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Grant Project Financial Statements and Independent Auditor's Report

“Russian-Armenian University”

**“Educational-Scientific Excellence Center of “Gene
Engineering, Genome Editing and 3rd Generation
Sequencing” of the Russian-Armenian University”
Project**

As of 31 August 2021 and for the period from 1 August 2019
until 31 August 2021



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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 "Educational-Scientific Excellence Center of "Gene Engineering, Genome Editing and 3rd Generation Sequencing" of the Russian-Armenian University" Grant project (the "Project") financed within the scope of Competitive Innovation Fund (the "CIF"), which comprise the statement of financial position as of 31 August 2021, 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 1 August 2019 until 31 August 2021, 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 "Educational-Scientific Excellence Center of "Gene Engineering, Genome Editing and 3rd Generation Sequencing" of the Russian-Armenian University" Grant project as of 31 August 2021, and of the funds received and expenses incurred for the period from 1 August 2019 until 31 August 2021, in accordance with the accounting policies described in note 2, the relevant points of the Grant Agreement 17/19-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 Russian-Armenian (Slavonic) University (RAU) 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 of Russian-Armenian (Slavonic) University (RAU) 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 17/19-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 RAU's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.

Armen Hovhannisyan
Chief Executive Officer

30 September 2021

Emil Vassilyan, FCCA
Engagement Partner



Statement of financial position

In Armenian drams	Note	As of 31 August 2021
Assets		
Grant project accumulated expenses		102,995,861
Total assets		102,995,861
Funds and liabilities		
Grant project accumulated financing	4	102,238,078
Other income		757,783
Total funds and liabilities		102,995,861

The Grant project financial statements were approved on 30 September 2021 by:

Armen Darbinyan
Rector

Arman Amroyan
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.

Statement of project sources and uses of funds

As of 31 August 2021 and for the period from 1 August 2019 until 31 August 2021

In Armenian drams

	Actual		Planned		Variance	
	For the period	As of 31 August 2021	For the period	As of 31 August 2021	For the period	As of 31 August 2021
<i>Funds received</i>						
Grant (refer to note 4)	91,503,081	91,503,081				
Co-financing (refer to note 4)	10,734,997	10,734,997				
Other income	757,783	757,783				
Total	102,995,861	102,995,861				
<i>Uses of funds</i>						
Eligible expenses	102,995,861	102,995,861	137,117,714	137,117,714	(34,121,853)	(34,121,853)
Total	102,995,861	102,995,861	137,117,714	137,117,714	(34,121,853)	(34,121,853)
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.

Statement of uses of funds by project main categories of expenditures

Period from 1 August 2019 until 31 August 2021

In Armenian drams

#	Type of expense	Estimated expenses			Actual expenses			Variance		
		Grant	Co-financing	Total	Grant	Co-financing	Total	Grant	Co-financing	Total
1	Computers and equipment	7,550,336	885,794	8,436,130	6,850,330	803,670	7,654,000	700,006	82,124	782,130
2	Stationery	476,646	55,919	532,565	343,131	40,255	383,386	133,515	15,664	149,179
3	Laboratory equipment and supplies	96,569,909	11,329,430	107,899,339	70,330,888	8,251,109	78,581,997	26,239,021	3,078,321	29,317,342
4	Computers and other equipment	2,637,135	309,385	2,946,520	1,966,986	230,764	2,197,750	670,149	78,621	748,770
5	Organization of seminars, workshops, trainings	2,013,750	236,250	2,250,000	-	-	-	2,013,750	236,250	2,250,000
6	Consultancy services (local and international)	1,288,800	151,200	1,440,000	1,288,800	151,200	1,440,000	-	-	-
7	Study tours, travel and staying costs	1,757,028	206,132	1,963,160	1,173,101	137,627	1,310,728	583,927	68,505	652,432
8	CIF Grant project staff salary	10,203,000	1,197,000	11,400,000	10,203,000	1,197,000	11,400,000	-	-	-
9	Other expenses	223,750	26,250	250,000	25,060	2,940	28,000	198,690	23,310	222,000
	Total	122,720,354	14,397,360	137,117,714	92,181,296	10,814,565	102,995,861	30,539,058	3,582,795	34,121,853

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.

Grant operating account statement

In Armenian drams

Opening balance as of 1 August 2019		-
Add: Cumulative unexplained discrepancy		-
Grant replenishment during the period	94,381,148	94,381,148
	<u>94,381,148</u>	<u>94,381,148</u>
Less: Refund to the PIU during the period		(2,878,067)
Present outstanding amount advanced to the Grant operating account (1)		<u>91,503,081</u>
Closing balance as of 31 August 2021		-
Add: Amount of eligible expenditures paid during the period	91,503,081	
	<u>91,503,081</u>	<u>91,503,081</u>
Total advance accounted for (2)		<u>91,503,081</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.

Co-financing operating account statement

In Armenian drams

Opening balance as of 1 August 2019		-
Add: Cumulative unexplained discrepancy		-
Co-financing received during the period	15,590,894	
	<u>15,590,894</u>	<u>15,590,894</u>
Less: Refund of co-financing during the period		(4,855,897)
Present outstanding amount advanced to the co-financing operating account (1)		<u>10,734,997</u>
Closing balance as of 31 August 2021		-
Add: Amount of eligible expenditures paid during the period	10,734,997	
	<u>10,734,997</u>	<u>10,734,997</u>
Total advance accounted for (2)		<u>10,734,997</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.

Notes to the Grant project financial statements

1 Nature of operations and general information

Russian-Armenian (Slavonic) University (RAU) was established on 29 August 1997 according to the agreement signed between the Russian Federation (RF) and the Republic of Armenia on establishing the University in Yerevan. The RA decision N 543 to establish the University in Yerevan was made on 28 November 1997. Then, the joint the decree N 1769/170-U signed between the Ministry of General and Professional Education of the Russian Federation and the Ministry of Education and Science of the Republic of Armenia to establish the University in Yerevan dated 1 July 1998 was published. The document was signed between the Russian Federation (RF) and the Republic of Armenia on 23 April 2003 in order to make amendments to the agreement for the establishment of RAU in Yerevan dated 29 August 1997.

The main goals of the RAU are:

- satisfaction of educational needs of a person, preparation of highly qualified professionals, scientific and scientific-pedagogical specialists with humanitarian, natural scientific, economic and legal orientation, organization of trainings for professional development;
- promotion of the development of scientific and human resources potential in the Russian Federation and the Republic of Armenia by involving scientific and scientific-pedagogical specialists in the activities of the University;
- application of advanced scientific technologies and the usage of the accumulated achievements and experience in the sphere of education and science of the Russian Federation and the Republic of Armenia;
- contribution to the maintenance, development and mutual enrichment of the national and historical traditions, language and culture of the two countries.

RAU has a Board of Trustees. The Board of Trustees is called to support the University Board and the Rector for the project implementation.

RAU implements the "Educational-Scientific Excellence Center of "Gene Engineering, Genome Editing and 3rd Generation Sequencing" of the Russian-Armenian University" Grant project ("Project") in accordance with the Grant agreement 17/19-CIF (Agreement) signed between the RAU and the PIU on 30 July 2019. The budget of the Grant project made up drams 137,117,714. Drams 122,720,354 from this amount should be provided from the grant funds and drams 14,397,360 from the co-financing.

The goal of the project is to establish an "Educational-Scientific Excellence Center on "Gene Engineering, Genome Editing and 3rd Generation" on the basis of the Institute of Biomedicine and Pharmacy of the RAU, which will promote the development of the RAU, other universities, biomedical scientific and technological organizations, national and international cooperation, research and innovation activities.

The specific goals of the Grant project are to:

- Create a center of innovation excellence conforming to international standards, which with its potential, infrastructure and scientific and educational influence, will take a leading position in Armenia and in the region, and will become a platform uniting universities, business organizations and scientific institutes,
- Develop a bilingual "Genetic Engineering" Master's degree research program, which will meet the demand of highly qualified specialists in the emerging labor market,

- Significantly improve the quality of existing educational programs, develop/implement new subject and applied programs in accordance with the latest international trends and labor market requirements, which will allow graduates to find a job corresponding to professional skills and have professional growth,
- Carry out graduate and candidate research works on the basis of the center, thereby contributing to the selection of the most relevant scientific topics, the achievement of new scientific results,
- Modernize and expand research in priority areas of healthcare, which will contribute to improving the quality of scientific results, increasing the volume of published works, the possible implementation of the results obtained and the creation of new opportunities for international cooperation,
- Stimulate the cooperation between the RAU and the private sector, maximally promoting the introduction and commercialization of scientific results and training specialists who meet the requirements of the labor market,
- Create new opportunities for professional training of students and teaching staff, contributing to the development of skills, acquisition and application of new knowledge in the educational and research process.

RAU is located at 123 Hovsep Emin street, Yerevan, 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 17/19-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 RAU's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of RAU.

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 RAU. 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 31 August 2021.

4 Accumulated Grant project financing

In Armenian drams	Period from 1 August 2019 until 31 August 2021
Grant funds	
Grant funds received	94,381,148
Amount returned	(2,878,067)
	<u>91,503,081</u>
Co-financing	
RAU's co-financing	15,590,894
Amount returned	(4,855,897)
	<u>10,734,997</u>
Total	<u><u>102,238,078</u></u>

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

In Armenian drams	RAU	PIU	Variance
Stage 1	24,517,174	24,517,174	-
Stage 2	34,583,539	34,583,539	-
Stage 3	20,451,490	20,451,490	-
Stage 4	14,828,945	14,828,945	-
	<u>94,381,148</u>	<u>94,381,148</u>	<u>-</u>
Amount returned	(2,878,067)	(2,878,067)	-
	<u>91,503,081</u>	<u>91,503,081</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 RAU.

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

In Armenian drams	As of 31 August 2021
Computer equipment	1,945,750
Office furniture	7,654,000
Laboratory equipment	72,028,777
Other	317,999
	<u>81,946,526</u>