.882	234.093
Total	148.194	630.530	778.724
Closing balance of the Special account	0	0	0

STATEMENT OF EXPENDITURES
for the year ended 31 December 2019

CURRENCY SUMMARY OF SIGNIFICANT BALANCE SHEET ON THE LAST DAY OF THE REPORT PERIOD (HRK)

	2019.	2018.	2017.
	HRK	HRK	HRK
Compensations to workers for the expenses	48.792	17.691	0
Compensation to members of the Commission	40.976	38.560	46.099
Fees to other persons outside the employment relationship	56.542	59.672	166.323
Other expenditures	1.869	2.468	18.595
Ukupno	148.179	118.391	231.017

SECOND SCIENCE AND TECHNOLOGY PROJECT
CROATIAN SCIENCE FOUNDATION
UNITY THROUGH KNOWLEDGE FUND
International Bank for Reconstruction and Development Loan no. 8258-HR

SPECIAL ACCOUNT STATEMENT
for the year ended 31 December 2019

(HRK)

Account No. HR1923600001501605424
 Depository Bank Zagrebačka banka d.d. Zagreb
 Address Trg bana Josipa Jelačića 10, Zagreb
 Loan IBRD Loan No. 8258-HR

in HRK

1	Opening balance at the beginning of the period 1 Jan 2019	0
	Add:	
2	Cumulative unexplained differences	0
3	IDA / IBRD Prepayments / Fulfilment in the Period	169.308
		169.308
	Less:	
4	Return IDA / IBRD from a Special account in the period	(21.114)
5	Current remaining amount of prepayments on a Special account	148.194
6	Balance at 31 December 2019	0
	Add:	
7	Amount of paid expenses in the period	148.194
8	Bank Fees	0
	Less:	
9	Minus: Interest rate	0
10	Total prepayments	148.194
11	Difference (5) - (10) for explanation	0

1. GENERAL INFORMATION

International Bank for Reconstruction and Development (“IBRD”) and the Republic of Croatia (“Government”) signed an Advance Agreement for Preparation of Proposed second Science and Technology Project on 16 February 2012 and 30 April 2012, respectively, to facilitate the preparation of Second Science and Technology Project (“Project” or “STP II”), On 22 May 2013, IBRD and the Republic of Croatia signed a Loan agreement for Second Science and Technology Project (Loan number 8258-HR), worth EUR 20.000.000., which came into force on 19 July 2013.

The objectives of the Project are to support absorption of EU Funds in the research and innovation sector by capacitating selected public sector organizations and stimulating the demand for those funds from the business and scientific communities.

Main project headings which refers on a UKF programs can be summarized as follows:

Part A: Capacity Building for Absorption of EU Funds

Within the component A support is selected for project management and implementation, through financing of Operating Costs, Training and audit for the Project.

Selected public sector organizations include the Ministry of Science and Education (“MSE”), Business Innovation Croatian Agency BICRO (“BICRO”) and Unity through Knowledge Fund (“UKF”), MSE has overall responsibility of the project and for strategic guidance on Project implementation.

Part B: Research and Innovation Programs

1. Support for research and innovation programs through the provision of Sub-financing, through BICRO, in accordance with the Operational Procedures;
2. Support for strengthening human resources, research excellence and research commercialization through the provision of Sub-financing for collaborative research activities with the Croatian Diaspora and leading international scientific institutions under the Research Cooperability Program; for young scientists for implementation of the Young Researchers and Professionals Program; and for mobility of scientists in order to enhance the flow of knowledge and skills in the Republic of Croatia under the Connectivity Program;
3. Support for strengthening innovation activities through the provision of Sub-financing, through MSE, to Beneficiaries of Sub-projects, including for investments and activities in research commercialization and intellectual property protection of research results under the Technology Transfer Office Support Program.

**NOTES TO THE FUND FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

BICRO and UKF are responsible for sub-financing to beneficiaries, including selecting sub-projects for financing from loan and PPA proceeds, pre-screening, evaluation and supervision procedures while protecting its interests and the interests of the IBRD..

UKF supports research that is competitive at an international level, fosters research that creates new values in Croatian economy and supports projects that help the development of research infrastructure in Croatia.

In the period from 10 July 2012 to 31 December 2019, UKF sub-financed following programs:

- My First Collaboration
- Crossing Borders Grant - supports medium-scale collaborative research projects in Croatia with involvement of scientific and research Croatian Diaspora
- Connectivity program

Within "Cooperability program" funded by the Unity through Knowledge Fund (UKF), 12 contracts have been signed under the last call "My first Collaboration" worth about EUR 400,000 with the aim of enabling young scientists to establish cooperation with Croatian scientists living abroad. Ministry of Labour and Pension System has approved Summary of operation of the Project "Cooperability program" for funding from the European Social Fund (ESF), totalling HRK 44.842.440 (EUR 5,9 million). At the end of 2019, 23 sub-projects were contracted under the "Cooperability program".

Restructuring of project which refers on a UKF

The first restructuring of the STP II Project was started in 2014, due to the status changes and merger of BICRO and Croatian Agency for Small Entrepreneurship and Investment ("HAMAG") into new agency: Croatian Agency for Small Business, Innovation and Investment ("HAMAG-BICRO") and Transfer of UKF from MSE to Croatian Science Foundation ("CSF"). The restructuring of the project ended with the signing of the Loan Agreement on 25 February 2015, and the supplementary agreements for HAMAG-BICRO and the Croatian Science Foundation were signed on 13 April, 2015 and 7 April, 2015, which both institutions became STP II.

The second restructuring of STP II lasted from the end of 2016 to 13 April 2017. It was ended by the signature of Annex no. 2 Loan Agreement and includes:

- (i) extension of the STP II project to 31 March 2019;
- (ii) reallocation of funds from sub-component B2.1 project (UKF program) in relation to the new UKF call for tender "My First Cooperation"
- (iii) changes to some of the Project Performance Indicators.

**NOTES TO THE FUND FINANCIAL STATEMENTS
for the year ended 31 December 2019 (continued)**

The third restructuring of STP II was started in June 2018, and it was completed on 17 October, 2018 by the signature of Annex no. 3 of the Loan Agreement for STP II and includes the following:

- (i) extension of STP II project until 31 January 2020
- (ii) reallocation of funds to sub-component B.1.1 (PoC) of the project;
- (iii) changes to some of the Project Performance Indicators by increasing the end target values;
- (iv) Financing the "Connectivity program" under the "Unity through Knowledge Fund" (UKF).

During the World Bank Mission STP II from 3 to 5 July 2018 it was agreed that the initial restructuring request would be supplemented with the financing of the UKF "Connectivity program" that have been performed within the STP Project. Funds for this program are provided with savings (refunds) within the same category B.2.1 (UKF program). The main objective of the Connectivity Program is to support the exchange of experts and knowledge between the Republic of Croatia and the Diaspora, enabling short-term mobility of researchers in the context of extraordinary projects and networking and establishing new partnerships.

The forth restructuring started in April 2019 with request of the Ministry of Finance to the World Bank for the reallocation of the Project funds which, among other things, was reallocated to the loan funds in the amount of EUR 173.351 from component B.1 (HAMAG – BICRO project) to component A (EUR 165.837) and the sub-component B.2 (HRZZ/UKF programs) in the amount of EUR 7.514.

2. BASIS OF PREPARATION

The special purpose financial statements of the Project are prepared under the cash basis of accounting. Under the cash basis of accounting, transactions are recorded when cash is paid or received by the Project.

3. SIGNIFICANT ACCOUNTING POLICIES

Following are the principle accounting policies adopted in preparation of these special purpose financial statements.

a) Functional and presentational currency

The special purpose financial statements are prepared in Euro and Kuna. Transactions arising in currencies other than Euro are translated into the Euro using the Croatian National Bank exchange rates prevailing at the date of transaction.

Financial statements for special purpose Croatian Science Foundation is represented in kunas.

b) Funds received

Funds received represent cash received from the IBRD and the Government, and are recognized when received, or in the case of direct payments from loan account (Fronting fee) when the Project receives notification of payment from the IBRD.

c) Expenditures

Expenditures for operating costs and training costs refers to the expenditures which the Project funds to the Croatian Science Foundation for the implementation of the Unity Through Knowledge Fund (UKF). According to Act on financial operations and accountancy of non-profit organizations (Official Gazette, number 121/14, article 26) these expenditures are recognized according to the principle of occurrence of the event. Croatian Science Foundation has no expenditures on the UKF end-user Payments due to the fact that it is under the jurisdiction of the Ministry of Science and Education.

4. SUBSEQUENT EVENTS

After the balance sheet date, there were no events that would significantly affect the financial statements of the Project for 2019, which should consequently be disclosed.

5. ACCOUNTING RECORDS AND BASE FOR PRESENTATION

Within MSE business books and Croatian Science Foundation record all transactions of the Fund.

The Fund's accounting records are also included in the auxiliary tables (excel) on the basis of which the attached financial statements of the Fund are created.

6. DEVIATIONS FROM AGREED CONDITIONS

There were no deviations from the contracted terms.

MANAGEMENT LETTER

Croatian Science Foundation

Project Implementation Unit

Dear Sirs,

We are pleased to submit this letter, containing our comments, observations, and recommendations concerning the internal control structure and other matters which resulted from our audit of the Project Financial Statements of the SECOND SCIENCE AND TECHNOLOGY PROJECT (Project) – UNITY THROUGH KNOWLEDGE FUND (Fund) financed under INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (Bank) Loan No. 8258 HR as of 31 December 2019.

In planning and performing our audit we considered the Fund's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Financial Statements taken as a whole, and not to provide assurance on the internal control structure. Our letter cannot, therefore, be expected to include all possible comments and recommendations and we would like to emphasize that there may be some weaknesses in the internal control system that we didn't encounter during our audit procedures. We also considered the degree of compliance of the Fund with the Loan covenants, the Bank's Procurement guidelines, Disbursement guidelines and the Bank's financial reporting guidelines.

This report is intended solely for the information and use of the Bank and the Project Implementation Unit. We would be pleased to discuss our comments, observations, and recommendations with you.

With respect,

Zagreb, 29 May, 2020

Audit d.o.o.
Benkovićeva 2
10000 Zagreb



Darko Karić, director, certified auditor



ACCOUNTING RECORDS, SYSTEMS AND CONTROLS

Nothing significant noted.

DEFICIENCIES AND WEAKNESSES IN SYSTEMS AND INTERNAL CONTROLS

Nothing significant noted.

COMPLIANCE WITH THE FINANCIAL COVENANTS AND BANK'S GUIDELINES

Nothing significant noted.

OTHER MATTERS

Nothing significant noted.

CHECKLIST

Loan name:	SECOND SCIENCE AND TECHNOLOGY PROJECT
Loan #:	IBRD 8258-HR
Audited year:	31 December 2019

	Included	N/A
I. Audit Report (Opinion):		
A. Applicable accounting standards noted	X	
B. Applicable auditing standards noted	X	
C. Opinion on all forms of disbursement:		
1. Financial statements	X	
2. Special Account	X	
D. All sources of financing for the project are noted	X	
II. Financial statements:		
A. Revenue Entity (all of the following are required):		
1. Balance Sheet		X
2. Cash Flow Statement		X
3. Income Statement		X
B. Non-Revenue Entity (all of the following are required):		
2. Summary of Sources and Uses of Funds	X	
C. If applicable (refer to the Loan Agreement):		
1. Statement of Expenditure	X	
2. Special Account Statement	X	
III. Notes to the Financial Statements	X	
IV. Management Letter to the Project implementation unit	X	