

SECOND SCIENCE AND TECHNOLOGY PROJECT

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

**PROJECT FINANCIAL STATEMENTS
AND
DESIGNATED ACCOUNT STATEMENT
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS FOR THE PERIOD
ENDED 30 June 2020**

CONTENTS

Independent Auditor's Report	1 - 2
Statement of Assets and Liabilities	3
Statement of Sources and Uses of Funds by Project Categories	4 - 5
Statement of Uses of Funds by Project Activities	6 - 7
Summary Reports and Statement of Expenditure	8 - 9
Designated Account Statement	10
Notes to the Project Financial Statements	11 - 17
Management Letter	18 - 19
Checklist	20

INDEPENDENT AUDITOR'S REPORT

1. We have audited the attached Financial Statements for the period ended 30 June 2020 of the SECOND SCIENCE AND TECHNOLOGY PROJECT (hereinafter: the "Project") financed under the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT LOAN No. 8258-HR, which comprise the Statement of Assets and Liabilities, the Statement of Sources and Uses of Funds, the Statement of Uses of Funds by Project Activities, Statement of Expenditure (SOE) and Designated Account Statement (all together, the "Project Financial Statements").

2. The Project Financial Statements are the responsibility of the Project's management. Our responsibility is to express an opinion on the Project 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.

4. In our opinion, Financial Statements of the SECOND SCIENCE AND TECHNOLOGY PROJECT present fairly in all material respects the cash receipts and payments of the Project during the period ended 30 June 2020, 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") - Application for Loan Withdrawal;

(a) adequate supporting documentation has been maintained to 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, 24 July, 2020

Audit d.o.o.
Kranjčevićeva 41
10000 Zagreb


Darko Karić, director, certified auditor



STATEMENT OF ASSETS AND LIABILITIES
For the period ended 30 June 2020.

	30 June 2020.	31 December 2019.	31 December 2018.	31 December 2017.
	EUR	EUR	EUR	EUR
Assets				
Project expenditures	23.614.711	23.455.464	21.201.139	18.644.784
Designated Account	474.226	633.473	865.227	710.864
TOTAL	24.088.937	24.088.937	22.066.366	19.355.648
Liabilities				
IBRD loan no. 8258- HR	20.028.640	20.028.640	18.255.358	15.791.454
Government funds	4.088.938	4.088.938	3.839.648	3.564.194
TOTAL	24.117.578	24.117.578	22.095.006	19.355.648
Foreign exchange difference	(28.641)	(28.641)	(28.641)	0

First Project expenses were created in 2012 based on the Advance Agreement signed on 30 April 2012 between IBRD and Republic of Croatia.

The advance payment for the Project preparation (PPA) is contracted in USD, and the funds of PPA on a Designated Account are stated in EUR, as well as the reporting on the usage of PPA funds. After utilization of PPA, the unspent amount of EUR 146.078 remained in the Designated Account, which continued to be used in the Project. The foreign exchange difference in the amount of EUR 28.641 were the result of the conversion from the USD in EUR of that unspent funds of the PPA in the Designated Account. This conversion was made on the official portal of the World Bank as of 31 July, 2013.

For the purpose of aligning with the records of the Project, during the year 2018, all expenditures, which were paid from PPA were proportionally reduced in project reports in the total amount of foreign exchange differences, ie in the amount of EUR 28.641.

By this, the amount of funds withdrawn from the IBRD loan have been harmonized with data on the World Bank's official portal. In addition, in this way, the use of IBRD loan funds up to a total contacted EUR 20 million was enabled. Only difference is the total amount of expenditures from PPA according to records of PPA according to the official World Bank portal (1.037.974,10 EUR), but total expenditures including PPA and the IBRD Loan are identical in both records.

STATEMENT OF SOURCES AND USES OF FUNDS BY PROJECT CATEGORIES
For the period ended 30 June 2020.

STATEMENT OF SOURCES AND USES OF IBRD LOAN FUNDS

	EUR		
	2020.	2012. - 2019.	Cumulative until 30 June 2020.
Sources of Funding			
IBRD Loan Funds	159.247	19.395.168	19.554.415
Foreign exchange difference	0	(28.641)	(28.641)
Total	159.247	19.366.527	19.525.774
Project expenditures by loan categories			
Consulting services	383.791	5.154.648	5.538.439
Sub-financing	(240.554)	12.779.581	12.539.027
Operating costs	16.213	265.772	281.985
Training	(203)	107.193	106.990
Fee and advance for the preparation on of the project (PPA)	0	1.087.974	1.087.974
Foreign exchange difference	0	(28.641)	(28.641)
TOTAL	159.247	19.366.527	19.525.774

STATEMENT OF SOURCES AND USES OF GOVERNMENT FUNDS

	EUR		
	2020.	2012. - 2019.	Cumulative until 30 June 2020.
Sources of Funding			
Government funds	(54.595)	4.088.937	4.034.342
Total	(54.595)	4.088.937	4.034.342
Project expenditures by loan categories			
Consulting services	0	0	0
Sub-financing	(54.595)	4.074.034	4.019.439
Operating costs	0	12.956	12.956
Training	0	0	0
Fee and advance for the preparation on of the project (PPA)	0	1.947	1.947
TOTAL	(54.595)	4.088.937	4.034.342

STATEMENT OF SOURCES AND USES OF FUNDS BY PROJECT CATEGORIES
For the period ended 30 June 2020.

STATEMENT OF SOURCES AND USES OF FUNDS - ALL SOURCES

	EUR		
	2020.	2012. - 2019.	Cumulative until 30 June 2020.
Sources of Funding			
IBRD Loan Funds	159.247	19.395.168	19.554.415
Foreign exchange difference	0	(28.641)	(28.641)
Government funds	(54.595)	4.088.937	4.034.342
Total	104.653	23.455.464	23.560.117
Project expenditures by loan categories			
Consulting services	383.791	5.154.648	5.538.439
Sub-financing	(295.148)	16.853.615	16.558.467
Operating costs	16.213	278.728	294.941
Training	(203)	107.193	106.990
Fee and advance for the preparation on of the project (PPA)	0	1.089.921	1.089.921
Foreign exchange difference	0	(28.641)	(28.641)
TOTAL EXPENDITURE	104.653	23.455.464	23.560.117

STATEMENT ON USES OF FUNDS BY PROJECT ACTIVITIES

For the period ended 30 June 2020.

STATEMENT OF SOURCES AND USES OF IBRD LOAN FUNDS

Project components and subcomponents	2020.	2012. – 2019.	Cumulative until 30 June 2020.
	EUR	EUR	EUR
A Capacity Building for Absorption of EU Funds			
A1 General Technical Assistance	0	162.662	162.662
A2 Tech, Assistance for Project Applications Preparation	232.711	3.425.255	3.657.966
A3 Project Management Support	167.090	1.939.696	2.106.786
Total A	399.801	5.527.613	5.927.414
B Research and Innovation Programs			
B1 HAMAG-BICRO Programs	(237.156)	9.410.069	9.172.913
B2 HRZZ / UKF Programs	(3.398)	3.369.512	3.366.114
Total B	(240.554)	12.779.581	12.539.027
C PPA Expenditure	0	1.029.073	1.029.073
D Fees	0	58.901	58.901
Foreign exchange difference	0	(28.641)	(28.641)
TOTAL	159.247	19.366.527	19.525.774

STATEMENT OF SOURCES AND USES OF GOVERNMENT FUNDS

Project components and subcomponents	2020.	2012. – 2019.	Cumulative until 30 June 2020.
	EUR	EUR	EUR
A Capacity Building for Absorption of EU Funds			
A1 General Technical Assistance	0	0	0
A2 Tech Assistance for Project Applications Preparation	0	0	0
A3 Project Management Support	0	12.956	12.956
Total A	0	12.956	12.956
B Research and Innovation Programs			
B1 HAMAG-BICRO Programs	(54.595)	2.673.701	2.619.106
B2 HRZZ / UKF Programs	0	1.400.333	1.400.333
Total B	(54.595)	4.074.034	4.019.439
C PPA Expenditure	0	1.947	1.947
D Fees	0	0	0
TOTAL	(54.595)	4.088.937	4.034.342

STATEMENT ON USES OF FUNDS BY PROJECT ACTIVITIES

For the period ended 30 June 2020.

STATEMENT OF SOURCES AND USES - ALL SOURCES

Project components and subcomponents	2020.	2012. – 2019.	Cumulative until 30 June 2020.
	EUR	EUR	EUR
A Capacity Building for Absorption of EU Funds			
A1 General Technical Assistance	0	162.662	162.662
A2 Tech, Assistance for Project Applications Preparation	232.711	3.425.255	3.657.966
A3 Project Management Support	167.090	1.952.652	2.119.742
Total A	399.801	5.540.569	5.940.370
B Research and Innovation Programs			
B1 HAMAG-BICRO Programs	(291.750)	12.083.770	11.792.020
B2 HRZZ / UKF Programs	(3.398)	4.769.845	4.766.447
Total B	(295.148)	16.853.615	16.558.467
C PPA Expenditure	0	1.031.020	1.031.020
D Fees	0	58.901	58.901
Foreign exchange difference	0	(28.641)	(28.641)
TOTAL	104.653	23.455.464	23.560.117

Summary of statements of expenditures (“SOEs”)
for the period ended 30 June 2020.

EUR

Application No, and date	Consultant services	Subfinancing	Operating costs	Training	Total
Total SOE as at 31 Dec 2013	350.302	1.687.061	65.502	4.085	2.106.950
SOE 003 - 10 Mar 2014	70.075	661.565	11.570	13.188	756.398
SOE 004 - 9 Jul 2014	0	752.090	3.269	2.143	757.502
SOE 005 - 1 Dec 2014	268.760	258.135	(3.098)	5.341	529.138
Total loan from 1 Jan to 31 Dec 2014	338.835	1.671.790	11.741	20.672	2.043.038
Total SOE as at 31 Dec 2014.	689.137	3.358.851	77.243	24.757	4.149.988
SOE 006 – 29 May 2015	135.626	778.794	2.893	8.374	925.687
SOE 007 - 22 Dec 2015	184.771	287.036	50.122	9.618	531.547
Total loan from 1 Jan to 31 Dec 2015	320.397	1.065.830	53.015	17.992	1.457.234
Total SOE as at 31 Dec 2015	1.009.534	4.424.681	130.258	42.749	5.607.222
SOE 008 – 4 May 2016	147.088	893.790	14.161	11.302	1.066.341
SOE 010 – 30 Jun 2016	44.451	1.107.176	18.354	(298)	1.169.683
SOE 011 – 12 Jul 2016	55.374	1.305.189	4.342	1.290	1.366.195
SOE 009 – 21 Oct.2016	68.993	1.033.357	2.732	4.882	1.109.964
Total loan from 1 Jan to 31 Dec 2016	315.907	4.339.512	39.589	17.175	4.712.183
Total SOE as at 31 Dec 2016	1.325.440	8.764.193	169.847	59.925	10.319.405

Summary of statements of expenditures (“SOEs”)
for the period ended 30 June 2020.

Application No, and date	Consultant services	Subfinancing	Operating costs	Training	Total
SOE 013 – 7 Mar 2017	263.553	1.101.049	4.899	(365)	1.369.136
SOE 014 – 12 Jun 2017	216.431	728.240	61.776	10.600	1.017.047
SOE 015 – 24 Nov 2017	523.095	794.586	21.181	3.876	1.342.738
Total loan from 1 Jan to 31 Dec 2017.	1.003.079	2.623.875	87.856	14.111	3.728.921
Total SOE as at 31 Dec 2017	2.328.419	11.388.068	257.703	74.036	14.048.326
SOE 016 – 9 May 2018	1.034.296	303.898	9.834	17.337	1.365.365
SOE 017 – 27 Nov 2018	909.836	135.354	52.803	546	1.098.539
Total loan from 1 Jan to 31 Dec 2018	1.944.132	439.252	62.637	17.883	2.463.904
Total SOE as at 31 Dec 2018	4.272.551	11.827.320	320.340	91.919	16.512.230
SOE 018 – 12 Apr 2019	130.063	771.995	5.635	12.887	920.580
SOE 019 – 29 Aug 2019	394.513	875.509	3.483	5.733	1.279.238
Total loan from 1 Jan to 31 Dec 2019	524.576	1.647.504	9.118	18.620	2.199.818
Total SOE as at 31 Dec 2019	4.797.127	13.474.824	329.458	110.539	18.712.048
SOE 020 ¹⁾	0	0	0	0	0
SOE 021 – 4 Apr 2020	656.760	(8.038)	2.287	2.184	653.193
SOE 022 – 15 Jul 2020	367.673	(237.156)	15.731	(203)	146.045
Total loan from 1 Jan to 30 Jun 2020	1.024.433	(245.194)	18.018	1.981	799.238
Total SOE as at 30 Jun 2020	5.821.560	13.229.630	347.476	112.520	19.511.286

1) SOE number 20 was canceled due to a technical error during sending to the World Bank via the Client Connection application.

Designated Account Statement
for the period ended 30 June 2020.

(EUR)

Account No. HR8524840081300159465
 Depository Bank Raiffeisenbank Austria d.d. Zagreb
 Address Magazinska cesta 69, Zagreb
 Loan IBRD Loan No. 8258-HR

	<u>For the period</u>	<u>From the beginning of the Project</u>
	EUR	EUR
Opening balance at the beginning of the period	865.227	0
Add:		
PPA Payments	0	1.009.334
IBRD Payments	0	18.990.666
Funds available during the period	<u>865.227</u>	<u>20.000.000</u>
Less:		
Payments for eligible expenditures during the period	<u>(159.247)</u>	<u>(19.525.774)</u>
	<u>(159.247)</u>	<u>(19.525.774)</u>
Closing balance at the end of the period¹⁾	<u>474.226</u>	<u>474.226</u>

1) After 31 December 2019, beneficiaries who did not spend funds on approved projects, additionally returned unspent funds to the HAMAG BICRO Special Account by 24 May 2020, after which the amount of unspent funds on the HAMAG BICRO Special Account as of 24 May 2020 amounted to HRK 2.222.967 (EUR 293.524 at the exchange rate of the CNB on 24. May 2020). These funds are identified by sources (IBRD loan funds or state budget funds) and by categories and programs for which purposes were paid. On 26 May 2020, part of these unspent funds related to the IBRD Loan in the amount of HRK 1.809.502 (EUR 237.156,16 at the exchange rate of the RBA 7,63 on 26 May 2020) was returned to the Designated Account of the Project, while the amount of HRK 413.465 (EUR 54.595) was paid into the state budget.

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 - 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 can be summarized as follows:

Part A: Capacity Building for Absorption of EU Funds

1. Support to the selected public sector organizations in the research and innovation sector to improve their capacity to qualify for and manage EU Funds in the area of research and innovation through Technical Assistance and Training;
2. Support to selected public sector organizations in the research and innovation sector for the development of applications for research and development grant schemes and infrastructure projects for EU Funds;
3. Support to selected public sector organization 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, to Beneficiaries for Sub-projects 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;

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the period ended 30 June 2020 (continued)

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.

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.

In the period from 10 July 2012 to 31 December 2018 former BICRO, respectively HAMAG-BICRO sub-financed the following programs relating to STP II:

- PROGRAM I - Proof of Concept ("PoC"):
 - o PoC Private – supports the entrepreneurs pre-commercial activities in the early developmental phase of new products, services and technological processes;
 - o PoC Public - designed to support scientists and researchers from Croatian universities and institutes to help them to turn their idea into a global business and to help them to bridge the gap between their ideas and early scientific results and commercial potential;
- PROGRAM II - The Development of the knowledge-based companies – RAZUM - aimed at the development of new-technology-based enterprises and academic entrepreneurship;
- PROGRAM III - Research and development program – IRCRO incite small and medium enterprises to cooperate with scientific and research institutions on private research and development activities.

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 30 June 2020, UKF sub-financed following programs:

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

Project management

Project Implementation Unit ("PIU") founded by Ministry of Science and Education is responsible for implementation of the Project.

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the period ended 30 June 2020 (continued)

Project restructuring

The savings achieved from the IBRD loan were discussed at the Public-Private Partnerships Portfolio review meeting held on 22 February, 2018 at the Ministry of Finance of the Republic of Croatia.

The first restructuring of the STP II project was initiated due to the statutory changes of the HAMAG-BICRO Unity through Knowledge Fund (UKF), part of the Croatian Science Foundation, and ended in the first quarter of 2015.

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.

The performance of the STP II has significantly improved after the above mentioned changes as confirmed by the World Bank's high score for project implementation and achievement of project development goals. Currently more than 90% of the loan amount is contracted and more than 76% of the loan amount is already disbursed.

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), totaling over EUR 5 million.

Given the very good impact in the implementation of the PoC program (Proof of Concept), the Ministry of Science and Education expressed the readiness to allocate the largest part (EUR 1.7 million) of savings from the STP II Loan to the PoC private program. The Ministry of Economy, Entrepreneurship and Craft has agreed that the funds of the State Budget at the agency HAMAG-BICRO can be used as a local component for the financing of the PoC private program.

PoC private program currently cannot be funded from the EU funds.

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 (related to duration of PoC 7 projects);
- (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)

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the period ended 30 June 2020 (continued)

Based on this Annex 3, the Agreement made reallocation of funds between categories of eligible expenditures according to the following table:

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be financed
(1) Goods, non-consulting services, Training, consultants' services for Part A of the Project and Operating Costs and audit for the Project	5.950.921	100%
(2) Sub-financing under Part B.1 of the Project	9.574.405	78%
(3) Sub-financing under Part B.2 of the Project	3.386.700	71%
(4) Refund of the Preparation Advance	1.037.974	Amount payable pursuant to Section 2.07 (a) of the General Conditions
(5) Front-end Fee	50.000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(6) Unallocated	0	
TOTAL AMOUNT	20.000.000	

During the World Bank Mission for 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" which have being implemented 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 fourth restructuring was initiated on 19 April, 2019 at the request of the Ministry of Finance to the World Bank for reallocation of Project funds as follows:

- (i) Reallocation of the loan in the amount of EUR 173.351 from the component B.1 project to component A (EUR 165.837) and the sub-component B.2 project (EUR 7.514),
- (ii) Changes in the financial plan of the loan, with a reduction of the local component in the amount of EUR 157.481 (due to a different ratio of loan funds to funds from the local component).

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the period ended 30 June 2020 (continued)

Based on this request, on 26 June 2019, the World Bank approved the requested allocation of funds, and the new distribution of funds between the categories is shown in the following table:

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be financed
(1) Goods, non-consulting services, Training, consultants' services for Part A of the Project and Operating Costs and audit for the Project	6.116.758	100%
(2) Sub-financing under Part B.1 of the Project	9.401.054	78%
(3) Sub-financing under Part B.2 of the Project	3.394.214	71%
(4) Refund of the Preparation Advance	1.037.974	Amount payable pursuant to Section 2.07 (a) of the General Conditions.
(5) Front-end Fee	50.000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions.
(6) Unallocated	0	
TOTAL AMOUNT	20.000.000	

The fifth restructuring of the Project was approved by the World Bank on 27 December 2019, based on the request of the Ministry of Finance on 27 November 2019.

This restructuring has extended the duration of the Project by three months, ie until 30 April 2020, in order to provide the necessary time for the final evaluation of the Project.

2. LOAN AGREEMENT WITH INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Loan Agreement stipulates that the Republic of Croatia shall pay the initial fee to the Bank in the amount of 0.25% of the total amount of the Loan.

The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.

Interest fees for unused part of the principal amount of the Loan are paid half-yearly, with payment dates on 15 May and 15 November in each year.

NOTES TO THE PROJECT FINANCIAL STATEMENTS

for the period ended 30 June 2020 (continued)

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date («Installment Share»).

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each 15 May and 15 November	
Beginning 15 May, 2017, Through 15 May, 2022	8,33%
On November 15, 2022	8,37%

3. 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.

4. 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. Transactions arising in currencies other than Euro are translated into the Euro using the Raiffeisenbank Austria d.d., Zagreb exchange rates in which a dedicated account for loan funds is opened.

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 represent cash expenditures of the Project and are recognized when paid.

Expenditures for sub-financing relate to sub-financing made available by the Project to HAMAG-BICRO and Croatian Science Foundation (CSF) for Unity through Knowledge Fund (UKF) for disbursement to beneficiaries. These expenditures are recorded when disbursed to UKF beneficiaries and HAMAG-BICRO.

NOTES TO THE PROJECT FINANCIAL STATEMENTS
for the period ended 30 June 2020 (continued)

5. SUBSEQUENT EVENTS

After the balance sheet date, there were no events that would significantly affect the financial statements of the Project for the period ended 30 June 2020, which should consequently be disclosed.

6. ACCOUNTING RECORDS AND BASE FOR PRESENTATION

Within MSE business books; The Croatian Science Foundation and HAMAG BICRO record all transactions of the Project.

The project's accounting records are also included in the auxiliary tables (excel) based on the attached financial statements of the Project are prepared.

7. DEVIATIONS FROM AGREED CONDITIONS

There were no deviations from the contracted terms.

MANAGEMENT LETTER

Project Implementation Unit
Donje Svetice 38
10000 Zagreb

Ana Varjačić,
Head of Unit for programming and monitoring of EU programs and projects

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) financed under INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (Bank) Loan No. 8258-HR as of 30 June 2020

In planning and performing our audit we considered the project'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 that a more extensive special examination might indicate. We also considered the degree of compliance of the Project 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, 24 July 2020

Audit d.o.o.
Kranjčevićeva 41
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 period:	30 June 2020

	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	