

**SCIENCE AND TECHNOLOGY  
CENTER IN UKRAINE**

Financial Statements for the  
Year Ended 31 December 2005

**Lubbock Fine  
Chartered Accountants  
Registered Auditors**

## SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

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## SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

### INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS

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We have audited the financial statements, set out on pages 2 to 19, of the Science and Technology Center in Ukraine as at 31 December 2005 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 this .

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 Standard 16 requires Property, plant and equipment 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 2005, and of the results of its operations and its cash flows for the year then ended and have been prepared in accordance with International Financial Reporting Standards.



Lubbock Fine

London

15 May 2006

# 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, Georgia, and Moldova 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 72 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 Financial Reporting Standards (IFRS) except for International Accounting Standard (IAS) 16 relating to Property, plant and equipment as explained in the policy for Property, plant and equipment.

The financial statements have been prepared in United States Dollars (USD), 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 Georgia and Moldova. 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 a ceiling of 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 for Projects.

## **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

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## ACCOUNTING POLICIES

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

### **Property, Plant and Equipment**

Property, plant and equipment 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 Property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment set out above.

### **Cash at bank and in hand**

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

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## ACCOUNTING POLICIES

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### **Foreign Currency Transactions**

All foreign currency transactions are converted into USD 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, Georgia, and Moldova are transacted in USD and, therefore do not result in any gains or losses from currency exchanges.

### **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 USD, all European Union funded projects have to be expressed in USD. The manner in which these commitments are expressed is set out below.

### **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 prior to the 10<sup>th</sup> Board of Governors Meeting are concluded in USD.

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, and in USD if projects are jointly funded.

In relation to project agreement procedures for European Union projects approved at or subsequent to the 10<sup>th</sup> Board of Governors Meeting, concluded in USD, 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 USD. 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 USD received, including the reserve if available.



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## ACCOUNTING POLICIES

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### **Projects Signed at or subsequent to the 17<sup>th</sup> Board of Governors Meeting Conducted on December 4, 2003**

Project agreements approved by the European Union at all Governing Board Meetings including and subsequent to the 17<sup>th</sup> Board of Governors Meeting are concluded in Euros if solely funded by the European Union, and in USD if projects are jointly funded.

The project agreement procedures for projects approved at or subsequent to the 17th Board of Governors Meeting, concluded in USD, differ from the aforementioned procedures for projects financed by the European Union at or subsequent to the 10th STCU Board of Governors Meeting.

The European Union provides funding in Euros, before the projects are signed by the STCU Executive Director, and the STCU immediately converts the Euros upon receipt into USD. The total amount of USD provided by the European Union is therefore known before the start of the project, and thus the project agreements are written to match the amount of USD received.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF REVENUES AND EXPENDITURE  
FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 USD	2004 USD
<b>REVENUES</b>			
Project Revenue		16,291,450	17,675,237
Administrative Revenue			
- Administrative Operating Budget		2,154,458	1,891,037
- Supplemental Budget		1,961,648	1,946,671
Partner Fees		102,502	124,146
Interest Income		1,073,272	404,958
		<u>21,583,330</u>	<u>22,042,049</u>
<b>EXPENDITURE</b>			
Project Expenditure	1	16,291,450	17,675,237
Administrative Expenditure	2		
- Administrative Operating Budget		1,994,093	1,816,549
- Supplemental Budget		1,961,648	1,946,671
		<u>20,247,191</u>	<u>21,438,457</u>
<b>NET SURPLUS</b>	3	<u>1,336,139</u>	<u>603,592</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

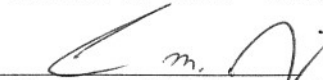
BALANCE SHEET AT 31 DECEMBER 2005

	Note	2005 USD	2004 USD
<b>CURRENT ASSETS</b>			
Receivables			
Amounts due from funding parties	5	7,541,243	6,561,908
Other receivables	6	67,111	26,237
Prepayments and accrued income	7	143,325	80,362
Cash and cash equivalents		38,669,342	41,143,759
		<u>46,421,021</u>	<u>47,812,266</u>
<b>CURRENT LIABILITIES</b>			
Amounts payable – projects	8	(2,153,285)	(2,317,981)
Amounts payable – non-project		(284,428)	(236,715)
		<u>(2,437,713)</u>	<u>(2,554,696)</u>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>43,983,308</u>	<u>45,257,570</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Designated capital – projects	9	18,754,380	20,916,901
Designated capital – administration	10	1,884,291	1,959,358
Designated capital – supplemental	11	4,815,237	4,660,357
Undesignated capital	12	18,529,400	17,720,954
		<u>43,983,308</u>	<u>45,257,570</u>

Signed on behalf of

The Science and Technology Center in Ukraine May 12, 2006

  
12.05.2006  
Andrew A. Hood – Executive Director

  
Curtis M. Bjelajac – Chief Financial Officer

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF CASH FLOWS AT 31 DECEMBER 2005

	Note	2005 USD	2004 USD
<b>Cash Flows from Operations</b>			
<b>Cash Inflows</b>			
Net Cash Received from Funding Parties	13	16,636,378	24,913,683
Interest Income and Partner Fees Received		1,104,944	487,134
Total Cash Inflows		<u>17,741,322</u>	<u>25,400,817</u>
<b>Cash Outflows</b>			
Project Expenditure		(16,456,145)	(18,046,051)
Administrative and Supplemental Expenditure		(3,759,594)	(3,590,124)
Total Cash Outflows		<u>(20,215,739)</u>	<u>(21,636,175)</u>
Net Cash Inflows From Operations		(2,474,417)	3,764,642
Cash and cash equivalents at 1 January		41,143,759	37,379,117
Cash and cash equivalents at 31 December		<u>38,669,342</u>	<u>41,143,759</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**1. Project Expenditure**

	<b>USD</b>
Amounts charged to the Statement of Revenues and Expenditure:	
2005	16,291,450
2004	17,675,237
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 2005	<u>103,001,236</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 2,500 USD 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**

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
<b>a) Administrative Operating Budget</b>		
Business Operations	277,362	282,685
Public Affairs	49,628	39,130
Personnel	662,695	646,432
Personnel Support and Development	171,918	118,749
Sustainability Group Operations	50,975	79,929
Legal, Auditing, and Banking	406,719	271,654
Fixed Assets	114,269	145,051
Headquarters and Branch Offices	260,527	232,919
	<u>1,994,093</u>	<u>1,816,549</u>

Included within 'Legal, auditing and banking' are exchange losses of 57,213 USD (2004 - 12,050 USD).

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

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
<b>b) Supplemental Budget</b>		
Technical, Collaborator and Contractor Travel Support	58,599	36,196
Information Technology Support	17,738	51,458
Communication Support	-	2,555
Business Training/ Sustainability Group Support	60,176	19
Patent Support	19,075	23,335
Travel and Mobility Support	186,658	210,870
Expert Review and Advisors	7,583	27,609
Seminars/ Workshops Support	77,020	86,034
Service Contracts	1,458,393	1,508,595
Targeted Training	76,406	-
	<u>1,961,648</u>	<u>1,946,671</u>

**3. Net Surplus Revenues Over Expenditure**

The net surplus of 1,336,139 USD comprises the following;

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
Surplus Administrative Budget Revenues	169,093	76,109
Investment Income	1,073,272	404,958
Partner Fees	102,502	124,146
Other Revenue/(Expense)	(8,728)	(1,621)
	<u>1,336,139</u>	<u>603,592</u>

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

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**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, Uzbekistan, and Azerbaijan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia, Uzbekistan, and Azerbaijan to investigate the possibility of establishing a procedure to recover project VAT for purchases made within these respective countries. 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, Uzbekistan, and Azerbaijan are exempt from VAT.

The VAT on administrative expenditures for 2005 has been credited back to the corresponding expense account to which it relates.

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

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
United States	1,766,541	2,370,527
Canada	214,556	233,372
European Union	2,004,692	1,164,132
Partners	2,545,613	1,591,908
	<u>6,531,402</u>	<u>5,359,939</u>

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

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
European Union	-	625,888
Partners	1,009,841	576,081
	<u>1,009,841</u>	<u>1,201,969</u>
<b>Total due from funding parties</b>	<u><u>7,541,243</u></u>	<u><u>6,561,908</u></u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
 NOTES TO THE FINANCIAL STATEMENTS

**6. Other receivables**

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
VAT Recoverable	16,396	13,968
Other Receivables	50,715	12,269
	<u>67,111</u>	<u>26,237</u>

**7. Prepayments and accrued income**

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
Prepayments	30,132	24,342
Accrued Interest	113,193	56,020
	<u>143,325</u>	<u>80,362</u>

**8. Amounts payable projects**

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
Grants Payable	1,321,581	1,475,083
Overhead Payable	216,382	234,828
Overhead Retainage	615,322	608,070
	<u>2,153,285</u>	<u>2,317,981</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, 2005</b>	9,086,247	280,452	89,985	5,120,612	6,339,605	20,916,901
New Projects Signed During 2005	5,177,307	229,762	195,095	2,680,598	6,487,186	14,769,948
Revaluation of Project Agreements	-	-	-	(437,277)	(70,793)	(508,070)
Adjustment for Terminated Projects	-	-	-	-	(16,900)	(16,900)
Adjustment for Closed Projects	(29,676)	(696)	-	(14,636)	(71,041)	(116,049)
<b>Transfer to Statement of Revenues and Expenditure</b>						
Expenditure Incurred on Projects in 2005	(6,691,790)	(238,958)	(77,584)	(3,511,085)	(5,772,033)	(16,291,450)
<b>Balance at December 31, 2005</b>	<b>7,542,088</b>	<b>270,560</b>	<b>207,496</b>	<b>3,838,212</b>	<b>6,896,024</b>	<b>18,754,380</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, 2005</b>	1,270,885	-	196,492	491,981	-	-	1,959,358
Additional Contribution for 2005	-	-	-	-	-	195,100	195,100
Transfer to Statement of Revenues and Expenditure	(1,270,885)	-	(196,492)	(491,981)	-	(195,100)	(2,154,458)
Administrative Budget 2006	1,163,860	-	173,753	546,678	-	-	1,884,291
<b>Balance at December 31, 2005</b>	<b>1,163,860</b>	<b>-</b>	<b>173,753</b>	<b>546,678</b>	<b>-</b>	<b>-</b>	<b>1,884,291</b>

**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, 2005</b>	3,248,106	99,544	82,606	976,957	253,144	-	4,660,357
Supplemental Budgets Approved	1,616,114	-	130,054	792,518	131,220	-	2,669,906
Transfer from Undes. Cap. Contributions	-	1,428	-	-	-	-	1,428
Adjustment for Revaluation	-	-	-	(57,161)	-	-	(57,161)
Transfer to DCC – Projects for Signed Targeted Initiative Projects	(336,508)	-	(39,762)	(121,375)	-	-	(497,645)
Transfer to Statement of Rev. and Exp.	(1,418,396)	-	(57,521)	(433,279)	(52,452)	-	(1,961,648)
<b>Balance at December 31, 2005</b>	<b>3,109,316</b>	<b>100,972</b>	<b>115,377</b>	<b>1,157,660</b>	<b>331,912</b>	<b>-</b>	<b>4,815,237</b>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

**12. Undesignated Capital Contributions**

	United States	Sweden	Canada	Japan	European Union	Partners	Other	Total
	USD	USD	USD	USD	USD	USD	USD	USD
<b>Balance at January 1, 2005</b>	10,514,401	-	-	220,958	3,403,308	3,665,560	(83,273)	17,720,954
Advances Received from Funding Parties	5,000,000	-	50,000	-	5,217,243	3,738,400	-	14,005,643
Transfer to Designated Capital for Signed Projects	(4,840,799)	-	-	(208,752)	(2,522,746)	(1,919,266)	-	(9,491,563)
Adjustment for Closed Projects	29,676	-	696	-	14,636	66,286	-	111,294
Allocation of Surplus Income for 2005	1,007,531	1,428	51,915	7,896	267,369	-	-	1,336,139
Adjustment for 2005 Other Purposes	5,902	-	750	-	2,129	10	(8,728)	63
Adjustment for Revaluation	-	-	-	-	(698,235)	-	-	(698,235)
Transfer to Designated Capital – Supplemental Budget	(1,566,693)	(1,428)	(9,923)	-	(466,348)	-	-	(2,044,392)
Transfer to Designated Capital - Administrative Budget	(1,817,267)	-	(43,438)	-	(549,798)	-	-	(2,410,503)
<b>Balance at December 31, 2005</b>	<b>8,332,751</b>	<b>-</b>	<b>50,000</b>	<b>20,102</b>	<b>4,667,558</b>	<b>5,550,990</b>	<b>(92,001)</b>	<b>18,529,400</b>

Note : The amount of 8,728 USD under ‘Other’ relates to the performance of the 2004 and 2005 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 2005 audit cost is accrued as an expense in the 2005 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2006 AOB.

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**13. Net cash received from funding parties**

	<b>2005</b>	<b>2004</b>
	<b>USD</b>	<b>USD</b>
Canada	509,315	414,994
Ukraine	-	56,138
Partners	6,957,637	6,019,104
United States	5,000,000	8,956,524
European Union	4,169,426	9,466,923
	<u>16,636,378</u>	<u>24,913,683</u>

**14. Financial commitments**

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

No material commitments existed at December 31, 2005.

b) **Funding parties**

At December 31, 2005 the funding parties had approved but not signed 55 projects with a total funding of 8,516,033 USD (2004 – 7,847,475 USD including 3,602,245 USD of projects approved at the 19<sup>th</sup> STCU Governing Board which occurred in February 2005). The agreements for these projects are expected to be signed in 2006.

**15. 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.

**16. 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.

These financial instruments are initially recorded at their nominal value and are stated in the accounts at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

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 USD.

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

	<b>2005</b>		<b>2004</b>	
	<b>Amounts due from Funding Parties USD</b>	<b>Cash at Bank USD</b>	<b>Amounts due from Funding Parties USD</b>	<b>Cash at Bank USD</b>
Euro's	1,607,032	6,247,412	1,265,792	6,074,135
Ukrainian Hryvna	-	26,445	-	9,396
Azeri Manat	-	557	-	16
	<u>1,607,032</u>	<u>6,274,414</u>	<u>1,265,792</u>	<u>6,083,547</u>