

**SCIENCE AND TECHNOLOGY
CENTER IN UKRAINE**

Financial Statements for the
Year Ended 31 December 2009

**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 23, of the Science and Technology Center in Ukraine as at December 31, 2009 at the request of the Board of Governors. The financial statements comprise the Balance Sheet at this date, the Statement of Revenues and Expenditure and Statement of Cash Flows for the year ended 31 December 2009, Accounting Policies and the Notes to the Financial Statements.

Management's Responsibility for the Financial Statements

Management of the Science and Technology Center in Ukraine 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 three 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 auditors' 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 modified audit opinion.

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS

Basis for Qualified Opinion

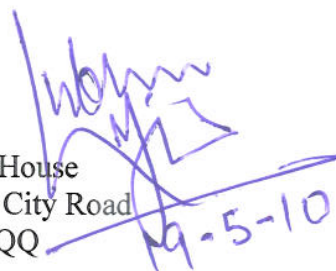
The terms of the project agreements, concluded between the Science and Technology Center in Ukraine and the recipient institutes, state that grant costs for a specific period of time may not be claimed by the recipient institutes if they are receiving reimbursements from other funding sources for the 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 grant 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, 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.

Qualified Opinion

In our opinion, except for the possible effects 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 December 31, 2009, 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
Russell Bedford House
City Forum, 250 City Road
London EC1V 2QQ



Handwritten signature and date: 19-5-10

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 7a Metalistiv Street Kiev 03057. The STCU has an international staff of 60 full time scientific, financial and administrative experts.

Basis of Preparation

The financial statements represent the results of the STCU as an individual entity and 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.

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ACCOUNTING POLICIES

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.

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

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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.

Any surplus/(deficit) 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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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.

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 or Euros and, therefore do not result in any gains or losses from currency exchanges except for those arising from USD to Euro exchange differences.

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European Union Funded Projects

Project agreements are concluded in Euros if solely funded by the European Union, and in USD if projects are jointly funded.

For project agreements concluded in USD (jointly funded), 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.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Receivables – Amounts due from funding parties

Amounts due from funding parties are recognised on signature of the project agreement or approval of the Administrative Operating Budget or Supplemental Budget and are carried forward at invoiced amount.

Cash and cash equivalents

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

Amounts payable

Amounts payable are recognised and carried forward at invoiced amounts.

Designated capital

Designated capital represents funding party contributions to the STCU which have been designated for a specific purpose by that funding party. Designated capital is initially recognised at committed amounts.

Undesignated capital

Undesignated capital represents funding party contributions to the STCU which have yet to be designated. Undesignated capital is initially recognised at received amount.

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STATEMENT OF REVENUES AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 USD	2008 USD
REVENUES			
Project Revenue		15,902,171	18,657,918
Administrative Revenue			
- Administrative Operating Budget		1,875,809	2,206,214
- Supplemental Budget		2,566,932	2,529,333
Partner Fees		211,291	206,296
Interest Income		264,431	951,169
		<u>20,820,634</u>	<u>24,550,930</u>
EXPENDITURE			
Project Expenditure	1	15,902,171	18,657,918
Administrative Expenditure	2		
- Administrative Operating Budget		1,526,567	2,326,467
- Supplemental Budget		2,566,932	2,529,333
		<u>19,995,670</u>	<u>23,513,718</u>
NET SURPLUS	3	<u>824,964</u>	<u>1,037,212</u>

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

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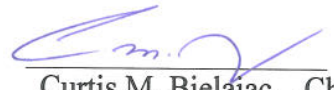
BALANCE SHEET AT 31 DECEMBER 2009

	Note	2009 USD	2008 USD
CURRENT ASSETS			
Receivables			
Amounts due from funding parties	5	9,570,229	8,074,071
Other receivables	6	51,501	69,739
Prepayments and accrued income	7	38,100	49,313
Cash and cash equivalents		26,688,193	33,213,300
		<u>36,348,023</u>	<u>41,406,423</u>
CURRENT LIABILITIES			
Amounts payable – projects	8	(1,612,510)	(2,903,114)
Amounts payable – non-project		(155,430)	(277,187)
		<u>(1,767,940)</u>	<u>(3,180,301)</u>
TOTAL ASSETS LESS LIABILITIES		<u>34,580,083</u>	<u>38,226,122</u>
CAPITAL CONTRIBUTIONS			
Designated capital – projects	9	18,663,649	19,490,308
Designated capital – administration	10	1,778,340	1,875,809
Designated capital – supplemental	11	3,795,231	3,699,919
Undesignated capital	12	10,342,863	13,160,086
		<u>34,580,083</u>	<u>38,226,122</u>

Signed on behalf of

The Science and Technology Center in Ukraine 18 MAY 2010


Andrew A. Hood – Executive Director


Curtis M. Bjelajac – Chief Financial Officer

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 USD	2008 USD
Cash Flows from Operations			
Cash Inflows			
Net Cash Received from Funding Parties	13	14,066,756	15,585,292
Interest Income and Partner Fees Received		478,875	1,239,466
Total Cash Inflows		<u>14,545,631</u>	<u>16,824,758</u>
Cash Outflows			
Project Expenditure		(17,192,775)	(18,435,590)
Administrative and Supplemental Expenditure		(4,188,956)	(4,177,686)
Total Cash Outflows		<u>(21,381,731)</u>	<u>(22,613,276)</u>
Net Cash (Outflows)/Inflows From Operations		(6,836,100)	(5,788,518)
Net Revaluation Gains/(Losses)		310,993	(814,167)
Cash and cash equivalents at 1 January		33,213,300	39,815,985
Cash and cash equivalents at 31 December		<u>26,688,193</u>	<u>33,213,300</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. Foreign currency risk is managed as set out in the note 15.

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NOTES TO THE FINANCIAL STATEMENTS

1. Project Expenditure

	USD
Amounts charged to the Statement of Revenues and Expenditure:	
2009	15,902,171
2008	18,657,918
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 December 31, 2009	<u>174,300,971</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

	2009 USD	2008 USD
a) Administrative Operating Budget		
Business Operations	322,163	254,081
Public Affairs	14,471	15,221
Personnel	748,743	717,079
Personnel Support and Development	201,199	192,821
Legal, Auditing and Banking	86,093	569,478
Property, Plant and Equipment	95,332	85,654
Headquarters and Branch Offices	58,566	492,133
	<u>1,526,567</u>	<u>2,326,467</u>

Included within 'Legal, auditing and banking' are exchange gains of 140,099 USD (2008 – included losses of 324,691 USD).

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NOTES TO THE FINANCIAL STATEMENTS

Personnel costs comprises grants made to the grantees in the STCU headquarters and six regional offices located in Lviv, Kharkiv, Dnipropetrovsk (closed in November 2009), Baku, Tashkent, Chisinau, and Tbilisi.

From March 2009 the STCU have occupied offices provided by the Ukrainian government for which the STCU does not pay rental or utility charges. The comparative charge for these expenses of 417,370 USD was shown under 'Headquarters and Branch Offices' and Administrative Revenue. No reliable estimate can be made of the fair value of the rental and utility benefit provided in 2009.

	2009	2008
	USD	USD
b) Supplemental Budget		
Technical, Collaborator and Contractor Travel Support	54,425	70,213
Information Technology Support	(1,050)	-
Business Training/ Sustainability Group Support	163,644	114,710
Patent Support	25,223	1,016
Travel and Mobility Support	445,205	454,370
Expert Review and Advisors	46,701	55,090
Seminars/ Workshops Support	55,307	49,096
Service Contracts	1,589,117	1,763,508
Targeted Training	7,360	18,150
Institute Sustainability	140,974	3,053
Biosecurity and Biosafety	40,026	127
	<u>2,566,932</u>	<u>2,529,333</u>

3. Net Surplus Revenues Over Expenditure

The net surplus of 824,964 USD comprises the following;

	2009	2008
	USD	USD
Surplus/(Deficit) Administrative Budget Revenues	343,982	(118,061)
Investment Income	264,431	951,169
Partner Fees	211,291	206,296
Other Revenue/(Expense)	5,260	(2,192)
	<u>824,964</u>	<u>1,037,212</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

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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, Moldova, and Azerbaijan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia, Uzbekistan, Moldova, 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 2009 has been credited back to the corresponding expense account to which it relates.

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

	2009	2008
	USD	USD
United States	1,047,373	936,155
Canada	3,030,803	2,237,025
European Union	1,717,652	1,834,589
Partners	2,778,461	2,475,535
	<u>8,574,289</u>	<u>7,483,304</u>

Amounts Due From Funding Parties – Due After One Year

	2009	2008
	USD	USD
Partners	<u>995,940</u>	<u>590,767</u>
Total due from funding parties	<u>9,570,229</u>	<u>8,074,071</u>

6. Other receivables

	2009	2008
	USD	USD
VAT Recoverable	22,720	13,527
Other Receivables	<u>28,781</u>	<u>56,212</u>
	<u>51,501</u>	<u>69,739</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

7. Prepayments and accrued income

	2009 USD	2008 USD
Prepayments	27,743	35,801
Accrued Interest	10,357	13,512
	<u>38,100</u>	<u>49,313</u>

8. Amounts payable - projects

	2009 USD	2008 USD
Grants Payable	927,624	1,871,747
Overhead Payable	55,899	130,875
Overhead Retainage	628,987	900,492
	<u>1,612,510</u>	<u>2,903,114</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

9. Designated Capital Contributions - Projects

Designated Capital Contributions (DCC) 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, 2009	2,124,568	2,092,200	-	7,616,876	7,656,664	19,490,308
New Projects Signed During 2009	1,627,313	2,248,668	-	3,862,967	7,621,129	15,360,077
Revaluation of Project Agreements	-	-	-	173,814	52,216	226,030
Adjustment for Closed Projects	(58,716)	(1,125)	-	(39,829)	(410,925)	(510,595)
Transfer to Statement of Revenues and Expenditure						
Expenditure Incurred on Projects in 2009	(1,735,951)	(1,762,321)	-	(5,900,458)	(6,503,441)	(15,902,171)
Balance at December 31, 2009	<u>1,957,214</u>	<u>2,577,422</u>	<u>-</u>	<u>5,713,370</u>	<u>8,415,643</u>	<u>18,663,649</u>

Note: Included within DCC projects is 1,291,524 USD (2008 –1,287,954 USD) 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.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

9. **Designated Capital Contributions – Projects** (*continued*)

Designated Capital Contributions (DCC) 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, 2008	4,872,210	711,520	44,875	8,802,222	10,632,290	25,063,117
New Projects Signed During 2008	539,534	2,241,371	-	4,742,168	6,190,059	13,713,132
Revaluation of Project Agreements	-	-	-	(192,553)	(21,168)	(213,721)
Adjustment for Closed Projects	(57,293)	(13)	(1,632)	(16,986)	(338,378)	(414,302)
Transfer to Statement of Revenues and Expenditure						
Expenditure Incurred on Projects in 2008	(3,229,883)	(860,678)	(43,243)	(5,717,975)	(8,806,139)	(18,657,918)
Balance at December 31, 2008	<u>2,124,568</u>	<u>2,092,200</u>	<u>-</u>	<u>7,616,876</u>	<u>7,656,664</u>	<u>19,490,308</u>

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
Balance at January 1, 2008	823,402	-	188,493	691,949	-	-	1,703,844
Additional Contribution for 2008	28,333	-	28,334	28,333	-	417,370	502,370
Transfer to Statement of Revenues and Expenditure	(851,735)	-	(216,827)	(720,282)	-	(417,370)	(2,206,214)
Administrative Budget 2009	613,305	-	341,397	921,107	-	-	1,875,809
Balance at January 1, 2009	613,305	-	341,397	921,107	-	-	1,875,809
Transfer to Statement of Revenues and Expenditure	(613,305)	-	(341,397)	(921,107)	-	-	(1,875,809)
Administrative Budget 2010	499,884	-	437,310	841,146	-	-	1,778,340
Balance at December 31, 2009	499,884	-	437,310	841,146	-	-	1,778,340

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

11. Designated Capital Contributions - Supplemental

	United States	Sweden	Canada	European Union	Partners	Ukraine	Total
	USD	USD	USD	USD	USD	USD	USD
Balance at January 1, 2008	1,483,647	109,633	645,862	1,224,030	286,381	-	3,749,553
Supplemental Budgets Approved	1,168,652	-	1,097,000	1,081,291	58,151	-	3,405,094
Transfer from/(to) Undesignated Capital Contributions	(351,718)	2,777	(179,105)	(380,277)	-	-	(908,323)
Adjustment for Revaluation	-	-	-	(17,072)	-	-	(17,072)
Transfer to Statement of Rev. and Exp.	(1,146,929)	-	(466,757)	(826,681)	(88,966)	-	(2,529,333)
Balance at January 1, 2009	1,153,652	112,410	1,097,000	1,081,291	255,566	-	3,699,919
Supplemental Budgets Approved	966,000	-	1,366,000	1,172,439	12,000	-	3,516,439
Transfer from/(to) Undesignated Capital Contributions	(146,079)	615	(410,882)	(295,074)	-	-	(851,420)
Adjustment for Revaluation	-	-	-	(2,775)	-	-	(2,775)
Transfer to Statement of Rev. and Exp.	(1,007,573)	(64,043)	(686,118)	(783,441)	(25,757)	-	(2,566,932)
Balance at December 31, 2009	966,000	48,982	1,366,000	1,172,440	241,809	-	3,795,231

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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, 2009	4,993,382	-	56,144	34,507	3,260,496	4,910,717	(95,160)	13,160,086
Advances Received from Funding Parties	392,000	-	-	-	3,674,880	3,566,355	-	7,633,235
Transfer to Designated Capital for Signed Projects	(1,627,313)	-	(50,000)	-	(3,862,967)	(3,596,370)	-	(9,136,650)
Adjustment for Closed Projects	58,716	-	1,125	-	39,829	262,766	-	362,436
Allocation of Surplus Income for 2009	274,149	615	153,020	34	397,146	-	-	824,964
Adjustment for 2009 Other Purposes	(1,717)	-	(901)	-	(2,642)	18,513	5,260	18,513
Adjustment for Revaluation	-	-	-	-	241,841	-	-	241,841
Transferred between Funding Parties	386,424	-	-	-	-	(386,424)	-	-
Returned to Funding Party	-	-	-	(34,541)	-	(21,688)	-	(56,229)
Transfer from Designated Capital – Supplemental Budget	146,079	-	410,882	-	295,074	-	-	852,035
Transfer to Designated Capital – Supplemental Budget	(936,155)	(615)	-	-	(993,467)	-	-	(1,930,237)
Transfer to Designated Capital - Administrative Budget	(418,511)	-	(159,388)	-	(1,049,232)	-	-	(1,627,131)
Balance at December 31, 2009	3,267,054	-	410,882	-	2,000,958	4,753,869	(89,900)	10,342,863

Note: The amount of 5,260 USD under ‘Other’ relates to the performance of the 2008 and 2009 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 (AOB). The audit cost is expensed in the year before it is included in the AOB. Thus, the 2009 audit cost is accrued as an expense in the 2009 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2010 AOB.

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NOTES TO THE FINANCIAL STATEMENTS

12. Undesignated Capital Contributions (continued)

	United States	Sweden	Canada	Japan	European Union	Partners	Other	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Balance at January 1, 2008	5,620,264	-	-	31,667	4,203,976	4,091,373	(92,968)	13,854,312
Advances Received from Funding Parties	-	-	740,591	-	5,330,520	2,841,450	-	8,912,561
Transfer to Designated Capital for Signed Projects	(539,534)	-	(656,100)	-	(4,742,168)	(1,900,298)	-	(7,838,100)
Adjustment for Closed Projects	57,293	-	13	1,632	18,699	92,268	-	169,905
Allocation of Surplus Income for 2008	478,014	2,777	21,421	1,208	522,690	-	-	1,026,110
Adjustment for 2008 Other Purposes	1,068	-	229	-	895	-	(2,192)	-
Adjustment for Revaluation	-	-	-	-	(536,948)	(50)	-	(536,998)
Transferred to International Science and Technology Center (ISTC)	-	-	-	-	-	(155,875)	-	(155,875)
Transfer from Designated Capital – Supplemental Budget	351,720	-	179,105	-	380,277	-	-	911,102
Transfer to Designated Capital – Supplemental Budget	(333,804)	(2,777)	-	-	(1,283,948)	(58,151)	-	(1,678,680)
Transfer to Designated Capital - Administrative Budget	(641,639)	-	(229,115)	-	(633,497)	-	-	(1,504,251)
Balance at December 31, 2008	4,993,382	-	56,144	34,507	3,260,496	4,910,717	(95,160)	13,160,086

Note: The amount of (2,192) USD under ‘Other’ relates to the performance of the 2007 and 2008 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 2008 audit cost is accrued as an expense in the 2008 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2009 AOB.

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NOTES TO THE FINANCIAL STATEMENTS

13. Net cash received from funding parties

	2009 USD	2008 USD
Canada	3,048,811	3,077,578
Partners	6,985,606	7,177,194
United States	392,000	-
Japan	(34,541)	-
European Union	3,674,880	5,330,520
	<u>14,066,756</u>	<u>15,585,292</u>

14. Financial commitments

a) Science and Technology Center in Ukraine

No material commitments existed at December 31, 2009.

b) Funding parties

At December 31, 2009 the funding parties had approved but not signed 24 projects with a total funding of 2,307,209 USD (2008 – 3,864,103 USD). The agreements for these projects are expected to be signed in 2010.

15. Financial Instruments

The STCU's financial instruments comprise:

- Cash, liquid resources and short term receivables and payables 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, credit 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) Credit Risk

The STCU manage credit risk by only paying project expenses up to the amount of cash received from the relevant funding party. The credit risk is therefore limited to project expenses incurred in excess of cash received from the relevant funding party. At December 31, 2009 the maximum credit risk was 323,215 USD (2008 – 323,708 USD).

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c) 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.

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

	Amounts due from Funding Parties USD	2009 Cash at Bank USD	Amounts payable USD
Euros	2,514,661	9,275,693	308,570
Ukrainian Hryvna	-	101,453	974
Azeri Manat	-	2	-
	<u>2,514,661</u>	<u>9,377,148</u>	<u>309,544</u>

	Amounts due from Funding Parties USD	2008 Cash at Bank USD	Amounts payable USD
Euros	1,788,460	11,888,258	873,495
Ukrainian Hryvna	-	13,094	12,153
Azeri Manat	-	-	-
	<u>1,788,460</u>	<u>11,901,352</u>	<u>885,648</u>

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The following table details the effect on the Net Surplus and Undesignated Capital Contributions (UCC) at December 31, 2009 from a 10% change in US dollar exchange rates against the exposed currencies listed above, with all other variables held constant.

	2009		2008	
	Effect on Net Surplus USD	Effect on UCC USD	Effect on Net Surplus USD	Effect on UCC USD
USD increase by 10% against:				
Euros	-	(1,043,799)	-	(1,163,929)
Ukrainian Hryvna	(8,249)	(8,249)	(86)	(86)
Azeri Manat	-	-	-	-
	<u>(8,249)</u>	<u>(1,052,048)</u>	<u>(86)</u>	<u>(1,164,015)</u>
USD decrease by 10% against:				
Euros	-	1,148,178	-	1,280,322
Ukrainian Hryvna	11,119	11,119	94	94
Azeri Manat	-	-	-	-
	<u>11,119</u>	<u>1,159,297</u>	<u>94</u>	<u>1,280,416</u>

The method used to arrive at the possible risk of 10% was based on both statistical and non-statistical analyses. The statistical analysis has been based on currency movement for the last five years. This information is then revised and adjusted for reasonableness under the current economic circumstances. A standard rate of 10% is considered possible given past volatility trends.