

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

1. Project Expenditure

	USD
Amounts charged to the Statement of Revenues and Expenditure:	
1999	7,904,566
1998	7,351,641
1997	4,987,540
1996	1,339,245
1995	-
Cumulative project costs incurred to 31 December 1999	<u>21,582,992</u>

Project expenditure comprises of grants to scientists, equipment costs, travel costs and overhead costs.

Under the terms of the individual project agreements signed, title to equipment costing less than USD 2,500 is vested with the recipient institutes upon acquisition. The title to all other equipment provided to projects will remain with the Center until termination or completion of the project at which time the title will be vested in the recipient institutes unless prior to or on that date the Center informs the project of its intention to retain title.

2. Administrative Expenditure

	1999 USD	1998 USD
Business operations	182,791	221,917
Public affairs	30,874	25,027
Personnel	404,582	345,043
Personnel support and development	110,482	147,587
Sustainability group operations	113,442	-
Legal, accounting, and banking	158,615	91,856
Fixed assets	63,577	63,456
Headquarters and branch offices	164,504	169,514
	<u>1,228,867</u>	<u>1,064,400</u>

Included within 'Legal, Accounting and Banking' are exchange losses of \$ 5,212.

3. Exceptional Loss – Bankers House

In late November 1998, the Kiev Tax Authority for 10 working days froze the operations of STCU's local bank ("Bankers House"). At that time, bank accounts were opened in a different local bank ("First Ukrainian International Bank") in order to facilitate working cash requirements, including grantee and vendor payments. After 10 working days, STCU accounts in Bankers House were unfrozen, and Bankers House continued to handle all STCU transactions. However, Bankers House subsequently had difficulty honoring the STCU's payment instructions and it

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appeared to be insolvent. Accordingly, the STCU transferred all of its banking operations to First Ukrainian International Bank at the end of February 1999.

In April 1999, Bankers House was reorganized as "State Joint Stock Specialized Import Export Bank of Ukraine" (UKRSPECIMPEXBANK). Three new shareholders acquired 84 percent interest in the new bank. The new shareholders were Specialized Savings Bank of Ukraine, State Company for Export and Import of Military and Special Products and Services, and State Specialized Company of the Pensionary Fund of Ukraine.

At the time of default, the total funds included:

	Hryvnia Amount	Dollar Equivalent and Dollar Amount
UAH on STCU Account	196,220 UAH	\$54,460
USD on STCU Account		\$163,220
UAH on STCU Account ¹	514,303 UAH	\$122,121
Total		<u>\$339,801</u>

UKRSPECIMPEXBANK acknowledged all of its debts to the STCU in writing. On June 18, 1999, STCU and UKRSPECIMPEXBANK signed an agreement setting forth the particulars of a repayment plan for the bank to return all STCU associated funds by 31 December 1999. However, the bank made only one payment (early July 1999) for the Hryvnia equivalent of \$20,266 according to the repayment plan.

Despite numerous negotiations and meetings in which the STCU attempted in good faith to negotiate repayment, the bank made no further payments to the STCU. Thus, upon the recommendation of the secretariat, the Board of Governors decided at its 9th Board Meeting to completely write off the remaining amount (\$319,535) of the Bankers House debt. Although the STCU has retained the services of a lawyer to assist in the continued pursuit of the outstanding debt, for financial statement purposes the Secretariat of the STCU views this debt as not recoverable.

4. Net Surplus Revenues Over Expenditure

The net surplus of \$ 472,788 comprises the following;

	1999 USD	1998 USD
Surplus / (deficit) administrative budget revenues	267,389	(25,900)
Investment income	618,400	646,649
Bankers House loss	(319,535)	-
Other expenditure	(93,466)	-
	<u>472,788</u>	<u>620,749</u>

¹ This amount was on-hand in Grantee private accounts in Bankers House. Although, this amount is not the responsibility of STCU, the funding parties repaid these debts in full. The nominal UAH debt was paid in full. The dollar-equivalent rate was not paid, and thus the scientists did not recover the real amount of the debt due to devaluation of the Ukrainian Hryvnia.

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The net surplus set out above has been allocated to the funding parties in accordance with the accounting policies and agreed responsibilities.

5. Taxation

Under the terms of the agreement establishing the Science and Technology Center in Ukraine and also the Statute approved by the Board of Governors, the Science and Technology Center is exempted from any form of taxation. However, only since December 1999 has the relevant legal framework been implemented in Ukraine, allowing the Science and Technology Center to recover its VAT on administrative expenditures.

The VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs because, for the time being there is no process in place for the recovery of VAT for project purchases within Ukraine. However, project items purchased abroad by the STCU and imported into Ukraine are exempt from VAT. Management of the STCU will undertake discussions with the Government of Ukraine to investigate the possibility of establishing a procedure to recover project VAT for purchases made within Ukraine, however the management of the Science and Technology Center does not expect to recover the amounts incurred to date.

The VAT incurred on administrative expenditure is expected to be recoverable, however, the process is still in its infancy, and to date, has not become reliable and consistent. Thus, the VAT for administrative expenditures for 1999 (\$14,209) has been accrued and is included within Other Receivables in the Balance Sheet.

The VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs because the management of the Science and Technology Center does not expect to recover this amount.

6. Amounts Due from Funding Parties – Due Within One Year

	1999 USD	1998 USD
Canada	140,022	35,548
USA	339,255	144,612
European Union	1,133,694	458,119
Sweden	-	75,000
Partners	102,875	244,618
Ukraine	139,199	-
	<u>1,855,045</u>	<u>957,897</u>

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Amounts Due From Funding Parties – Due After One Year		
	1999 USD	1998 USD
European Union	242,682	-
	<u>242,682</u>	<u>-</u>
Total due from funding parties	<u>2,097,727</u>	<u>957,897</u>
7. Other receivables		
	1999 USD	1998 USD
Grants in advance	25,952	-
VAT recoverable	14,209	-
Other receivables	1,304	-
	<u>41,465</u>	<u>-</u>
8. Prepayments and accrued income		
	1999 USD	1998 USD
Prepayments	14,847	13,015
Accrued Interest	53,880	47,702
	<u>68,727</u>	<u>60,717</u>
9. Amounts payable projects		
	1999 USD	1998 USD
Overhead retainage	152,491	225,869
Grants payable	1,061,829	734,918
	<u>1,214,320</u>	<u>960,787</u>
10. Other creditors		
Other creditors comprise of amounts due to Sweden.		

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11. Designated capital contributions - projects

Designated capital contributions represent the amounts committed on signed projects net of project expenditures incurred to date.

	United States	Sweden	Canada	Japan	European Union	Partners	Total
	USD	USD	USD	USD	USD	USD	USD
Balance at 1 January 1999	5,444,377	503,152	209,896	185,529	-	408,884	6,751,838
New Projects signed during 1999	4,829,676	86,222	190,742	327,554	1,658,166	667,478	7,759,838
Transfer to statement of revenues and expenditure							
Expenditure incurred on projects in 1999	(5,988,304)	(428,888)	(263,469)	(151,819)	(395,654)	(676,432)	(7,904,566)
Administrative Fees	-	-	-	(34,300)	-	(44,681)	(78,981)
Adjustment for Closed Projects	(38,965)	(2,126)	(6,492)	-	-	(158)	(47,741)
Balance at 31 December 1999	4,246,784	158,360	130,677	326,964	1,262,512	355,091	6,480,388

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12. Designated capital contributions - administration

	United States	Sweden	Canada	Japan	European Union	Partners	Ukraine	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Balance at 1 January 1999	865,744	-	136,763	-	248,073	-	(47,790)	1,202,790
Additional contribution for 1999	144,660	-	18,000	-	37,340	-	-	200,000
Transfer to Statement of Revenues and Expenditure	(1,010,404)	-	(154,763)	-	(285,413)	-	47,790	(1,402,790)
Administrative budget 2000	876,455	-	188,428	-	376,072	-	-	1,440,955
Balance at 31 December 1999	876,455	-	188,428	-	376,072	-	-	1,440,955

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13. Un-designated capital contributions

	United States	Sweden	Canada	Japan	European Union	Partners	Other	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Balance at 1 January 1999	4,576,340	101,073	100	803,204	920,592	10,193		6,411,502
Advances received from funding parties	5,684,412	21,080	45,000	-	1,483,463	129,915		7,363,870
EU share of remaining budget 1999	-	-	-	-	94,952	-		94,952
Transfer to designated capital for signed projects	(4,386,031)	(86,222)	-	(327,554)	(639,893)	(59,281)		(5,498,981)
Closed projects	38,965	-	6,492	-	-	158		45,615
Allocation of income for 1999	517,508	18,077	8,722	37,322	24,158	12,613		618,400
Adjustment for 1999 administrative budget	(230,872)	-	-	-	(495,462)	-		(726,334)
Adjustment for 1999 other purposes	(155,481)	-	-	-	(336,499)	-		(491,980)
Transfer to A/R Sweden	-	(75,000)	-	-	-	-		(75,000)
Transfer to A/P Sweden	-	20,992	-	-	-	-		(20,992)
Net Adjustment for 2000 Administrative budget after allocation of 1999 Administrative Surplus	(517,508)	-	(8,722)	-	(2,727)	(12,613)	(93,466)	(635,036)
Balance at 31 December 1999	5,527,333	-	51,592	512,972	1,048,582	80,985	(93,466)	7,127,998

Note : The amount of \$ 93,466 under 'Other' relates to the performance of the 1999 audit. The audit costs are provided for in the 2000 Administrative Budget, and for financial statement purposes, the amount is reflected as an expense of the 1999 Fiscal Year, however the cash disbursement will affect the 2000 Administrative Budget.

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14. Cash received from funding parties

	1999 USD	1998 USD
Canada	290,897	140,595
Sweden	93,739	444,823
Ukraine	(83,365)	65,613
Partners	893,553	581,783
United States	6,083,612	8,317,274
European Union	1,178,578	920,592
Japan	(1,727)	999,949
	<u>8,455,287</u>	<u>11,470,629</u>

15. Financial commitments

a) Science and Technology Center in Ukraine

No material commitments existed at 31 December 1999.

b) Funding parties

At 31 December 1999 the funding parties had approved but not signed 52 projects with a total funding of \$6,858,861. The agreements for these projects are expected to be signed in 2000.

16. Expenditures borne directly by funding parties

Under the terms of the various agreements by which the funding parties set up the Science and Technology Center in Ukraine, certain executive and senior staff salaries are borne directly by the funding parties.