

**SCIENCE AND TECHNOLOGY
CENTER IN UKRAINE**

Financial Statements for the
Year Ended 31 December 2007

**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

We have audited the financial statements, set out on pages 3 to 20, of the Science and Technology Center in Ukraine as at 31 December 2007 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, Accounting Policies and the Notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS

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.

Included within accounts payable is USD 390,130 of travel advances made to project grantees, these amounts are offset against amounts payable to these project grantees. A significant amount of the travel these advances were given for occurred before the 31 December 2007. However, the project grantees have yet to report the exact cost of the travel to the Science and Technology Center in the Ukraine and therefore we cannot verify whether project expenses are complete for the year. Any adjustment necessary would increase project revenue and expenditure and decrease accounts payable – projects and designated capital – projects. There were no alternative audit procedures that we could adopt to confirm the error.

As more fully explained in the Accounting Policies, Property, plant and equipment 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 Property, plant and equipment 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 2007, 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

Lubbock Fine
15-5-08

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

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 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 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.

Going Concern

The STCU agreement provides for the Government of Ukraine to supply the STCU with premises and utilities. On 31 December 2007 the lease between the Government of Ukraine and the owner of 21 Kameniariv Street, Kyiv, expired. As a result of the expired lease agreement, on 8 April 2008 the electricity supply to the building was cut due to non payment of utilities by the landlord. To the date of signing of these accounts, the new lease agreement (effective January 1, 2008) has not been resolved to a point where the electricity supply has been restored to the STCU.

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As allowed by the force majeure section of STCU project agreements, on April 18, 2008, the STCU suspended one hundred thirty three (133) active Ukrainian projects and has suspended all headquarter activities until the building issue is resolved by the Government of Ukraine.

When the electricity is permanently restored to the building the STCU will lift the force majeure and resume normal operations.

If the force majeure is not lifted adjustments would have to be made to reduce balance sheet values of assets to their recoverable amount, provide for future liabilities that might arise and return designated capital to undesignated capital for the funding parties

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:

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.

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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 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

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ACCOUNTING POLICIES

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 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.

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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.

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 10th Board of Governors Meeting Conducted on June 1, 2000

Project agreements approved by the European Union at all Governing Board Meetings prior to the 10th 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 10th 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 10th Board of Governors Meeting, concluded in USD, the Executive Director of the STCU assigns these projects a Euro to

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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.

Projects Signed at or subsequent to the 17th 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 17th 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.

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STATEMENT OF REVENUES AND EXPENDITURE
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 USD	2006 USD
REVENUES			
Project Revenue		19,305,482	17,434,164
Administrative Revenue			
- Administrative Operating Budget		1,930,515	2,080,785
- Supplemental Budget		2,659,250	2,215,306
Partner Fees		258,054	196,728
Interest Income		1,678,577	1,622,134
		<u>25,831,878</u>	<u>23,549,117</u>
EXPENDITURE			
Project Expenditure	1	19,305,482	17,434,164
Administrative Expenditure	2		
- Administrative Operating Budget		1,877,807	1,946,290
- Supplemental Budget		2,659,250	2,215,306
		<u>23,842,539</u>	<u>21,595,760</u>
NET SURPLUS	3	<u>1,989,339</u>	<u>1,953,357</u>

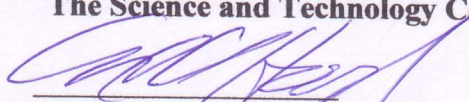
There are no recognised gains or losses other than the results for the year as set out above.

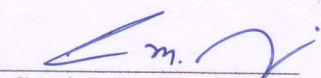
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BALANCE SHEET AT 31 DECEMBER 2007

	Note	2007 USD	2006 USD
CURRENT ASSETS			
Receivables			
Amounts due from funding parties	5	7,191,651	6,599,935
Other receivables	6	188,839	189,350
Prepayments and accrued income	7	124,572	171,413
Cash and cash equivalents		39,815,985	42,083,400
		<u>47,321,047</u>	<u>49,044,098</u>
CURRENT LIABILITIES			
Amounts payable – projects	8	(2,680,786)	(2,276,384)
Amounts payable – non-project		(269,435)	(566,276)
		<u>(2,950,221)</u>	<u>(2,842,660)</u>
TOTAL ASSETS LESS LIABILITIES		<u>44,370,826</u>	<u>46,201,438</u>
CAPITAL CONTRIBUTIONS			
Designated capital – projects	9	25,063,117	24,866,780
Designated capital – administration	10	1,703,844	1,733,079
Designated capital – supplemental	11	3,749,553	5,148,329
Undesignated capital	12	13,854,312	14,453,250
		<u>44,370,826</u>	<u>46,201,438</u>

Signed on behalf of
The Science and Technology Center in Ukraine 15 MAY 2008


Andrew A. Hood – Executive Director


Curtis M. Bjelajac – Chief Financial Officer

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STATEMENT OF CASH FLOWS AT 31 DECEMBER 2007

	Note	2007 USD	2006 USD Restated
Cash Flows from Operations			
Cash Inflows			
Net Cash Received from Funding Parties	13	17,935,277	21,485,440
Interest Income and Partner Fees Received		1,989,707	1,783,466
Total Cash Inflows		<u>19,924,984</u>	<u>23,268,906</u>
Cash Outflows			
Project Expenditure		(18,901,080)	(17,311,065)
Administrative and Supplemental Expenditure		(4,402,987)	(4,028,794)
Total Cash Outflows		<u>(23,304,067)</u>	<u>21,339,859</u>
Net Cash (Outflows)/Inflows From Operations		(3,379,083)	1,929,047
Net Revaluation Gains/(Losses)		1,111,668	1,485,011
Cash and cash equivalents at 1 January		42,083,400	38,669,342
Cash and cash equivalents at 31 December		<u>39,815,985</u>	<u>42,083,400</u>

The net revaluation gains principally relate to amounts contributed from funding parties in currencies other than USD which are held in the source currency of the original contribution. These notional cash gains are fully offset by revaluations of funding parties capital accounts held in a source currency other than USD. Revaluation gains are not actual cash movements but a reflection of the changing value of the source currency. Exchange rate risk is managed as set out in the accounting policies.

2006 figures have been restated to disclose the revaluation gains separately. Gains were previously held in Net Cash Received from Funding parties and Administrative and Supplemental Expenditure.

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NOTES TO THE FINANCIAL STATEMENTS

1. Project Expenditure

	USD
Amounts charged to the Statement of Revenues and Expenditure:	
2007	19,305,482
2006	17,434,164
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 2007	<u>139,740,882</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

	2007 USD	2006 USD
a) Administrative Operating Budget		
Business Operations	363,314	309,922
Public Affairs	12,699	61,925
Personnel	718,054	740,345
Personnel Support and Development	192,316	195,486
Legal, Auditing, and Banking	294,519	280,519
Property, Plant and Equipment	25,127	57,943
Headquarters and Branch Offices	271,778	300,150
	<u>1,877,807</u>	<u>1,946,290</u>

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Included within 'Legal, auditing and banking' are exchange losses of 36,106 USD (2006 – included gains of (2,457) USD).

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

	2007	2006
	USD	USD
b) Supplemental Budget		
Technical, Collaborator and Contractor Travel Support	29,750	83,983
Information Technology Support	486	-
Communication Support	-	-
Business Training/ Sustainability Group Support	242,872	149,985
Patent Support	1,950	30,976
Travel and Mobility Support	436,371	249,857
Expert Review and Advisors	1,162	27,477
Seminars/ Workshops Support	93,366	96,915
Service Contracts	1,755,338	1,500,289
Targeted Training	97,955	75,824
	<u>2,659,250</u>	<u>2,215,306</u>

3. Net Surplus Revenues Over Expenditure

The net surplus of 1,989,339 USD comprises the following;

	2007	2006
	USD	USD
Surplus Administrative Budget Revenues	54,052	134,118
Investment Income	1,678,577	1,622,134
Partner Fees	258,054	196,728
Other Revenue/(Expense)	(1,344)	377
	<u>1,989,339</u>	<u>1,953,357</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

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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, Moldova, and Azerbaijan are exempt from VAT.

The VAT on administrative expenditures for 2007 has been credited back to the corresponding expense account to which it relates.

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

	2007	2006
	USD	USD
United States	101,308	1,117,962
Canada	1,583,775	972,156
European Union	1,661,386	1,386,930
Partners	2,974,552	2,291,433
	<u>6,321,021</u>	<u>5,768,481</u>

Amounts Due From Funding Parties – Due After One Year

	2007	2006
	USD	USD
Canada	167,351	-
Partners	703,279	831,454
	<u>870,630</u>	<u>831,454</u>
Total due from funding parties	<u>7,191,651</u>	<u>6,599,935</u>

6. Other receivables

	2007	2006
	USD	USD
VAT Recoverable	14,537	20,932
Other Receivables	174,302	168,418
	<u>188,839</u>	<u>189,350</u>

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7. Prepayments and accrued income

	2007	2006
	USD	USD
Prepayments	29,059	22,824
Accrued Interest	95,513	148,589
	<u>124,572</u>	<u>171,413</u>

8. Amounts payable projects

	2007	2006
	USD	USD
Grants Payable	1,714,017	1,608,224
Overhead Payable	164,260	230,352
Overhead Retainage	802,509	437,808
	<u>2,680,786</u>	<u>2,276,384</u>

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NOTES TO THE FINANCIAL STATEMENTS

9. Designated Capital Contributions - Projects

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

	United States	Canada	Japan	European Union	Partners	Total
	USD	USD	USD	USD	USD	USD
Balance at January 1, 2007	8,466,641	155,658	112,122	6,515,812	9,616,547	24,866,780
New Projects Signed During 2007	1,740,457	771,604	-	6,331,526	9,740,448	18,584,035
Revaluation of Project Agreements	-	-	-	831,747	128,648	960,395
Adjustment for Closed Projects	(22,013)	(171)	-	(7,850)	(22,427)	(52,461)
Other Adjustment	7,406	(428)	-	2,434	438	9,850
Transfer to Statement of Revenues and Expenditure						
Expenditure Incurred on Projects in 2007	(5,320,281)	(215,143)	(67,247)	(4,871,447)	(8,831,364)	(19,305,482)
Balance at December 31, 2007	4,872,210	711,520	44,875	8,802,222	10,632,290	25,063,117

Note: Included within DCC projects is USD 1,125,120 relating to signed projects in Uzbekistan which have yet to commence. Management of the STCU believe there is a possibility these projects may not take place due to current difficulties between the STCU and the Government of Uzbekistan and that the funding may have to be returned to undesignated capital of the funding parties. However, until formal communication is received from the Government of Uzbekistan that these projects will not be allowed to progress the STCU still has a commitment to fund these projects.

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NOTES TO THE FINANCIAL STATEMENTS

10. Designated Capital Contributions - Administration

	United States USD	Sweden USD	Canada USD	European Union USD	Partners USD	Ukraine USD	Total USD
Balance at January 1, 2007	1,063,337	-	141,430	528,312	-	-	1,733,079
Additional Contribution for 2007	-	-	-	-	-	197,436	197,436
Transfer to Statement of Revenues and Expenditure	(1,063,337)	-	(141,430)	(528,312)	-	(197,436)	(1,930,515)
Administrative Budget 2008	823,402	-	188,493	691,949	-	-	1,703,844
Balance at December 31, 2007	823,402	-	188,493	691,949	-	-	1,703,844

11. Designated Capital Contributions - Supplemental

	United States USD	Sweden USD	Canada USD	European Union USD	Partners USD	Ukraine USD	Total USD
Balance at January 1, 2007	2,864,304	105,040	604,649	1,257,881	316,455	-	5,148,329
Supplemental Budgets Approved	1,483,648	-	645,863	1,224,030	80,000	-	3,433,541
Transfer from/(to) Undesignated Capital Contributions	(1,087,700)	4,593	(196,954)	(439,148)	-	-	(1,719,209)
Other Adjustment	996	-	(208)	(788)	-	-	-
Adjustment for Revaluation	-	-	-	64,381	-	-	64,381
Transfer to DCC – Projects for Signed Targeted Initiative Projects	(348,853)	-	(52,985)	(116,401)	-	-	(518,239)
Transfer to Statement of Rev. and Exp.	(1,428,748)	-	(354,503)	(765,925)	(110,074)	-	(2,659,250)
Balance at December 31, 2007	1,483,647	109,633	645,862	1,224,030	286,381	-	3,749,553

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12. Undesignated Capital Contributions

	United States	Sweden	Canada	Japan	European Union	Partners	Other	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Balance at January 1, 2007	5,392,600	-	-	27,065	3,867,862	5,257,347	(91,624)	14,453,250
Advances Received from Funding Parties	2,714,238	-	13,501	-	6,727,545	3,406,734	-	12,862,018
Transfer to Designated Capital for Signed Projects	(1,391,603)	-	(13,501)	-	(6,215,125)	(2,468,831)	-	(10,089,060)
Adjustment for Closed Projects	30,397	-	229	-	12,949	22,647	-	66,222
Allocation of Surplus Income for 2007	1,118,043	4,593	63,433	4,602	800,014	-	-	1,990,685
Adjustment for 2007 Other Purposes	(7,406)	-	428	-	(2,434)	-	(1,344)	(10,756)
Adjustment for Revaluation	-	-	-	-	243,713	344	-	244,057
Returned to Funding Party	-	-	-	-	-	(2,046,868)	-	(2,046,868)
Transfer from Designated Capital – Supplemental Budget	1,087,700	-	196,954	-	439,148	-	-	1,723,802
Transfer to Designated Capital – Supplemental Budget	(2,500,303)	(4,593)	(72,552)	-	(1,110,022)	(80,000)	-	(3,767,470)
Transfer to Designated Capital - Administrative Budget	(823,402)	-	(188,492)	-	(559,674)	-	-	(1,571,568)
Balance at December 31, 2007	5,620,264	-	-	31,667	4,203,976	4,091,373	(92,968)	13,854,312

Note: The amount of (1,344) USD under ‘Other’ relates to the performance of the 2006 and 2007 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 2007 audit cost is accrued as an expense in the 2007 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2008 AOB.

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13. Net cash received from funding parties

	2007	2006
	USD	USD
		Restated
Canada	512,961	13,618
Partners	8,205,969	10,253,985
United States	2,714,238	5,650,000
European Union	6,502,109	5,567,837
	<u>17,935,277</u>	<u>21,485,440</u>

14. Financial commitments

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

No material commitments existed at December 31, 2007.

b) **Funding parties**

At December 31, 2007 the funding parties had approved but not signed 27 projects with a total funding of 3,489,429 USD (2006 – 4,774,796). The agreements for these projects are expected to be signed in 2008.

15. 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.

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. The STCU manages foreign currency risk through keeping funds in the currency of commitment (USD or Euros) and minimizing funds held in local currency.

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

	2007		2006	
	Amounts due from Funding Parties USD	Cash at Bank USD	Amounts due from Funding Parties USD	Cash at Bank USD
Euros	1,975,628	12,933,372	1,435,922	10,738,522
Ukrainian Hryvna	-	246,864	-	119,039
Azeri Manat	-	3	-	101
	<u>1,975,628</u>	<u>13,180,239</u>	<u>1,435,922</u>	<u>10,857,662</u>