

Science and Technology Center in Ukraine

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Science and Technology Center in Ukraine (STCU) is an inter-governmental organization which receives financial support from the United States of America, Canada, and Sweden. Ukraine is also party to the international agreement which established the Center, and provides funding for facilities in support of the STCU. Funds contributed by the donor parties (United States of America, Canada, and Sweden) are used to employ former weapons scientists and engineers in peaceful scientific projects.

Any donor party may withdraw from the international agreement six months after giving written notification to the other parties. The STCU is not aware of any actual or planned withdrawal notifications. The European Union (EU) has verbally informed the STCU that they intend to apply for membership in the STCU. They hope to complete formal accession procedures by June, 1997. The EU accession will not result in an increase in the 1997 administrative budget; however, it will result in a redistribution of this budget to the funding parties. The formula to be used to redistribute this budget has not been determined.

The accompanying financial statements include the startup costs of establishing the Center and the costs of projects approved at the December, 1995 and May, 1996 governing board meetings. None of the projects have been completed as of December 31, 1996. The donor parties have remitted the entire amount of the value of the approved projects to the STCU during 1996.

The accompanying financial statements have been prepared on an accrual basis using accounting principles recognized by the International Accounting Standards (IAS) Committee, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP) recognized in the United States. GAAP requires organizations to include in its financial statements a Statement of Activities (in lieu of a Statement of Revenue and Expenses), which is designed to provide information about changes in an organization's net assets. IAS does not require such a statement and, accordingly, one is not included herein. Other differences between international standards and the United States standards do not materially impact the presentation of financial information.

The preparation of financial statements in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash and Cash Equivalents

The STCU maintains its books and records in US dollars per agreement of the founding parties. Uninvested cash is maintained at minimum levels. Funds are maintained offshore in US dollar accounts until required for use in the Ukraine. Funds in Ukrainian financial institutions are maintained in US dollar and local currency accounts. Funds not required for STCU administration or projects are invested in US dollar money market accounts.

Fixed Assets and Depreciation

Property and equipment acquired by the Center for administrative operations consists of vehicles, office furniture and equipment, including computer hardware and software and communications devices. All commitments and expenditures for administrative equipment are made in accordance with the Board approved annual budget. All expenditures for project equipment are made in accordance with project agreements. Fixed assets and capital equipment purchased for STCU administration and for projects are charged to expense in the year of purchase, without regard to useful lives. This is contrary to IAS. However, the STCU believes this accounting practice best matches the revenues contributed by the parties with related expenses.

Taxes

Terms and conditions in the international agreement which establish the Center exempt the STCU from taxes on funds received from donor parties, including any interest earned on such funds, or on other property that might normally be subject to taxation under Ukrainian law.

Foreign Currency Transactions

The STCU accomplishes a number of transactions in local Ukrainian currency, which is highly inflationary. Revenue and expenses in the local currency are recorded in US dollars based on the daily exchange rate. Gains or losses resulting from foreign currency transactions are charged to the Administrative Operating Budget in the period incurred.

Project Revenue and Costs of Projects

The STCU accounts for project revenues and costs using the percentage of completion method, whereby project revenues and associated costs are recognized commensurate with project performance and the measurement of costs incurred.

Projects are performed on a cost reimbursement basis, with a ceiling price specified in the project agreements. At project completion, any funds received in excess of actual costs are credited back to the contributing party. The STCU retains 50 percent of the allowable overhead for the individual projects in accordance with the project agreements.

Note 2 - Cash

Donor party country contributions not currently needed for operations are invested in US dollar denominated money market accounts. Interest earned is credited to the contributing parties. In 1996 the STCU operated with five bank accounts in Bankers Trust, New York; one administrative account, three donor party contribution accounts, and one clearing account which maintains a zero balance. The STCU also maintains a US dollar and a local currency account with Joint Stock Bank "Bankers House" in Kiev, Ukraine. All funds in the US dollar account are donor party funds. The local currency account operates as a clearing account for accomplishing transactions in local currency in Ukraine. As required by Ukrainian law, the STCU also maintains a local currency account with the National Bank of Ukraine for funds contributed by the Government of Ukraine to the STCU for center facilities.

At year end, operating balances in the various bank accounts maintained by the STCU are as follows:

	<u>1996</u>	<u>1995</u>
Bankers Trust, New York - Administration	\$ 65,400	\$ 390,451
Bankers Trust, New York - Canada	580,146	0
Bankers Trust, New York - Sweden	1,092,821	0
Bankers Trust, New York - USA	3,561,167	0
Bankers House, Kiev - Administration	115,846	0
Bankers House, Kiev - Project Sub Accounts	620,938	0
Ukrainian National Bank, Kiev - Facilities	2,561	0
Inko Bank, Kiev - Facilities	0	16,894
Petty Cash	10,000	2,361
Total	<u>\$ 6,048,879</u>	<u>\$ 409,706</u>

The operating cash balances at year end by party are as follows:

<u>Donor Party</u>	<u>1996</u>	<u>1995</u>
Canada	\$ 727,656	\$ 76,499
Sweden	1,192,427	65,263
Ukraine	2,562	11,795
United States	4,126,234	256,149
Total	<u>\$ 6,048,879</u>	<u>\$ 409,706</u>

Note 3 - Receivables

Receivables due from contributing parties represent amounts committed but not yet transferred to the STCU for the next year's Administrative Operating Budget. The amount due from the contributing parties for the next year's approved budget is reduced by the excess of the current year's administrative budget over the administrative expenses and interest income. The receivables by party at year end are as follows:

<u>Donor Party</u>	<u>1996</u>	<u>1995</u>
Canada	\$ 166,389	\$ 115,194
Sweden	0	105,787
Ukraine	0	0
United States	<u>597,601</u>	<u>266,021</u>
Total	<u>\$ 763,990</u>	<u>\$ 487,002</u>

Note 4 - Restricted Designated Contributions - Administrative

Restricted designated contributions represent amounts contributed by the government of Ukraine in the current year for the next year's facility rent and utilities. Use of the funds is permanently restricted by Ukraine to facility expenses. These funds are contributed in lieu of the Ukraine providing facilities for the STCU occupancy.

Note 5 - Unrestricted Designated Contributions - Administrative

Unrestricted designated contributions - Administrative represent the amount approved by the STCU Board of Governors at the December Board of Governor's meeting for the next year's Administrative Operating Budget.

Note 6 - Unrestricted Designated Contributions - Projects

Unrestricted designated contributions - Projects represent the total amount committed on signed projects, less costs incurred to date on projects. At year end, the Designated Contributions for projects by contributing party are as follows:

<u>Donor Party</u>	<u>1996</u>	<u>1995</u>
Canada	\$ 613,336	\$ 0
Sweden	348,354	0
United States	<u>3,699,606</u>	<u>0</u>
Total	<u>\$ 4,661,296</u>	<u>\$ 0</u>