



DEFENSE CONTRACT AUDIT AGENCY
NORTHEASTERN REGION
EUROPEAN BRANCH OFFICE
Unit 29263
APO AE 09096

IN REPLY REFER TO

2191-7P10250096

May 1, 1997

Board of Governors
Science and Technology Center Ukraine
Laboratornij provulok, 3
Kyiv, 252133 Ukraine

Gentlemen,

Please find enclosed our audit report and accompanying audited financial statements for fiscal year 1996. Although we were not engaged to examine management's assertion about the effectiveness of its internal control structure over financial reporting, we noted certain weaknesses in the design and operation of the internal control system during our audit of the financial statements. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit and do not affect our report on these financial statements. We issued a letter dated 7 March 1997 detailing the conditions and our recommendations to correct the internal control weaknesses.

If you have any questions, please contact the undersigned at telephone number 049-611-380-7509. Our FAX number is 049-611-380-7507.

Sincerely,


M. Wayne Goff
Branch Manager

1. Unqualified (clean) opinion on all 96 financial statements
2. No new internal control weaknesses identified.





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May, 1 1997

Board of Governors
Science and Technology Center in Ukraine
Laboratornij provulok. 3
Kiev, Ukraine

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of the Science and Technology Center in Ukraine (STCU) as of December 31, 1995 and 1996, and the related statements of revenues and expenses and cash flows for the years then ended, which, as described in Note 1 to the financial statements, have been prepared on the basis of accounting principles recognized by the International Accounting Standards Committee. We performed the audits of the STCU financial statements at the request of the STCU Board of Governors and the Under Secretary of Defense (Comptroller). These financial statements are the responsibility of the STCU's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 1 to the financial statements, the STCU expenses its assets in the year of purchase and does not capitalize and depreciate the cost of assets which have a useful life beyond the current accounting period. This practice is contrary to generally accepted International Accounting Standards which provide that such assets be capitalized and depreciated over the estimated useful lives. The STCU has asserted that because of the unusual circumstances of the organization, strict interpretation and application of this accounting principle would result in misleading financial statements. The effect of the departure is to more accurately match the revenue contributed by the sponsoring parties to the expenditures for the period.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STCU as of December 31, 1995 and 1996, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles recognized by the International Accounting Standards Committee.


M. Wayne Goff
Branch Manager

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Under Secretary of Defense (Comptroller)