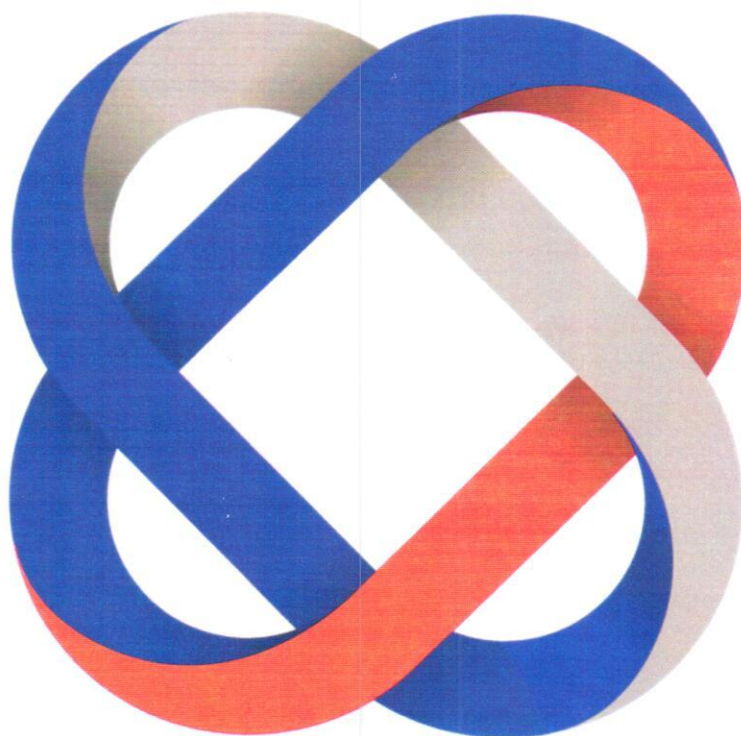


# **Grant Project Financial Statements and Independent Auditor's Report**

**“Yerevan State University” Foundation**

**“Microbial Biotechnology and Biofuel Innovation  
Center in YSU” Project**

As of 28 February 2018 and for the period from 24 December  
2015 until 28 February 2018



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# Independent auditor's report

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To the management of the State Agency "Center for Education Projects" Project Implementation Unit"

## *Opinion*

We have audited the Grant project financial statements of the "Microbial Biotechnology and Biofuel Innovation Center in YSU" Grant project (the "Project") financed within the scope of Competitive Innovation Fund (the "CIF"), which comprise the statement of financial position as of 28 February 2018, the statement of project sources and uses of funds, the statement of uses of funds by project main categories of expenditures, the grant operating account statement and the co-financing operating account statement for the period from 24 December 2015 until 28 February 2018, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying Grant project financial statements give a true and fair view of the financial position of the "Microbial Biotechnology and Biofuel Innovation Center in YSU" Grant project as of 28 February 2018, and of the funds received and expenses incurred for the period from 24 December 2015 until 28 February 2018, in accordance with the accounting policies described in note 2, the relevant points of the Grant Agreement 6/15-CIF and the Operational Manual for Competitive Innovation Fund.

## *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Grant Project Financial Statements* section of our report. We are independent of "Yerevan State University" Foundation (YSU) in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Emphasis of Matter*

We draw attention to note 2 to the Grant project financial statements, which describes the basis of accounting. The Grant project financial statements are prepared to assist the management of the State Agency "Center for Education Projects" Project Implementation Unit" to meet the requirements of Competitive Innovation Fund based on the frames of the World Bank's Second Education Quality and Relevance Project. As a result, the Grant project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



### *Responsibilities of Management and Those Charged with Governance for the Grant Project Financial Statements*

Management is responsible for the preparation and fair presentation of the Grant project financial statements in accordance with the accounting policies described in note 2 to the Grant project financial statements, the relevant points of the Grant Agreement 6/15-CIF and the Operational Manual for Competitive Innovation Fund, and for such internal control as management determines is necessary to enable the preparation of Grant project financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Grant project financial reporting process.

### *Auditor's Responsibilities for the Audit of the Grant Project Financial Statements*

Our objectives are to obtain reasonable assurance about whether the Grant project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Grant project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

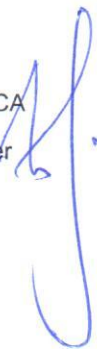
- Identify and assess the risks of material misstatement of the Grant project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 YSU's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on YSU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Grant project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause YSU to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Grant project financial statements, including the disclosures, and whether the Grant project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Gagik Gyulbudaghyan  
Managing Partner

Emil Vassilyan, FCCA  
Engagement Partner

1 June 2018



# Statement of financial position

In Armenian drams

	Note	As of 28 February 2018
<b>Assets</b>		
<i>Non-current assets</i>		
Grant project accumulated expenses		268,833,323
<b>Total assets</b>		<b>268,833,323</b>
<b>Funds and liabilities</b>		
Grant project accumulated financing	4	268,619,615
Other funds		213,708
		<b>268,833,323</b>
<b>Total funds and liabilities</b>		<b>268,833,323</b>

The Grant project financial statements were approved on 1 June 2018 by:

Aram Simonyan

Rector

Rafik Grigoryan

Chief Accountant



This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 11 to 14.



# Statement of project sources and uses of funds

As of 28 February 2018 and for the period from 24 December 2015 until 28 February 2018  
In Armenian drams

	Actual		Planned		Variance	
	For the period	As of 28 February 2018	For the period	As of 28 February 2018	For the period	As of 28 February 2018
<i>Funds received</i>						
Grant (refer to note 4)	241,757,664	241,757,664				
Co-financing (refer to note 4)	26,861,951	26,861,951				
Other funds received	213,708	213,708				
Total	268,833,323	268,833,323				
<i>Uses of funds</i>						
Eligible expenses	268,833,323	268,833,323	274,140,014	274,140,014	(5,306,691)	(5,306,691)
Total	268,833,323	268,833,323	274,140,014	274,140,014	(5,306,691)	(5,306,691)
Net increase in working capital	-	-				

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 11 to 14.

## Statement of uses of funds by project main categories of expenditures

Period from 24 December 2015 until 28 February 2018

## In Armenian drams

#	Type of expense	Estimated expenses			Actual expenses			Variance		
		Grant	Co-financing	Total	Grant	Co-financing	Total	Grant	Co-financing	Total
1	Furniture	12,573,990	1,397,110	13,971,100	12,573,990	1,397,110	13,971,100	-	-	-
2	Computers and equipment	4,743,900	527,100	5,271,000	4,743,900	527,100	5,271,000	-	-	-
3	Laboratory equipment and supplies	205,652,923	22,850,325	228,503,248	202,661,685	22,517,965	225,179,650	2,991,238	332,359	3,323,598
4	Stationary	685,665	76,185	761,850	685,665	76,185	761,850	-	-	-
5	Printing, purchase of telecasting in the scope of broadcasting or publication area	165,600	18,400	184,000	161,963	17,996	179,959	3,637	404	4,041
6	Consultancy services (local and international)	1,350,000	150,000	1,500,000	1,350,000	150,000	1,500,000	-	-	-
7	Study tours, travel and staying costs	10,835,178	1,203,909	12,039,087	9,153,356	1,017,040	10,170,396	1,681,822	186,869	1,868,691
8	Grant project staff salary	9,936,000	1,104,000	11,040,000	9,837,429	1,093,048	10,930,477	98,571	10,952	109,523
9	Other expenses	782,744	86,985	869,729	782,014	86,877	868,891	730	108	838
	Total	246,726,000	27,414,014	274,140,014	241,950,003	26,883,320	268,833,323	4,775,998	530,694	5,306,691

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 11 to 14.



# Grant operating account statement

*In Armenian drams*

Opening balance as of 24 December 2015		-
Add: Cumulative unexplained discrepancy		-
Grant replenishment during the year	245,694,405	
Interest received	795	
	<u>245,695,200</u>	<u>245,695,200</u>
Less: Refund to the PIU during the period		(3,936,741)
Present outstanding amount advanced to the Grant operating account (1)		<u>241,758,459</u>
Closing balance as of 28 February 2018		-
Add: Amount of eligible expenditures paid during the period	241,758,459	
	<u>241,758,459</u>	<u>241,758,459</u>
Total advance accounted for (2)		<u>241,758,459</u>
Discrepancy (1) – (2) to be explained		-

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 11 to 14.

# Co-financing operating account statement

*In Armenian drams*

Opening balance as of 24 December 2015		-
Add: Cumulative unexplained discrepancy		-
Co-financing received during the year	27,414,016	
Interest received	101	
	<u>27,414,117</u>	<u>27,414,117</u>
Less: Refund of co-financing during the period		(552,065)
Present outstanding amount advanced to the co-financing operating account (1)		<u>26,862,052</u>
Closing balance as of 28 February 2018		-
Add: Amount of eligible expenditures paid during the period	26,862,052	
	<u>26,862,052</u>	<u>26,862,052</u>
Total advance accounted for (2)		<u>26,862,052</u>
Discrepancy (1) – (2) to be explained		-

This statement is to be read in conjunction with the notes to and forming part of the Grant project financial statements set out on pages 11 to 14.

# Notes to the Grant project financial statements

## 1 Nature of operations and general information

Decision on establishment of the university in Yerevan was made by the Republic of Armenia Council of Ministers on 16 May 1919. The official inauguration of the "Yerevan State University" Foundation ("YSU") was held in the building of trade school of Aleksandropol (former name for Gyumri) on 31 January 1920.

YSU is a self-governed educational, scientific-research and cultural higher education institution. The activity of YSU is aimed to arrange basic and applied scientific research and studies, armenology, science, social-economic, the humanities and techniques, education in different fields of art, basic and applied scientific research for secondary educational, higher professional, post graduate professional and additional educational directions in accordance with the procedures of the Republic of Armenia legislation and educational programs.

The founder of YSU is the Republic of Armenia represented by the Government of the Republic of Armenia.

The objectives of YSU are to:

- meet the mental, spiritual and moral needs of the people by providing higher and post graduate professional education;
- carry out researches in different fields of science, education methodology, scientific pedagogical and ensure multilateral development of armenology;
- ensure the development of science, education, economy and art through researches and creative activities of the academic staff and students and applying it in economy, research and educational processes;
- arrange higher education trainings and retraining for the academic staff;
- ensure improvement of education quality and availability of appropriate system and other goals prescribed by the Charter.

The Board of trustees is the top collegial governing body of YSU. The rector manages the current activity of YSU.

YSU implements the "Microbial Biotechnology and Biofuel Innovation Center in YSU" Grant project ("Project") in accordance with the Grant agreement 6/15-CIF (Agreement) signed between the University and the PIU in 24 December 2015. The budget of the Grant project made up drams 274,140,014. Drams 246,726,000 from this amount should be provided from the grant funds and drams 27,414,014 from the co-financing. The closing date of the Grant project was defined as 28 February 2018.

This Grant project is a consortium project and the main regulating higher education institution is YSU, and its partner institutions are the "Institute of Archaeology and Ethnography of the NAS of RA" SNCO, "Chanakh" LLC and "Yerevan Beer" CJSC. During 26-29 October 2015 memorandums of understanding were signed between YSU and partner institutions on the "Microbial Biotechnology and Biofuel Innovation Center in YSU" Grant project, which define the mutual understanding and conditions between YSU and partner institutions. In the framework of memorandums of cooperation signed between YSU and partner institutions during 26-29 October 2015 the partner institutions delegated YSU to present a project request to the "Center for Education Projects" PIU in the framework of Competitive Innovation Fund, as well as to sign a grant contract and possible additional agreements with the "Center for Education Projects" PIU in case of being provided with the grant.

The main goal of the Grant project is to improve the quality of biological (microbiological) education in the Republic of Armenia and to adapt to the labor market requirements and international standards, including European standards, implementation of biotechnological research, especially in the sphere of food quality and safety and implementation of research in receiving biofuels from waste through microorganisms, as well as creating a university-private sector relationship and ensure the participation of scientific and production organizations.



The specific goals of the Grant project are to:

- preparation of qualified bacteriologists in the Republic of Armenia;
- development, testing and licensing of microbial technologies and their subsequent investment in the economy;
- promotion of youth interest in working with the new methods and equipment in the field of natural sciences;
- securing the leading role of the Republic of Armenia in the region in the field, as well as the development of cooperation with other centers in the world;
- being innovative: in fact, the center may be a place for research, an accelerator that will bring together students, scientists and specialists with innovative ideas.

YSU is located at 1 Alek Manukyan street, Yerevan, 0025, Armenia.

During the reporting period the number of staff involved in the Grant project implementation was 4.

## 2 Basis of preparation

### 2.1 Statement of compliance

The Grant project financial statements were prepared in accordance with the accrual basis of accounting, the relevant points of the Grant Agreement 6/15-CIF and requirements of the Operational Manual for Competitive Innovation Fund. Significant accounting policies are disclosed below.

### 2.2 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is YSU's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of YSU.

These Grant project financial statements are presented in Armenian drams, since management believes that this currency is more useful for the users of these Grant project financial statements. All financial information presented in Armenian drams has been rounded to the nearest unit.

### 2.3 Grant project financing

The financing received in the framework of the agreement is recorded in the statement of financial position as "Grant project accumulated project financing" and is recognized at each replenishment. The unused amounts available at the end of the Grant project, which are subject to be returned are being deducted from the amounts of "Accumulated Grant project financing" and recognized as payable. In addition, the current period funds received are disclosed in the statement of Grant project sources and uses of funds.

### 2.4 Grant project expenses

The Grant project expenses are recognized on the accrual basis of accounting. The accumulated Grant project expenses are disclosed in the statement of financial position under non-current assets. In addition, expenses are disclosed in the statement of Grant project sources and uses of funds and statement of uses of funds by Grant project main categories of expenditures. Furniture and equipment procured within the scope of the Grant project and recognized in expenses are the property of YSU. Items of fixed assets procured within the scope of the Grant project are not recognized as such and no depreciation is calculated in respect of them. Instead, their initial cost is disclosed in note 6.

### 2.5 Planned expenses

The Grant project planned expenses are the Grant project budget defined by the grant agreement, which includes the grant financing and co-financing.

## 3 Closing date of the Grant project

According to the grant agreement, the Grant project closing date was defined as 28 February 2018.

## 4 Accumulated Grant project financing

In Armenian drams

Period from 24  
December 2015 until  
28 February 2018

Grant funds	
Grant funds received	245,694,405
Amount returned	(3,936,741)
	<u>241,757,664</u>
Co-financing	
University's co-financing	27,414,016
Amount returned	(552,065)
	<u>26,861,951</u>
Total	<u><u>268,619,615</u></u>

## 5 Reconciliation between the amounts received by the Grant project from the PIU and disbursed by YSU

In Armenian drams

	YSU	PIU	Variance
Stage 1	23,811,526	23,811,526	-
Stage 2	96,808,638	96,808,638	-
Stage 3	74,624,748	74,624,748	-
Stage 4	37,173,413	37,173,413	-
Stage 5	13,276,080	13,276,080	-
	<u>245,694,405</u>	<u>245,694,405</u>	<u>-</u>
Amount returned	<u>(3,936,741)</u>	<u>(3,936,741)</u>	<u>-</u>
	<u><u>241,757,664</u></u>	<u><u>241,757,664</u></u>	<u><u>-</u></u>

## 6 Fixed assets

The items of fixed assets include furniture, computer and other equipment acquired in the scope of the Grant project. No depreciation is calculated in respect of them.

The acquired and expensed items are the property of YSU.

The initial cost of the fixed assets procured within the scope of the Grant project are presented below:

YSU

Fixed assets

As of 28 February  
2018

Computer equipment	5,271,000
Office furniture	13,971,100
Laboratory equipment	217,275,492
Other	407,099
	<u><u>236,924,691</u></u>