

**SCIENCE AND TECHNOLOGY  
CENTER IN UKRAINE**

Financial Statements for the  
Year Ended 31 December 2003

**Lubbock Fine  
Chartered Accountants  
Registered Auditors**

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

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INDEPENDENT AUDITORS' REPORT TO  
THE BOARD OF GOVERNORS

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We have audited the financial statements, set out on pages 2 to 21, of the Science and Technology Center in Ukraine as at 31 December 2003 at the request of the Board of Governors. The financial statements comprise the Statement of Revenues and Expenditure, the Balance Sheet, the Statement of Cash Flows and the Notes to the financial statements. These financial statements are the responsibility of the management of the Science and Technology Center in Ukraine. Our responsibility is to express an opinion on these financial statements based on our audit.

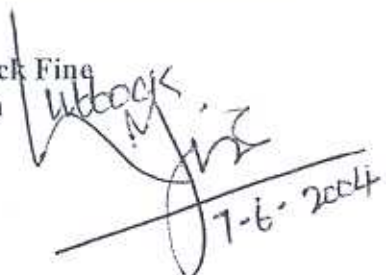
Except as discussed in the following two paragraphs, we conducted our audit in accordance with International Standards on Auditing. These Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and policies adopted and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The terms of the project agreements, concluded between the Science and Technology Center in Ukraine and the recipient institutes, state that grant costs for a specific period of time may not be claimed by the recipient institutes if they are receiving reimbursements from other funding sources for the same period of time. Due to our inability to access appropriate records of the recipient institutes we were unable to satisfy ourselves as to whether the claims made by the recipient institutes include amounts for which they may have received reimbursements from other funding sources. There were no alternative audit procedures that we could adopt to confirm the above.

As more fully explained in the Accounting Policies, fixed assets used for both the Center and the projects funded by the Science and Technology Center in Ukraine, which have useful lives extending beyond the current year were expensed immediately on acquisition to the Statement of Revenues and Expenditure. The management of the Science and Technology Center in Ukraine believe that because of the unusual nature and circumstances of its activities this treatment properly matches the revenues specifically contributed by the funding parties with the related expenditure. International Accounting Standards require fixed assets to be capitalized and depreciated over their expected useful lives. Capitalization and depreciation of fixed assets used for the Center and projects would have a consequential effect on the accompanying financial statements if it were applied.

In our opinion, except for adjustments that might be necessary as a result of the matters noted above, the financial statements give a true and fair view of the financial position of the Science and Technology Center in Ukraine as at 31 December 2003, and of the results of its operations and its cash flows for the year then ended and have been prepared in accordance with International Accounting Standards.

Lubbock Fine  
London



7-6-2004

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## ACCOUNTING POLICIES

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### **Overview of the Science and Technology Center in Ukraine (STCU)**

The Science and Technology Center in Ukraine (STCU) is an intergovernmental organization dedicated to nonproliferation of technologies and expertise related to weapons of mass destruction, including nuclear, biological and chemical weapons, and their delivery systems.

The United States, Canada, Sweden and Ukraine signed the agreement establishing the Science and Technology Center in Ukraine on October 25, 1993 (referred to as “the STCU agreement”). The European Communities acceded to the STCU agreement on November 26, 1998, and in so doing, replaced Sweden as a party to the STCU agreement.

The STCU helps develop, finance, and monitor science and technology projects that engage the former Soviet weapons community in Ukraine, Azerbaijan, Uzbekistan, and Georgia in peaceful civilian activities. The Funding Parties of STCU projects include the signatories to the STCU agreement, Japan as a sponsor of the STCU agreement, and Partners (government and non-government) approved by the Board of Governors.

The STCU is a legal entity and has been registered by the Ministry of Foreign Affairs of Ukraine as an intergovernmental organization with its headquarters in 21 Kameniariv, Kyiv, Ukraine 03138. The STCU has an international staff of 65 full time scientific, financial, and administrative experts.

### **Basis of Preparation**

The financial statements have been prepared under the historic cost convention and in accordance with applicable International Accounting Standards (IAS) except for IAS 16 relating to fixed assets as explained in the policy for Fixed Assets.

The financial statements have been prepared in United States Dollars, as required by the STCU’s Financial Regulations.

### **Project Activity**

The STCU authorizes and funds scientific projects which are performed at institutions within Ukraine, Azerbaijan, Uzbekistan, and Georgia. Projects are financed by the Funding Parties either individually or jointly. All project agreements include a maximum amount of funding to be provided by the Funding Parties.

The project activity is accounted in the financial statements as follows:

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## ACCOUNTING POLICIES

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### **Project Recognition**

The projects are only recognized after signature of the project agreement between the STCU and the recipient institutes. Upon signature, the total project value is credited to the relevant Funding Parties Designated Capital Account in proportion to the level of funding agreed by each party. To the extent that the value of the signed projects are not covered by advance payments from the respective Funding Parties, a receivable is set up in the financial statements.

### **Project Expenditure**

Project costs consist of three main components: grants to scientists, equipment and overhead. The STCU, being a non-profit making inter-governmental organization, does not envisage that any economic benefits will accrue to it in the foreseeable future from the financing of these projects. Accordingly all project costs incurred, including the purchase of project equipment, are charged immediately to the Statement of Revenues and Expenditure. Projects are performed on a cost reimbursable basis, with ceiling funds specified in the project agreements.

The STCU temporarily retains 50 percent of the allowable overhead for the individual projects, in accordance with the project agreements, until the submission, and acceptance of, the financial and technical reports prepared by the project recipients.

When a project has been completed, any funds committed in excess of actual costs are credited back to the relevant Funding Parties' Undesignated Capital Contributions Account.

### **Project Revenues**

Project revenues recognized during the year in the Statement of Revenues and Expenditure are amounts equal to the total value of project expenditure incurred and written off during the year. These revenues are transferred from the Funding Parties' Designated Capital Accounts.

## **Administrative and Supplemental Revenues and Expenditure**

### **Administrative Operating Budget**

Administrative Revenues recognized in the Statement of Revenues and Expenditure during the year equate to the amounts approved by the Board of Governors for the Administrative Operating Budget for the year. The budget is set and agreed at meetings of the Board of Governors in the previous financial year. The agreed budgeted amounts are transferred from the Designated Capital

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## ACCOUNTING POLICIES

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Accounts for Administrative Expenses of the United States, Canada, the European Union, and Ukraine.

Administrative Expenses are charged to the Statement of Revenues and Expenditure when incurred and are matched against the Administrative Revenues for the year.

Surplus Administrative Revenues arising during the year are re-allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and the European Union in the same ratio as the Administrative Revenues contributions.

### **Supplemental Budget**

Supplemental Budgets are approved by the Board of Governors to provide funding for activities that are outside the scope of the Administrative Operating Budget and not directly related to the implementation of projects. Upon agreement of the Supplemental Budgets at Governing Board Meetings the total amount of such budgets approved are credited to the relevant Funding Parties Designated Capital Accounts for Supplemental Budgets in proportion to the level of funding agreed by each party.

Supplemental Budget expenses are charged to the Statement of Revenues and Expenditure when incurred. Supplemental Budget revenues recognized in the year are amounts equal to the value of the Supplemental Budget expenditure incurred in the year. These revenues are transferred from the Funding Parties Designated Capital Accounts for Supplemental Budgets.

### **Partner Fees and Interest**

Partner projects may be charged a fee, usually 5% of the total project cost, for the services provided by the STCU to administer the project, which are recognized in the Statement of Revenues and Expenditure. The surplus partner fees are allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and the European Union in the same ratio as their Administrative Revenues contributions.

Interest earned on Funding Party bank accounts is recognized in the Statement of Revenues and Expenditure. Surplus interest earned is allocated to the Funding Parties Undesignated Capital Contributions Accounts, with the exception of Partner interest earned, which is allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and the European Union in the same ratio as their Administrative Revenues contributions. Interest earned on administrative and supplemental bank accounts is allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and

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## ACCOUNTING POLICIES

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the European Union in the same ratio as their Administrative Revenues contributions.

### **Fixed Assets**

Fixed assets are acquired either for the Center's own use or for the projects and comprises of the following:

#### **Center**

Property and equipment acquired by the Center for administrative operations consist 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's approved annual budget.

The cost of the Center's equipment is charged to the Statement of Revenues and Expenditure when acquired.

#### **Project Equipment**

Since the STCU does not expect to derive any foreseeable economic benefits from the ownership of project equipment, the expenditure incurred during the year on equipment under each project, is written off to the Statement of Revenues and Expenditure.

IAS 16 requires fixed assets with useful lives of beyond the current accounting period be capitalized and depreciated over their useful lives. The management believe that because of the unusual nature and circumstances of its activities, strict interpretation and application of this standard would not properly match the revenues specifically contributed by the funding parties with the related expenditure. Accordingly, the fixed assets acquired for use by the Center and also the projects are charged in full upon acquisition to the Statement of Revenues and Expenditure in accordance with the accounting policy for fixed assets set out above.

### **Foreign Currency Transactions**

All foreign currency transactions are converted into United States Dollars at the exchange rates prevailing at the date of the transaction. Foreign currency gains and losses resulting from movements in the exchange rates between the date of the transactions and the date of settlement are charged to the Statement of Revenues and Expenditure under the administrative operating budget in the period incurred. Activities in Azerbaijan, Uzbekistan and Georgia are transacted in US dollars and, therefore do not result in any gains or losses from currency exchanges.

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### **European Union Funded Projects**

Due to the fact that all projects financed by the European Union are funded in Euro and the requirement that the STCU financial statements are maintained in U.S. Dollars, all European Union funded projects have to be expressed in U.S. Dollars. The manner in which these commitments are expressed is set out below.

### **Projects Signed Prior to the 10<sup>th</sup> Board of Governors Meeting Conducted on June 1, 2000**

Project agreements approved by the European Union at all Governing Board Meetings prior to the 10<sup>th</sup> Board of Governors Meeting were concluded in U.S. Dollars. At the time of these Governing Board Meetings, an exchange rate for U.S. Dollars to Euros was fixed, and the funding table listed the amount of U.S. Dollars and Euros approved for each European Union approved project. The European Union then provided funding at some later dates in Euros, and the STCU immediately converted the Euros upon receipt into U.S. Dollars. The project agreements were then formally amended accordingly to match the amount of U.S. Dollars received.

Due to significant exchange rate fluctuations between the Euro and U.S. Dollar, the project agreements for all projects approved by the 7<sup>th</sup> and 8<sup>th</sup> Governing Board Meetings were amended to reflect the amount of actual U.S. Dollars received. In all cases, the U.S. Dollar value of the project agreements were decreased. All the amendments were made during Fiscal Year 2000, and are reflected as part of the reduction in value of projects due to currency fluctuations as shown in Note 11 of the Financial Statements for the Year Ended December 31, 2000.

Projects approved at the 9<sup>th</sup> Governing Board received the full amount of U.S. Dollars from the European Union, and thus were not amended.

### **Projects Signed at or Subsequent to the 10<sup>th</sup> Board of Governors Meeting Conducted on June 1, 2000**

Project agreements approved by the European Union at all Governing Board Meetings including and subsequent to the 10<sup>th</sup> Board of Governors Meeting are concluded in Euros if solely funded by the European Union. European Union projects jointly funded are concluded in U.S. Dollars.

Project agreement procedures for European Union projects approved at or subsequent to the 10<sup>th</sup> Board of Governors Meeting, concluded in U.S. Dollars, differ from the aforementioned procedures for projects financed by the European Union prior to the 10<sup>th</sup> STCU Board of Governors Meeting.

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The Executive Director of the STCU assigns these projects a Euro to USD exchange rate on the date the Board funding table is signed. The exchange rate assigned incorporates a financial safety margin for each approved project in the amount of 5% of the exchange rate on the date of the signature of the Board funding table. The European Union then provides funding at some later date in Euros, and the STCU immediately converts the Euros upon receipt into U.S. Dollars. If a reserve remains, it is withheld by the STCU until the total amount of Euros provided by the European Union is converted into USD, and the total amount of USD provided by the European Union is known. The project agreements are then formally amended accordingly to match the amount of U.S. Dollars received, including the reserve if available.

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STATEMENT OF REVENUES AND EXPENDITURE  
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 USD	2002 USD
<b>REVENUES</b>			
Project Revenue		17,937,532	12,317,194
Administrative Revenue			
- Administrative Operating Budget		1,755,512	1,460,046
- Supplemental Budget		1,483,183	1,036,751
New Building Fund		94,853	-
Partner Fees		129,587	191,826
Interest Income		318,952	502,412
		<u>21,719,619</u>	<u>15,508,229</u>
<b>EXPENDITURE</b>			
Project Expenditure	<b>1</b>	17,937,532	12,317,194
Administrative Expenditure	<b>2</b>		
- Administrative Operating Budget		1,731,469	1,365,193
- Supplemental Budget		1,483,183	1,036,751
New Building Fund		94,853	-
		<u>21,247,037</u>	<u>14,719,138</u>
<b>NET SURPLUS</b>	<b>3</b>	<u>472,582</u>	<u>789,091</u>

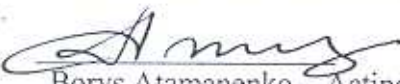
There are no recognised gains or losses other than the results for the year as set out above.

## SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## BALANCE SHEET AT 31 DECEMBER 2003

	Note	2003 USD	2002 USD
<b>CURRENT ASSETS</b>			
Receivables			
Amounts due from funding parties	5	9,094,008	7,364,537
Other receivables	6	44,306	71,048
Prepayments and accrued income	7	42,776	46,470
Cash at bank and in hand		37,379,117	37,098,141
		<u>46,560,207</u>	<u>44,580,196</u>
<b>CURRENT LIABILITIES</b>			
Amounts payable – projects	8	(2,688,795)	(1,219,155)
Amounts payable – non-project		(187,803)	(182,234)
		<u>(2,876,598)</u>	<u>(1,401,389)</u>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>43,683,609</u>	<u>43,178,807</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Designated capital – projects	9	22,348,183	20,039,222
Designated capital – administration	10	1,726,214	1,595,532
Designated capital – supplemental	11	4,382,932	4,088,441
Designated capital – building fund	12	-	94,853
Undesignated capital	13	15,226,280	17,360,759
		<u>43,683,609</u>	<u>43,178,807</u>

Signed on behalf of

The Science and Technology Center in Ukraine June 3, 2004

  
Borys Atamanenko – Acting Executive Director


  
Curtis Bjelajac – Chief Financial Officer

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STATEMENT OF CASH FLOWS AT 31 DECEMBER 2003

	Note	2003 USD	2002 USD
<b>Cash Flows from Operations</b>			
<b>Cash Inflows</b>			
Cash Received from Funding Parties	14	19,573,829	16,291,007
Interest Income and Partner Fees Received		456,894	710,019
Total Cash Inflows		<u>20,030,723</u>	<u>17,001,026</u>
<b>Cash Outflows</b>			
Project Expenditure		(16,467,892)	(12,674,278)
Administrative and Supplemental Expenditure		(3,281,855)	(2,438,579)
Total Cash Outflows		<u>(19,749,747)</u>	<u>(15,112,857)</u>
Net Cash Inflows From Operations		280,976	1,888,169
Cash at 1 January		37,098,141	35,209,972
Cash at 31 December		<u>37,379,117</u>	<u>37,098,141</u>

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Project Expenditure

	USD
Amounts charged to the Statement of Revenues and Expenditure:	
2003	17,937,532
2002	12,317,194
2001	10,100,633
2000	7,096,198
1999	7,904,566
1998	7,351,641
1997	4,987,540
1996	1,339,245
1995	-
Cumulative project costs incurred to 31 December 2003	<u>69,034,549</u>

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

- (a) 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.
- (b) The Record of Decisions approved by the 14<sup>th</sup> STCU Governing Board states “In the event that the availability of facility services of the STCU is interrupted, the Board of Governors considers that this constitutes a case of “force majeure” and hence instructs the Executive Director to suspend or terminate funding of regular Ukrainian (non-partner) projects and activities until the Government of Ukraine satisfactorily resolves this issue.”

On October 10<sup>th</sup>, 2002, the electricity of the STCU headquarters (located at 3 Laboratornyj Provulok) was discontinued, and as a result, the Executive Director declared “force majeure” on October 14<sup>th</sup>, 2002. On this date, the contracts for 180 regular (non-partner) Ukrainian projects were suspended until the STCU premises issue was resolved in an appropriate manner. On January 20<sup>th</sup>, 2003, having satisfied themselves that the premises issue had been resolved, the STCU Board of Governors cancelled the “force majeure” suspension and restarted the affected projects. As a result of the aforementioned suspension, the project expenditures for 2002 and 2003 were significantly affected, resulting in a large expenditure variation between the two years, which would not have been the case if force majeure had not been enacted.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**2. Administrative Expenditure**

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
<b>a) Administrative Operating Budget</b>		
Business Operations	334,611	224,706
Public Affairs	52,651	38,086
Personnel	603,006	528,831
Personnel Support and Development	123,590	134,209
Sustainability Group Operations	62,166	15,864
Legal, Auditing, and Banking	262,748	201,851
Fixed Assets	82,188	28,608
Headquarters and Branch Offices	210,509	159,887
Contingency	-	33,151
	<u>1,731,469</u>	<u>1,365,193</u>

Included within 'Legal, auditing and banking' are exchange losses of \$9,605 (2002 - \$1,278).

'Personnel' costs comprises grants made to the grantees in the STCU headquarters and six (6) regional offices located in Lviv, Kharkiv, Dnipropetrovsk, Baku, Tashkent and Tbilisi.

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
<b>b) Supplemental Budget</b>		
Technical, Collaborator and Contractor Travel Support	95,572	41,915
Information Technology Support	45,185	47,719
Communication Support	-	5,144
Business Training/ Sustainability Group Support	67	34,191
Patent Support	14,185	11,562
Travel and Mobility Support	214,101	201,338
Expert Review and Advisors	9,182	7,845
Seminars/ Workshops Support	36,523	24,667
Service Contracts	1,068,368	662,370
	<u>1,483,183</u>	<u>1,036,751</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**3. Net Surplus Revenues Over Expenditure**

The net surplus of \$472,582 comprises the following;

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
Surplus Administrative Budget Revenues	18,161	97,047
Investment Income	318,952	502,412
Partner Fees	129,587	191,826
Other Revenue/(Expense)	5,882	(2,194)
	<u>472,582</u>	<u>789,091</u>

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

**4. Taxation**

Under the terms of the agreement establishing the STCU and also the Statute approved by the Board of Governors, the STCU is exempted from any form of taxation. However, only since December 1999 has the relevant legal framework been implemented in Ukraine, allowing the STCU 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 practical process in place for the recovery of VAT for project purchases within Ukraine, Georgia and Uzbekistan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia and Uzbekistan to investigate the possibility of establishing a procedure to recover project VAT for purchases made within Ukraine, Georgia and Uzbekistan. However, the management of the STCU does not expect to recover the amounts incurred to date. Accordingly the VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs. Project items purchased abroad by the STCU and imported into Ukraine, Georgia and Uzbekistan are exempt from VAT.

The VAT on administrative expenditures for 2003 has been credited back to the corresponding expense account to which it relates.

**5. Amounts Due from Funding Parties – Due Within One Year**

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
United States	2,147,035	1,227,555
Canada	229,222	149,333
European Union	2,588,104	2,484,192
Partners	3,091,467	2,816,913
	<u>8,055,828</u>	<u>6,677,993</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

**Amounts Due From Funding Parties – Due After One Year**

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
European Union	579,611	412,333
Partners	458,569	274,211
	<u>1,038,180</u>	<u>686,544</u>
<b>Total due from funding parties</b>	<u><u>9,094,008</u></u>	<u><u>7,364,537</u></u>

**6. Other receivables**

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
VAT Recoverable	17,052	21,561
Other Receivables	27,254	49,487
	<u>44,306</u>	<u>71,048</u>

**7. Prepayments and accrued income**

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
Prepayments	21,772	17,111
Accrued Interest	21,004	29,359
	<u>42,776</u>	<u>46,470</u>

**8. Amounts payable projects**

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
Grants Payable	1,900,822	660,312
Overhead Payable	228,397	153,203
Overhead Retainage	559,576	405,640
	<u>2,688,795</u>	<u>1,219,155</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**9. Designated Capital Contributions - Projects**

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

	<b>United States</b>	<b>Canada</b>	<b>Japan</b>	<b>European Union</b>	<b>Partners</b>	<b>Total</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>Balance at January 1, 2003</b>	10,283,060	301,992	31,354	2,983,057	6,439,759	20,039,222
New Projects Signed During 2003	9,138,732	299,088	-	3,715,319	7,206,236	20,359,375
2003 Adjustment	14,590	-	-	(210)	9,428	23,808
Revaluation of Project Agreements	-	-	-	450,462	77,573	528,035
Adjustment for Terminated Projects	-	-	-	-	(593,257)	(593,257)
Adjustment for Closed Projects	(31,210)	(274)	(3)	(2,278)	(37,703)	(71,468)
<b>Transfer to Statement of Revenues and Expenditure</b>						
Expenditure Incurred on Projects in 2003	(9,771,165)	(234,500)	(31,351)	(2,579,216)	(5,321,300)	(17,937,532)
<b>Balance at December 31, 2003</b>	<b>9,634,007</b>	<b>366,306</b>	<b>-</b>	<b>4,567,134</b>	<b>7,780,736</b>	<b>22,348,183</b>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

**10. Designated Capital Contributions - Administration**

	United States	Sweden	Canada	European Union	Partners	Ukraine	Total
	USD	USD	USD	USD	USD	USD	USD
<b>Balance at January 1, 2003</b>	1,043,419	-	161,624	390,489	-	-	1,595,532
Additional Contribution for 2003	-	-	-	-	-	159,980	159,980
Transfer to Statement of Revenues and Expenditure	(1,043,419)	-	(161,624)	(390,489)	-	(159,980)	(1,755,512)
Administrative Budget 2004	1,105,172	-	186,326	434,716	-	-	1,726,214
<b>Balance at December 31, 2003</b>	1,105,172	-	186,326	434,716	-	-	1,726,214

**11. Designated Capital Contributions - Supplemental**

	United States	Sweden	Canada	European Union	Partners	Ukraine	Total
	USD	USD	USD	USD	USD	USD	USD
<b>Balance at January 1, 2003</b>	2,667,032	103,368	20,253	1,007,869	289,919	-	4,088,441
Supplemental Budgets Approved	1,438,097	-	25,610	201,863	(11,175)	-	1,654,395
Transfer from Undesignated Capital Contributions	-	327	-	-	-	-	327
Adjustment for Revaluation	-	-	-	122,952	-	-	122,952
Transfer to Statement of Revenues and Expenditure	(1,061,488)	-	(9,905)	(346,905)	(64,885)	-	(1,483,183)
<b>Balance at December 31, 2003</b>	3,043,641	103,695	35,958	985,779	213,859	-	4,382,932

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**12. Designated Capital Contributions – Building Fund**

	<b>United States</b>	<b>Sweden</b>	<b>Canada</b>	<b>Japan</b>	<b>European Union</b>	<b>Partners</b>	<b>Ukraine</b>	<b>Total</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>Balance at January 1, 2003</b>	65,536	-	8,125	-	21,192	-	-	94,853
Surplus Administrative Budget Revenues	(65,536)	-	(8,125)	-	(21,192)	-	-	(94,853)
<b>Balance at December 31, 2003</b>	-	-	-	-	-	-	-	-

Note : At the 15<sup>th</sup> Board of Governors Meeting (December 2002) of the STCU, it was decided not to offset the surplus, set out above, of the 2002 Administrative Operating Budget against the contributions required of the Funding Parties for the 2003 Administrative Operating Budget as mandated in the Financial Regulations of the STCU. The Governing Board instructed the STCU to establish a Building Fund with this surplus, with the intention of utilizing this fund to continue to renovate to Western standards the new headquarters facility located at 21 Kameniariv, Kyiv, provided by the Government of Ukraine at the end of 2002. During 2003 the entire amount of the Building Fund was spent.

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**13. Undesignated Capital Contributions**

	<b>United States</b>	<b>Sweden</b>	<b>Canada</b>	<b>Japan</b>	<b>European Union</b>	<b>Partners</b>	<b>Other</b>	<b>Total</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>Balance at January 1, 2003</b>	13,945,888	-	-	371,302	585,625	2,545,478	(87,534)	17,360,759
Advances Received from Funding Parties	7,725,940	-	-	-	377,116	2,839,495	-	10,942,551
Reserves Received from Funding Parties	-	-	-	-	325,927	-	-	325,927
Transfer to Designated Capital for Signed Projects	(9,138,732)	-	-	-	(461,998)	(2,588,747)	-	(12,189,477)
Adjustment for Closed Projects	31,210	-	274	3	2,278	37,703	-	71,468
Allocation of Surplus Income for 2003	375,241	327	30,662	2,112	64,240	(7,900)	-	464,682
Adjustment for 2003 Other Purposes	(3,941)	-	(486)	-	98,697	109	5,882	100,261
Transfer to A/P Non-Projects	-	-	-	-	-	(21,420)	-	(21,420)
Transfer to Designated Capital – Supplemental Budget	(774,881)	(327)	-	-	-	-	-	(775,208)
Transfer to Designated Capital - Administrative Budget	(823,915)	-	(30,450)	-	(198,898)	-	-	(1,053,263)
<b>Balance at December 31, 2003</b>	<b>11,336,810</b>	<b>-</b>	<b>-</b>	<b>373,417</b>	<b>792,987</b>	<b>2,804,718</b>	<b>(81,652)</b>	<b>15,226,280</b>

Note : The amount of \$5,882 under ‘Other’ relates to the performance of the 2002 and 2003 audit. This amount is a timing difference between when the audit cost is accrued as an expense for financial statement purposes, and when the amount is accounted for in the Administrative Operating Budget. The audit cost is expensed in the year before it is included in the AOB. Thus, the 2003 audit cost is accrued as an expense in the 2003 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2004 AOB.

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**14. Cash received from funding parties**

	<b>2003</b>	<b>2002</b>
	<b>USD</b>	<b>USD</b>
Canada	400,685	172,593
Sweden	-	-
Ukraine	159,980	129,406
Partners	6,451,430	7,379,665
United States	7,765,580	6,604,380
European Union	4,796,154	2,004,963
Japan	-	-
	<u>19,573,829</u>	<u>16,291,007</u>

**15. Financial commitments**

a) **Science and Technology Center in Ukraine**

No material commitments existed at December 31, 2003.

b) **Funding parties**

At December 31, 2003 the funding parties had approved but not signed 69 projects with a total funding of \$10,243,707 (2002 - \$12,979,983). The agreements for these projects are expected to be signed in 2004.

**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 by the funding parties.

**17. Financial Instruments**

The STCU's financial instruments comprise:

- Cash, liquid resources and short term debtors and creditors that arise directly from the STCU's operations.

The main risks arising from the STCU's financial instruments are liquidity risk and foreign currency risk. The STCU management reviews and agrees policies for managing each of these risks and they are summarised below.

a) **Liquidity Risk**

The STCU's assets comprise mainly of cash and bank deposits which are readily realisable to meet funding commitments.

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**b) Foreign Currency Risk**

The STCU's income and expenditure and net assets could be affected by currency translation movement as some of the STCU's assets and revenues are denominated in currencies other than US\$.

At the year end, financial assets held by the STCU in currencies other than US\$ were as follows;

	2003		2002	
	Amounts due from Funding Parties USD	Cash at Bank USD	Amounts due from Funding Parties USD	Cash at Bank USD
Euro's	2,262,897	2,856,564	2,208,496	1,679,971
Ukrainian Hryvna	-	88,923	-	49,222
	<u>2,262,897</u>	<u>2,945,487</u>	<u>2,208,496</u>	<u>1,729,193</u>

**18. Former STCU Facility at 3 Laboratornyj Provulok, Kyiv, Ukraine, 01133**

In accordance with the agreement establishing the STCU, the Government of Ukraine is responsible for providing, at its own expense, a facility suitable for use by the Center, along with maintenance, utilities and security. Accordingly the premises at 3 Laboratornyj Provulok were rented and made available to the STCU at the commencement of the STCU's activities.

Because the ownership of the STCU's former facility was unclear, the Ministry of Foreign Affairs stopped all rent payments until suitable ownership documents could be presented by the landlord. The rent from January 1, 2000 to May 31, 2000 (\$53,000) was not paid.

In late January 2002 the landlord obtained an ownership document for the former facility. During the course of 2002, the Government of Ukraine attempted to negotiate with the landlord of the STCU's former facility, in order to resolve two issues:

- (1) the unpaid rent from January 1, 2000, and
- (2) a new long-term lease for the STCU in the former facility.

In early October 2002, with no agreement reached between the former landlord and the Government of Ukraine on either of the aforementioned issues, the former landlord interrupted the electricity to the STCU's former facility. As per the decision of the STCU Board of Governors related to any interruption in STCU utilities, the Executive Director of the STCU declared "force majeure" (as described in Note 1) and the STCU moved into a temporary facility in mid-

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October 2002. The STCU returned the keys and the control of the former facility to the former landlord at the end of November 2002 and moved into its new premises at 21 Kameniariv, Kyiv in late December 2002.

On April 25, 2003, the former landlord filed suit (case #89-04/03) against the STCU and the Ministry of Foreign Affairs of Ukraine (as a co-defendant) in the Civil Court of the City of Kyiv in the amount of 318,848.17 UAH (\$59,804.59) for unpaid rent at the STCU's former premises. On June 26, 2003, (decision #3/335) the court found in favour of the former landlord and against the STCU, but not the Ministry of Foreign Affairs of Ukraine.

On April 6, 2004, the former landlord collected 968.25 UAH (182.69 USD) of the aforementioned court award from the STCU's local bank account. As a result of this seizure of some of the STCU's funds, the STCU management decided to halt all financial operations related to Ukrainian projects, and clear the STCU's local bank accounts, until all STCU's Parties could reach agreement as to how to resolve the outstanding court award.

The Government of Ukraine, represented by the Ministry of Science and Education of Ukraine, provided 299,129.42 UAH (56,121.84 USD) to the STCU on May 7, 2004 as partial payment towards the outstanding court order. Furthermore, on May 27, 2004 the Prosecutor General of Ukraine filed a motion with the Supreme Arbitration Court of Ukraine to demand that the court decision (#3/335) in the previous case (case #89-04/03) be re-examined. This motion temporarily froze any collection activity related to decision #3/335 until the Prosecutor General's motion is ruled upon by the Supreme Arbitration Court of Ukraine. Finally, on May 27, 2004, the Ministry of Science and Education provided a written assurance to the Board of Governors of the STCU of the following: (1) that as of January 1, 2003 the Ministry of Science and Education is the branch of the Government of Ukraine responsible for the STCU, (2) that the Ministry of Science and Education will uphold Articles 9 and 11 of the Agreement to Establish the STCU related to the Government of Ukraine providing at its own expense, a facility including all payments of rent and communal services, and (3) that the Ministry of Science and Education guarantees to assume the protection and obligations of the STCU in case of the filing of any court case or legal claims by Ukrainian citizens or organizations against STCU, in particular, case No. 3/335 of the Civil Court of Kiev.

With these actions and written assurances by the Ministry of Science and Education and having regard to the Agreement establishing the STCU, the management of the STCU believes that it is not liable for unpaid rent and utilities. Accordingly, the financial statements do not include any provision for the unpaid rent and utilities of the STCU's former facility.