

**"YEREVAN STATE MEDICAL UNIVERSITY AFTER MKHITAR HERATSI"  
FOUNDATION**

**"Brain Visualization Laboratory"**

**GRANT**

**SPECIAL PURPOSE FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**For the period from 22 May 2023 to 31 August 2025**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying special purpose financial statements of the Project "*Brain Visualization Laboratory*" (hereinafter the Project), implemented by the "Yerevan State Medical University after Mkhitar Heratsi" Foundation (hereinafter YSMU), which comprise the statement of financial position as of 31 August 2025, 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 22 May 2023 to 31 August 2025, and a summary of significant accounting policies and other explanatory information.

In our opinion, the special purpose financial statements present fairly in all material respects the financial position as of 31 August 2025, and of the funds received and expenses incurred for the period from 22 May 2023 to 31 August 2025, in accordance with the accounting policies described in note 2, the relevant points of the Grant Agreement № 2/23-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 *Auditors Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of YSMU in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

### *Emphasts of Matter - Restriction on Distribution or Use*

We draw attention to Note 2(a) to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements have been prepared for providing information to the State Agency "Center for Education Projects" Project Implementation Unit to assist them in meeting the requirements of Competitive Innovation Fund based on the frames of the World Bank's Education Improvement Project with Additional Financing (Project). As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

We draw attention to Note 1(b) to the special purpose financial statements, which states that the project closing date is 31 August 2025. Our opinion is not modified on this matter.

### *Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements*

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with the accounting policies described in Note 2(a), the relevant points of the Grant Agreement № 2/23-CIF and the Operational Manual for Competitive Innovation Fund, and for such internal control as management determine is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate, or to cease operations of Project, or has no realistic alternative but to do so.

#### *Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements*

Our objectives are to obtain reasonable assurance about whether the special purpose 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 special purpose financial statements.

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

- Identify and assess the risks of material misstatement of the 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 YSMU'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 YSMU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause YSMU to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

Hovhannes Petrosyan  
Director  
PHP Partners CJSC  
17 December 2025

Lilit Minasyan  
Partner, Head of Audit Services



*"Brain Visualization Laboratory"*  
*Statement of financial position As of 31 August 2025*

<b>Assets</b>	<i>AMD</i>	<b>Notes</b>	<u><b>Actual</b></u>
<i>Non-current assets</i>			
Grant project accumulated expenses			293,415,611
<b>Total assets</b>			<u><b>293,415,611</b></u>
<b>Funds and liabilities</b>			
Grant project accumulated financing			292,779,036
Other income		4	636,575
<b>Total funds and liabilities</b>			<u><b>293,415,611</b></u>

The project special purpose financial statements were approved and signed on 17 December 2025.



Armen Mardaryan  
 Rector

Larisa Parseghyan  
 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 10 to 13.*

"Brain Visualization Laboratory"  
 Statement of project sources and uses of funds As of 31 August 2025 and for the period from 22 May 2023 to 31 August 2025

	Actual		Planned		Variance	
	For the period	Cumulative	For the period	Cumulative	For the period	Cumulative
<i>AMD</i>						
<i>Funds received</i>						
Grant (refer to note 4)	191,858,488	191,858,488				
Co-financing (refer to note 4)	100,920,548	100,920,548				
Other income	636,575	636,575				
<b>Total</b>	<b>293,415,611</b>	<b>293,415,611</b>				
<i>Uses of funds</i>						
Eligible expenses	293,415,611	293,415,611	293,966,599	293,966,599	(550,988)	(550,988)
<b>Total</b>	<b>293,415,611</b>	<b>293,415,611</b>	<b>293,966,599</b>	<b>293,966,599</b>	<b>(550,988)</b>	<b>(550,988)</b>
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 10 to 13.

*"Brain Visualization Laboratory"*  
*Statement of uses of funds by project main categories of expenditures for the period from 22 May 2023 to 31 August 2025*

	Actual		Planned		Variance		
	Grant	Co-financing	Total	Co-financing	Grant	Co-financing	Total
Laboratory equipment and supplies	161,041,815	92,364,185	253,406,000	161,041,815	161,041,815	92,364,185	253,406,000
Software package	13,359,060	3,767,940	17,127,000	13,464,360	(105,300)	(29,700)	(135,000)
Computer and printing equipment, video							
communication system, VR and AR equipment	9,058,393	2,554,931	11,613,324	9,058,393	-	-	-
CIF Grant project staff salary	6,645,600	1,874,400	8,520,000	1,900,800	(93,600)	(26,400)	(120,000)
Business trips	1,255,235	354,040	1,609,275	354,040	-	-	-
Printing	889,209	250,803	1,140,012	315,920	(230,871)	(65,117)	(295,988)
<b>Total</b>	<b>192,249,312</b>	<b>101,166,299</b>	<b>293,415,611</b>	<b>101,287,516</b>	<b>(429,771)</b>	<b>(121,217)</b>	<b>(550,988)</b>

*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 10 to 13.*

*"Brain Visualization Laboratory"  
Grant operating account statement*

	AMD
Opening balance as of 22 May 2023	-
Add: Cumulative unexplained discrepancy	-
Grant replenishment during the period	192,194,659
Less: Refund to the PIU during the period	(336,171)
<b>Present outstanding amount advanced to the Grant operating account (1)</b>	<u><b>191,858,488</b></u>
Closing balance as of 31 August 2025	-
Add: Amount of eligible expenditures paid during the period	191,858,488
<b>Total advance accounted for (2)</b>	<u><b>191,858,488</b></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 10 to 13.*

*"Brain Visualization Laboratory"*  
*Co-financing operating account statement*

	AMD
Opening balance as of 22 May 2023	-
Add: Cumulative unexplained discrepancy	-
Co-financing received during the period	101,287,516
Less: Refund of co-financing during the period	(366,968)
<b>Present outstanding amount advanced to the Grant operating account (1)</b>	<u><b>100,920,548</b></u>
Closing balance as of 31 August 2025	-
Add: Amount of eligible expenditures paid during the period	100,920,548
<b>Total advance accounted for (2)</b>	<u><b>100,920,548</b></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 10 to 13.*

## **1 Background**

### **(a) Organisation and operations**

The "Yerevan State Medical University after Mkhitar Heratsi" Foundation ("YSMU") was established in 1920 as a faculty of Yerevan State University. In 1930 the faculty had been separated from Yerevan State University and the "Yerevan State Medical Institute" has been established based on this faculty. In 1995 the institute received the status of a university and was renamed to "Yerevan State Medical University after Mkhitar Heratsi" SNCO.

On December 23, 2014 it was renamed to "Yerevan State Medical University after Mkhitar Heratsi" Foundation. The founder of YSMU is the Republic of Armenia, represented by the government of the Republic of Armenia.

The main objective of YSMU is to ensure the implementation of higher and post-graduate professional education as well as secondary professional education.

YSMU performs:

- preparation of highly qualified specialists in the healthcare system, as well as preparation of military officers with higher education for the Republic of Armenia armed forces;
- graduate and post-graduate medical education including preparation of doctors, dentists, pharmacists, public health specialists and practitioners in these fields;
- secondary medical education;
- arrangement of public education;
- research and scientific works, preparation of pedagogical staff, trainings, professional improvement;
- arrangement of health care services and other activities defined by the Charter.

YSMU governing bodies are:

- the Board of trustees;
- the executive body represented by the Rector.

The Board of trustees is the top collegial governing body. The rector manages the current activity of YSMU and implements the decisions made by the Board of trustees.

The Government of Armenia has entered into a Loan Agreement with the World Bank (IBRD Loan No. 9389-AM) to support the implementation of the Education Improvement Project, including Additional Financing (the "Project").

One of the key components of the Project is the full-scale implementation of the Competitive Innovation Fund (CIF), aimed at enhancing the capacity and competitiveness of Higher Education Institutions.

Project funding is provided jointly by the International Bank for Reconstruction and Development (IBRD) and the Government of Armenia. The State Agency "Center for Education Projects" Project Implementation Unit disburses the financing grant in tranches based on the outcomes of competitive selection processes.

Additionally, Yerevan State Medical University after Mkhitar Heratsi (YSMU) contributes to the Project by co-financing a portion of the expenses.

According to the Grant Agreement № 2/23-CIF (Agreement) signed between the "Yerevan State Medical University after Mkhitar Heratsi" Foundation and the State Agency "Center for Education Projects" Project Implementation Unit (the "PIU"), dated 22 May 2023, YSMU implements the "Brain Visualization Laboratory" Grant project ("Project"). The budget of the Grant project makes AMD 293,966,599, AMD 192,679,083 of which will be allocated from the Grant funds, and AMD 101,287,516 from co-financing.

The main goal of the project is to create a brain visualization laboratory that, by combining cutting-edge

microscopy, cellular computing, augmented and virtual reality, will enable a comprehensive visualization of the brain's cellular architecture, complementing it with sensory engagement. The laboratory will be equipped with the ability to perform static and dynamic "5D" imaging of brain cells, visualize the "delivery" of a drug, cell, or other introduced particle into the brain.

Within the framework of the project, it is planned to create a laboratory at the "COBRAIN" Scientific-Educational Center for Fundamental Brain Research ("COBRAIN" Center) of Yerevan Mkhitar Heratsi State Medical University, which will visualize the structure of the brain and, in particular, the main elements that make it up - neurons, their projections, glial cells that form the environment of nerve cells and contribute to their activity - in the norm and pathology.

From a technological point of view, the laboratory will combine the features of ultra-modern microscopy, cellular computing, augmented and virtual realities (AR and VR). Thus, a transition will be made from 3D format to "5D" format. Obtaining images and dynamic movements that are closer to "real life" may become a breakthrough in this process. Another technological advantage of the laboratory to be created is that it will be possible to visualize the "delivery" of a drug, cell, or other introduced particle to the brain in real time in a living organism. The brain is separated from the body by the blood-brain barrier, and the "failure" of tested drugs is mainly due to the fact that they do not pass through the barrier or it remains unclear whether they reach the target or not. The creation of a laboratory equipped with such capabilities will contribute to the implementation of targeted research in the field.

From a research perspective, the creation and operation of this fundamental laboratory is expected to bring studies on Alzheimer's disease and autism to a qualitatively new level, which will result in an increase not only in the total number of YSMU publications in the Web of Science database, but also in an increase in publications in such specialized journals of the database, a quarter of which belong to the first or second group. This will immediately contribute to improving YSMU's position in the international ranking list.

Within the framework of the project, it is also expected to increase the proportion of research-oriented staff, develop new subject courses, use science-based tools in teaching, and integrate students from different stages of education into scientific research activities.

As a result of all this, the quality of not only YSMU, but also the general scientific education of the Republic of Armenia will increase.

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

**(b) Project closing**

The Project was closed on 31 August 2025.

**2 Basis of preparation**

**(a) Statement of compliance**

The special purpose financial statements are prepared in accordance with the accrual basis of accounting, the relevant points of the Grant Agreement № 2/23 - CIF and requirements of the Operational Manual for Competitive Innovation Fund.

The special purpose project financial statements consist of:

- Statement of Financial Position,
- Statement of Project Sources and Uses of Funds,
- Statement of Uses of Funds by Project Main Categories of Expenditures,
- Grant Operating Account Statement,
- Co-financing Operating Account Statement,
- Summary of Significant Accounting Policies and Other Explanatory Information.

**(b) Reporting currency**

The reporting currency of special purpose financial statements is Armenian dram (AMD). All financial information presented in AMD has been rounded to the nearest AMD.

**(c) 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.

**(d) 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 YSMU. Items of property, plant, and equipment 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.

**(e) 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 Significant accounting policies**

**(a) Taxes**

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

**4 Accumulated Grant project financing**

<i>AMD</i>	<b>Period from 22 May 2023 to 31 August 2025</b>
<i>Grant funds</i>	
PIU financing	192,194,659
Amount returned	(336,171)
	<b>191,858,488</b>
<i>Co-financing</i>	
YSMU's co-financing	101,287,516
Amount returned	(366,968)
	<b>100,920,548</b>
<b>Total</b>	<b>292,779,036</b>

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

<i>AMD</i>	YSMU	PIU	Variance
Stage 1	2,341,095	2,341,095	-
Stage 2	55,461,274	55,461,274	-
Stage 3	16,971,238	16,971,238	-
Stage 4	9,013,680	9,013,680	-
Stage 5	67,950,155	67,950,155	-
Stage 6	40,457,217	40,457,217	-
	<b>192,194,659</b>	<b>192,194,659</b>	-
Amount returned	(336,171)	(336,171)	-
	<b>191,858,488</b>	<b>191,858,488</b>	-

## **6 Property, plant, and equipment**

The items of property, plant, and equipment 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 the YSMU.

The initial cost of the property, plant, and equipment procured within the scope of the Grant project are presented below:

<i>AMD</i>	<b>As of 31 August 2025</b>
Laboratory equipment and supplies	253,406,000
VR and AR software	17,127,000
Video communication system	4,506,324
Computer and printing equipment	3,777,000
VR and AR equipment	3,330,000
Printing	1,140,012
	<b>283,286,336</b>