

Grant Project Financial Statements and Independent Auditor's Report

**“Shirak State University named after M. Nalbandyan”
Foundation**

**“Ensuring Balanced Regional Development through
Strengthening and Diversification of Educational
Services of Shirak State University” Project**

As of 30 June 2019 and for the period from 23 December 2016
until 30 June 2019



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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 "Ensuring Balanced Regional Development through Strengthening and Diversification of Educational Services of Shirak State University" Grant project (the "Project") financed within the scope of Competitive Innovation Fund (the "CIF"), which comprise the statement of financial position as of 30 June 2019, 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 23 December 2016 until 30 June 2019, 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 "Ensuring Balanced Regional Development through Strengthening and Diversification of Educational Services of Shirak State University" Grant project as of 30 June 2019, and of the funds received and expenses incurred for the period from 23 December 2016 until 30 June 2019, in accordance with the accounting policies described in note 2, the relevant points of the Grant Agreement 7/16-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 "Shirak state university named after M. Nalbandyan" Foundation ("ShSU") 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 Education Improvement 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 7/16-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 ShSU'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 ShSU'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 ShSU 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

22 July 2019

Emil Vassilyan, FCCA

Engagement Partner



Statement of financial position

In Armenian drams	Note	As of 30 June 2019
<i>Assets</i>		
Grant project accumulated expenses		87,208,375
Total assets		87,208,375
<i>Funds and liabilities</i>		
Grant project accumulated financing	4	87,150,257
Other funds		58,118
Total funds and liabilities		87,208,375

The Grant project financial statements were approved on 22 July 2019 by:

Bagrat Poghosyan

Acting Rector



Raffi Kalajyan

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 13.

Statement of project sources and uses of funds

As of 30 June 2019 and for the period from 23 December 2016 until 30 June 2019

In Armenian drams

	Actual		Planned		Variance	
	For the period	As of 30 June 2019	For the period	As of 30 June 2019	For the period	As of 30 June 2019
<i>Funds received</i>						
Grant (refer to note 4)	74,077,718	74,077,718				
Co-financing (refer to note 4)	13,072,539	13,072,539				
Other funds received	58,118	58,118				
Total	87,208,375	87,208,375				
<i>Uses of funds</i>						
Eligible expenses	87,208,375	87,208,375	102,204,030	102,204,030	(14,995,655)	(14,995,655)
Total	87,208,375	87,208,375	102,204,030	102,204,030	(14,995,655)	(14,995,655)
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 13.

Period from 23 December 2016 until 30 June 2019
In Armenian drams

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 13.

Grant operating account statement

In Armenian drams

Opening balance as of 23 December 2016		-
Add: Cumulative unexplained discrepancy		-
Grant replenishment during the year	75,592,417	
	<u>75,592,417</u>	<u>75,592,417</u>
Less: Refund to the PIU during the period		(1,514,699)
Present outstanding amount advanced to the Grant operating account (1)		<u>74,077,718</u>
Closing balance as of 30 June 2019		-
Add: Amount of eligible expenditures paid during the period	74,077,718	
	<u>74,077,718</u>	<u>74,077,718</u>
Total advance accounted for (2)		<u>74,077,718</u>
Discrepancy (1) – (2) to be explained		-

The ShSU made transactions with total amount of drams 16,963,655 through a separated operating bank account used from grant funds which were out of the project scope.

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 13.

Co-financing operating account statement

In Armenian drams

Opening balance as of 23 December 2016		-
Add: Cumulative unexplained discrepancy		-
Co-financing received during the year	15,330,605	
	<u>15,330,605</u>	<u>15,330,605</u>
Less: Refund of co-financing during the period		(2,258,066)
Present outstanding amount advanced to the co-financing operating account (1)		<u>13,072,539</u>
Closing balance as of 30 June 2019		-
Add: Amount of eligible expenditures paid during the period	13,072,539	
	<u>13,072,539</u>	<u>13,072,539</u>
Total advance accounted for (2)		<u>13,072,539</u>
Discrepancy (1) – (2) to be explained		-

The ShSU made transactions with total amount of drams 2,754,640 through a separated operating bank account used for co-financing purposes which were out of the project scope.

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 13.

Notes to the Grant project financial statements

1 Nature of operations and general information

"Shirak state university named after M. Nalbandyan" Foundation ("ShSU") was established in 1934. ShSU is the legal successor of "Gyumri state pedagogical institute named after M. Nalbandyan" SNCO. Now it has 4 faculties, more than 40 professions and about 2,500 students in Bachelor's and Master's degree programs. The central educational complex of the ShSU is located in Gyumri.

The activities of the University are aimed at satisfying the needs of the individual's mental, spiritual and moral needs through the acquisition of higher and post-graduate vocational education as well as the implementation of scientific, educational and scientific-pedagogical researches in various fields of science, and the comprehensive development of Armenology.

The governing bodies of ShSU are:

- the Board of trustees of ShSU,
- the scientific council of ShSU,
- the rector of ShSU.

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

ShSU implements the "Ensuring Balanced Regional Development through Strengthening and Diversification of Educational Services of Shirak State University" Grant project ("Project") in accordance with the Grant agreement 7/16-CIF and the amended Agreement N1 dated on 7 March 2017 (Agreement) signed between the University and the PIU on 23 December 2016. The budget of the Grant project made up drams 102,204,030. Drams 86,873,426 from this amount should be provided from the grant funds and drams 15,330,605 from the ShSU's co-financing. The closing date of the Grant project was defined as 30 June 2019.

The objective of the project is to strengthen Shirak State University aimed at balanced development of the Shirak region, through the introduction of new educational technologies, services and trainings in line with the regional challenges and job demands and perspectives.

The specific objectives of the Grant project are:

- organization of distance learning, inclusive education for beneficiaries,
- organization of educational trainings on sustainable tourism development with the use of new educational technologies.

ShSU is located at 4 Paruyr Sevak street, Gyumri, 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 7/16-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 ShSU's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of ShSU.

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 ShSU. 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 30 June 2019.

4 Grant project financing

In Armenian drams

Period from 23
December 2016 until
30 June 2019

Grant funds	
Grant funds received	75,592,417
Amount returned	(1,514,699)
	<u>74,077,718</u>
Co-financing	
University's co-financing	15,330,605
Amount returned	(2,258,066)
	<u>13,072,539</u>
Total	<u><u>87,150,257</u></u>

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

In Armenian drams

	ShSU	PIU	Variance
Stage 1	14,907,725	14,907,725	-
Stage 2	-	-	-
Stage 3	30,652,100	30,652,100	-
Stage 4	25,804,115	25,804,115	-
Stage 5	-	-	-
Stage 6	4,228,477	4,228,477	-
Stage 7	-	-	-
	<u>75,592,417</u>	<u>75,592,417</u>	<u>-</u>
Amount returned	<u>(1,514,699)</u>	<u>(1,514,699)</u>	<u>-</u>
	<u><u>74,077,718</u></u>	<u><u>74,077,718</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 ShSU.

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

ShSU

Fixed assets

In Armenian drams

As of 30 June 2019

Office furniture	13,107,906
Computer equipment	36,504,982
Laboratory equipment	8,993,959
	<u><u>58,606,847</u></u>

