

## STCU TWENTIETH GOVERNING BOARD MEETING

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# **LIST OF PARTICIPANTS**



**STCU TWENTIETH GOVERNING BOARD MEETING  
LIST OF PARTICIPANTS AND INVITEES**

**GOVERNING BOARD AND ADVISORY COMMITTEE MEMBERS**

**CANADA**

Mr. SEAN BOYD, Canadian International Development Agency, Acting Board Member

**EUROPEAN UNION**

Mr. ZORAN STANČIĆ, European Commission, Board Member and Chairman

Ms. Barbara Rhode, European Commission, Advisory Committee Member

Ms. Marthe Leonidou, European Commission, Advisory Committee Member

**UKRAINE**

Dr. YAROSLAV YATSKIV, National Academy of Science of Ukraine, Board Member

**UNITED STATES**

Mr. VICTOR ALESSI, United States Industry Coalition, Board Member

Mr. Jason Witow, US Department of State, Advisory Committee Member

Dr. Jason Rao, US Department of State

**FUNDING PARTIES**

**EU DELEGATION OF THE EUROPEAN COMMISSION IN GEORGIA**

Mr. Torben Holtze, Head of Delegation

Mr. Gerard Galler, Head of Contracts and Finance Section/Scientific Cooperation

**UNITED STATES**

Mr. Richard Monro Miles, Ambassador

**OBSERVERS**

**AZERBAIJAN**

Mr. Ramiz Hasanov, Ambassador

**UKRAINE**

Mr. Mykola Spys, Ambassador

**THE STCU SECRETARIAT OFFICIALS**

Mr. Andrew A. Hood, Executive Director, United States

Dr. John Zimmerman, the STCU Deputy Executive Director, United States

Dr. Esa Manninen, the STCU Deputy Executive Director, European Union

Dr. Landis Henry, the STCU Deputy Executive Director, Canada

Mr. Curtis "BJ" Bjelajac, Chief Financial Officer, United States

Mr. David Cleave, Chief Administrative Officer, European Union

Ms. Natalia Polyanskaya, Executive Assistant, Ukraine

Mr. Andrew Fesiak, Communications Coordinator

Mr. Akaki Peikrishvili, STCU Field Office Coordinator

***INVITED HONORABLE GUESTS***

Mr. Aleksander Lomaya, Minister of Education and Science of Georgia

Mr. Salome Zurabishvili, Minister of Foreign Relations of Georgia

Mr. Irakli Okruashvili, Minister of Defense of Georgia

Mr. Nodar Grigalashvili, Chairman of Committee of Science and Education at Parliament of Georgia

Mr. Levan Tsintsadze, Head of Department of S&T of Georgia, Ministry of Education and Science

Mr. Tamaz Gamkrelidze, Academician, President of AS of Georgia

***ACCOMPANYING DELEGATES***

Dr. Nabil Bassim, University of Manitoba, Canada

Dr. Steve Gitomer, US Department of State Science Advisor

Dr. Philippe Vincent, European Commission Science Advisor

# **AGENDA**



## STCU TWENTIETH GOVERNING BOARD MEETING

### AGENDA

Tbilisi, Georgia  
Thursday, June 16, 2005

#### 1. Opening Session

- 1.1 Opening Remarks by the Chairman
- 1.2 Welcome from the Executive Director
- 1.3 Introduction of Guests

#### 2. Administrative Topics

- 2.1 Adoption of the Agenda
- 2.2 Approval of the Minutes of the 19<sup>th</sup> Governing Board Meeting held February 10, 2005

#### 3. Reports from Secretariat

- 3.1 Executive Director Report (Andrew Hood)
- 3.2 Implementing Process Action Teams Recommendations (Andrew Hood)
- 3.3 Audit Report as of December 31, 2004 (Curtis "BJ" Bjelajac)
- 3.4 Revisions to STCU Regular, Government Partner, and Non-Government Partner Model Project Agreements (Curtis "BJ" Bjelajac)
- 3.5 Use of Equipment on Projects' Completion: Current Status and Options (David Cleave)
- 3.6 Presentation of New Publications (Andrew Hood)
- 3.7 Report on Targeted Research Initiatives (Landis Henry)
- 3.8 Reports on Regional Office Activities (Deputy Executive Directors)
- 3.9 Report on the STCU Sustainability Activities (John Zimmerman)

#### 4. Project Approval and Funding

#### 5. Approval of the Governing Board Record of Decision

#### 6. Final Topics

- 6.1 Statement by the Executive Director
- 6.2 Presentation and Approval of the Press Statement
- 6.3 Date and Location of the 21<sup>st</sup> Governing Board Meeting
- 6.4 Concluding Remarks

# **EXECUTIVE DIRECTOR REPORT**



## EXECUTIVE DIRECTOR REPORT (Reporting Period: 10 February 2005 to 15 June 2005)

### Major Issues

#### Gals-K Court Case and MES Funds with STCU

Since the last report given to the 19<sup>th</sup> Governing Board, there has been no new legal action initiated by Gals-K regarding the past unpaid rent on the former STCU headquarter premises at 3 Laboratornyy Provok. As we understand the situation from our legal counsel, the statute of limitation for any new legal action by Gals-K regarding the past unpaid rent will expire this autumn.

There has been additional communications between the Ministry of Education and Science and the STCU regarding the ministry funds deposited with the STCU in May 2004, done response to the initial Gals-K court verdict and State Collection Agency actions against the STCU. The Ministry has sent two letters to the STCU requesting the funds be returned to the ministry, whereby the STCU has asked that the Minister of Education and Science first provide an official response to the December 2004 letter from the STCU Governing Board Chairman to then Minister of Education/Science Kremen: that letter requested the Minister's assistance in initiating action on the part of the Ukrainian government to resolve the \$139,000 USD debt owed by the Ukrainian government to the STCU Financing Parties. The situation remains at an impasse, but the STCU is hopeful that steps to improve communications with the Ministry will led to an amicable resolution of the situation (see next section on MES –STCU cooperation).

#### Ministry of Education and Science/STCU Cooperation

With the change in government, Ukraine has a new Minister of Education and Science (Mr. S. Nikolayenko) and the Ukrainian government continues its reorganization of many governmental structures, including the Ministry of Education and Science. This uncertainty has led to a distancing in the STCU-MES relationship. Consequently, the STCU ED met with Minister Nikolayenko on 25 May, along with MES First Deputy Minister A. Gurzhiy, in an effort to improve the communication lines between the new MES leadership and STCU.

The STCU ED proposed that working groups at the staff level be formed to address three outstanding issues: final resolution of the Gals-K/rental debt issues; completion of the Ukrainian ratification process of the STCU Establishing Agreement and 1997 Protocol; and to study the current Ukrainian host government concurrence process in light of impending changes in the STCU proposal processing system as well as impending joint ISTC-STCU project proposals.

The meeting was very positive, with agreement to form these proposed staff-level working groups. Mr. Nikolaenko also proposed that the Ministry and STCU examine ways in which STCU-sponsored research and activities could contribute to the Ministry's priority areas involving Ukrainian higher education organizations such as the technical institutes and universities. Agreement was reached to have the STCU ED meet with First Deputy Minister Gurzhiy to organize the working groups and continue discussions on MES interests that might coincide with STCU's mandate.



### Ukrainian Ratification of STCU Agreement and Protocol

As a reminder, the Ukrainian Government enacted the ratification law for the STCU Establishing Agreement, but stipulated that the Ukrainian Cabinet of Ministers had to certify that the STCU Statute text on intellectual property rights be conformed to Ukrainian legislation. Only after that certification would the Ukrainian parliament (the Verhovna Rada) begin work with the Cabinet of Ministers to consider ratification of the 1997 Protocol to the STCU Agreement (this Protocol allowed the European Union to become a Governing Board member Party to the STCU). While modifications were made to the Statute, and approved by the STCU Parties via Governing Board decision, the Cabinet of Ministers did not certify the conformity of the modified STCU Statute to Ukrainian law because of Ministry of Justice objections to the granting of an “irrevocable licenses” in certain specific situations.

With reference to the Governing Board statement from its 19<sup>th</sup> meeting regarding Ukrainian ratification, the STCU began efforts to restart the process by first receiving from the European Commission Delegation in Ukraine copies of the ratified EC-Ukraine Agreement on Science and Technology Cooperation. From the EC Delegation presentation to the 19<sup>th</sup> Governing Board meeting, it was believed that language in this ratified bilateral agreement was similar, if not the same, as the language in the STCU Statute that has been the focus of concern from the Ukrainian Ministry of Justice. However, upon closer examination, it is clear that the said text in the EC-Ukraine agreement only addresses one of the two instances of concern to the Ukraine government—that of an “irrevocable license” with regards to publication of research results in science journals and other publications. The EC-Ukraine agreement has no text that directly addresses the main Ukrainian Government concern—that of the granting of an “irrevocable license” for non-commercial use of research results.

Nevertheless, the STCU has begun the process of reinvigorating the ratification discussion with the Ministry of Education and Science, in the hopes that using the one applicable example from the ED-Ukraine agreement will spur the Ministry officials to work diligently with the STCU Parties to complete the ratification process. One of the proposed MES-STCU working groups will meet to address this ratification issue and develop a roadmap for resolving it.

### Uzbek Banking Situation

The unsatisfactory situation concerning STCU banking operations in Uzbekistan continues, although the STCU Regional Office in Tashkent reported that the STCU letters and proposals for resolving the situation (most recent of which was dated 15 October 2004) has been submitted to the Uzbek Cabinet of Ministers for further consideration. The STCU has also received continued offers for assistance, and useful in-the-field advice, from the U.S. Embassy in Uzbekistan, to which the STCU Secretariat is grateful. Given the potential political implications of the unrest in eastern Uzbekistan, we are doubtful that further information on the STCU banking issues will be forthcoming, and the STCU is consulting with its Parties to decide the best way forward.

### STCU in Moldova

The STCU continues its attempts to begin its operations within Moldova. The STCU has selected a candidate for the STCU Regional Officer, and has been in contact with the Moldovan Academy of Sciences regarding final negotiations on a user agreement to establish STCU Regional Office within the Academy’s Presidium building. However, progress has been slowed due to the Moldovan parliamentary elections in March and the parliamentary approval of the Moldovan President in April. Further, the President of the Moldovan Academy of Sciences has raised questions about the STCU selection process for its Regional Officer, stating in effect that he needed to “approve” the STCU selection before an offer could be made to the candidate. The STCU sent a formal email to the Academy President explaining that the STCU hiring procedures were standard, fair and transparent, and designed to select the candidate that best met the STCU’s job qualifications, which the prime

candidate fully met (an offer has already been made to this candidate and she has accepted the offer, although she is not yet under STCU staff contract). The STCU repeated that while the Academy President's views on candidate qualifications were taken into account, the STCU ED hires all of the STCU staff based on the STCU's procedures, guaranteeing a fair selection process free from undue or inappropriate external (e.g., political, personal).

To date, the Moldovan Academy President has not given up on his position, and it is possible that the delays in securing office space for the Regional Officer is due to the Academy President's insistence that the STCU come to Chisinau to discuss the situation with him. As an aside, several other Moldovan government officials have expressed strong support for the STCU, while it is generally known that the Moldovan Academy President is not a strong STCU supporter. Whatever the case may be, the current view of the STCU management is that any visit to Chisinau should be linked to substantial progress on securing STCU Regional Office premises and diplomatic accreditation of the STCU within Moldova. In this way, such a visit would be de-linked from the Academy President's request to have further discussions on the STCU selection for Moldovan Regional Officer. The STCU is consulting with the Parties on this situation.

## **Current Activities**

### Process Action Teams Results

As reported to the 19<sup>th</sup> Governing Board meeting, in January 2005 the STCU initiated several Process Action Teams charged with evaluating and making recommendations to modify existing STCU processes, practices, and procedures in light of the goals stated in the STCU reorganization. Five PATs were created: S&T Quality Improvement, Patents/Licensing, Institute Sustainability, Public Outreach, and Internal Processes Improvement. The PATs completed their recommendations in late February, and these were reviewed by the Management Committee and approved after modifications and final changes. The Powerpoint presentation attached to this report summarizes the PAT initial goals and final results.

Several of the recommendations were basic changes to STCU internal procedures, such as elimination of the Short Form proposal as a pre-Host Government Concurrence registration step. Others were recommendations for new programmatic activities that will require more definition and consideration by the STCU Governing Board at a later date. The PAT process appears to have been very successful in bringing the STCU staff together to evaluate the past practices and "buy in" to the recommended improvements in STCU practices to more effectively achieve the STCU goals defined by the STCU's reorganization. As the recommendations are enacted or further defined, the STCU will continue to keep the Parties informed. In addition, the STCU plans to have the PATs reconvene in the autumn to evaluate the progress made in enacting the recommendations and to make necessary adjustments.

### STCU-NATO Workshop

Due to several factors related to an overwhelming response from CIS scientists to participate, coupled with administrative and logistical problems during late May, the STCU and NATO agreed to postpone the proposed STCU-NATO Workshop "From Science To Business" until the autumn of 2005. The STCU and NATO would also make use of the additional time to refocus the workshop agenda and to organize a more effective outreach to North American and European industry representatives. The STCU still has the NATO grant of 50,000 euros, plus its \$50,000 USD originally budgeted for this workshop. Approximately \$9,000 USD from this budget was committed to a service contract with a local promotional organizer, but this contract shall remain in place (with no loss of money) for the re-scheduled dates of the workshop.

There have been many communication problems and misunderstandings between the STCU and its Parties, NATO, and the Ministry of Education and Science and National Academy of Science regarding the scope of

the workshop and division of labor for organizing this workshop. In an attempt to address these problems, a 3 May meeting was held between the STCU ED, NATO Public Diplomacy Division representative (S. Michaelis), STCU/EU Party representative (B. Rhode), and STCU Governing Board Chairman (V. Alessi). After some discussion on responsibilities and input from each side, this group agreed to the general goals and agenda outline for a revised Workshop, and included the possibility of a “force generation” public event at the end of May, when NATO Asst. Sec-Gen (Scientific and Environmental Affairs) J. Fonet would be present in Kyiv.

Still, the burden of performing the logistical planning, western industry outreach, registration and evaluation of Ukrainian scientific submissions, etc. is falling to the STCU Secretariat to do, and it is clear that NATO and the Ukrainian governmental agencies are neither in a position, nor desire to assume, any more of the burden for promoting the workshop or assisting in its administrative organization. It is now clear that the STCU Secretariat, unfortunately, is over-burdened with this task, given the other, higher priority tasks related to implementation of the STCU reorganization. While the workshop is tentatively planned to be held late September-early October 2005, some of the STCU Parties are concerned that organizing this Workshop is distracting the STCU Secretariat and valuable resources from its primary tasks and programmatic activities.

### STCU-Georgian Targeted R&D Initiative

As a result of discussions during the 19<sup>th</sup> Governing Board meeting, and follow-up discussions between STCU and the Georgian Ministry of Education and Science, the Ministry and STCU agreed informally to pursue a jointly funded Targeted R&D Initiative similar to the initiative between the STCU and the National Academy of Sciences in Ukraine. The Georgian Ministry was provided a draft text of a protocol for cooperation, based on modified text from the STCU-NASU umbrella statement of cooperation. The Georgian Minister of Education and Science has indicated that he is ready to sign such a protocol once both the Ministry and the STCU Parties have settled on a common text.

One significant difference between this Georgian proposal and the STCU-NASU initiative is that the Georgian Ministry of Education and Science prefers to deposit its share of the joint project funding with the STCU. In the case of NASU, Ukrainian budget laws prevent the NASU from disbursing funds to anyplace other than the institutes where the projects are being conducted.

The Ministry of Education and Science has stated that it will receive funds in 2005 to conduct targeted science research in specific areas of national importance to Georgian development. The amount of funding will be small; on the order of a few hundred thousand U.S. dollars. But the impact of the cooperation and leveraged funding (as well as close contact with western scientific experts) is expected to far exceed what one would expect from the total amount of funds. The Ministry is charged with the overall policy and administrative reform of the Georgian S&T community and infrastructure, and it sees this jointly funded, targeted research projects as a way to energize and develop that reform effort.

### **Important Visitors/Meetings**

#### Meeting with Ukrainian Academy of Technical Sciences (18 March)

The STCU ED and STCU Principle DED met with Academician A. O. Morozov, President of the Academy of Technical Sciences in Ukraine (ATS). This Academy, created in 1991, counts in its membership the majority of the military-industrial institutes and production organizations left in Ukraine at the collapse of the Soviet Union. Many of the institutes and production associations, such as KBO Yuzhnoye and Yuzmash Production Association, are long-time participants in STCU projects and other programs. Several key Ukrainian government officials, including First Vice Prime Minister A. Kinakh, are members of this particular Academy. In addition, this Academy is focusing specifically on improving Ukraine’s ability to transfer technology into the

marketplace in order to promote Ukraine's transition to an innovation economy and its integration into Euro-Atlantic economic sphere as a competitive economy.

Given the obvious similarities between the STCU mission and goals of the STCU and the ATS, it was agreed to pursue a formal cooperative relationship with the goal of seeking ways in which STCU programs and activities could be targeted toward assisting the Academy of Technical Sciences in its innovation and technology transfer efforts.

As a positive signal of the importance given by this Academy to its cooperation with the STCU, on 23 April the Academy presidium unanimously voted the STCU ED (on behalf of the STCU) as an honorary foreign academician within the Academy's ranks.

#### STCU-organized Meeting of International Organizations in Kiev (1 April)

The Science Excellence Department organized a round-table meeting of various international and bilateral organizations that are working in Ukraine on a variety of science cooperation and technical development grants programs. Representatives from CRDF, TACIS, the British Council, NATO Information Office, and others joined the STCU ED, DEDs, and the Ukrainian STCU Governing Board member in this discussion, which sought to improve everyone's understanding of each other's programs and lead to possible opportunities to leverage these programs to the benefit of all.

#### NATO Public Diplomacy Division (8 April and 3 May)

Dr. Susanne Michaelis of NATO's Public Diplomacy Division visited the STCU to discuss the details for announcing the postponement of the STCU-NATO workshop and to establish a general roadmap for revising the Workshop agenda and other actions related to attracting more western participation in the Workshop.

On 3 May, the STCU ED traveled to Brussels to meet with EU Party representatives, the STCU Governing Board Chairman, and Dr. Michaelis to continue the joint re-examination and re-focusing of the Workshop goals and agenda.

#### Working Level Meeting Between ISTC and STCU Proposal Processing Staff (15-16 May)

STCU DED Esa Manninen led a small delegation to the ISTC to meet with ISTC Principle DED, Mr. Sergey Zykov, and the ISTC staff responsible for project proposal processing to work on the details for processing joint ISTC-STCU project proposals. One of the concerns voiced during the ISTC Governing Board approval of the joint project concept was the STCU Short Form proposals, which are seen by STCU staff prior to the proposal being reviewed by the host government. With the PAT recommendation to eliminate the Short Form, the ISTC and STCU proposal processes will align more exactly and should remove some of the concerns voiced by the Russian Federation representatives to the ISTC regarding the timing of RF host government concurrence with the HGC processes of STCU member states.

The joint projects "administrative agreement" between the ISTC and STCU Secretariats went through another round of ISTC-STCU Party review and editing, taking into account comments offered by the ISTC Parties. The administrative agreement will codify a common set of handling procedures between the two Centers regarding these joint ISTC-STCU projects. The STCU will continue to communicate with the ISTC with regards to this administrative agreement.

Meeting with Ukrainian Minister of Education and Science (26 May)

As reported in Major Issues section above.

Meeting with CRDF President/CEO (27 May)

Mr. Thomas Owens, President of the U.S. Civilian Research and Development Foundation, paid a courtesy call on the STCU ED and discussed a variety of topics concerning expansion of cooperative STCU-CRDF activities.

**Conferences/Workshops**

Second Ukrainian Technological Forum “Globalization of economy and technological development of Ukraine” (21 April)

This conference was organized by Academy of Technological Science of Ukraine, supported by the Cabinet of Ministers of Ukraine, with participation of National Academy of Science of Ukraine, Kyiv State City Administration, Ministry of Education and Science, Ministry of Healthcare, Ministry of Defense, Ministry of Industrial Policy. The STCU ED gave a speech on STCU sustainability development, supplemental programs like IPR/Patent Support, and targeted research promotion to this conference, attended by more than 200 participants including First Vice Prime Minister A. Kinakh (who was the opening session’s keynote speaker at the conference).

Joint CRDF-STCU conference “Science and Technology Entrepreneurship Program (STEP)” (March, Tbilisi)

This series of training/consultancy workshops, co-sponsored by the STCU and the U.S. Civilian Research and Development Foundation (CRDF), brought together scientist-grantees of STCU and CRDF programs for the purposes of developing stronger skills in scientific entrepreneurship as well as expert evaluation of the commercial potential of presented research results. This was the first of three planned conferences in 2005, and more detail can be found in the Sustainability report in the member binders.

Meeting with Science Policy Officials in Georgia (23-26 April, Tbilisi)

The STCU DED Landis Henry and Senior Specialist Alex Sich traveled to Tbilisi to meet officials of the Georgian Ministry of Education and Science and the Georgian Academy of Sciences to discuss a variety of opportunities for the Georgian government and STCU to cooperate in developing science excellence, targeted research initiatives, and self-sustainability among Georgian institutes. The Georgian science community is undergoing a reform movement, directed from the Georgian government, and there may be opportunities within this reform program for the STCU to be value-added to the Georgian government. One outcome of this visit was the preliminary agreement to develop a jointly funded Targeted Research Initiative with the Georgian government, similar to the STCU-NASU Targeted Initiative in Ukraine.

**Activity Update**

Project Activity Update

As of 25 May, the STCU had 226 active projects underway (170 regular projects, \$25.6 million USD; 56 Partner Projects, \$15.3 million USD), as, compared with 235 active projects (190 regular projects and 45 Partner Projects) underway in January 2005. Although the reduction in Regular Projects reflects the continued decline in Regular Projects approved for Party financing over recent years, the rise in Partner Projects since January is an encouraging sign for the STCU’s scientist redirection objectives.

### Sustainability Activity Update

A total of 3 new Partners, all non-governmental organizations, were approved since the 19<sup>th</sup> Governing Board, bringing the total number of STCU Partners to 116 (17 governmental agencies, 99 non-governmental/private-sector organizations).

Since 1 January 2005, 19 new Partner Projects have been started totaling over \$4 million USD, with 7 of those projects (about \$1.5 million) being non-governmental Partners. For comparison, in the entire year of 2004, the STCU had 24 new or extended Partner Projects (totaling approx. \$3 million USD) of which 8 projects (totaling approximately \$500,000) were non-governmental Partners.

Since the 19<sup>th</sup> Governing Board meeting in February, the STCU has approved for financing 11 patent support grant applications, among which 3 were PCT applications and the remainder were national patent applications. The lack of a Party-coordinated handbook on STCU IPR and patent processes, as well as the continuing lack of an invention disclosure process that conforms to Ukrainian laws, continues to prevent the STCU recipients from using the STCU resources to secure valuable and beneficial IP protection for their STCU-sponsored research and technology development. While the STCU has initiated steps to develop an effective system for receiving invention disclosures from STCU projects, STCU will not have a fully effective Patent/IPR Support Program without a Party-coordinated Handbook and basic guidelines for submitting patent applications or invention disclosures to the STCU Financing Parties. Nevertheless, a new scheme for gathering follow-up data on patents from STCU-related research shows that there are cases of successful exploitation of national patents. More on these IPR “success stories” can be found in the Sustainability Report included in the members’ binders.

### Information Technology Group Update

The STCU deployed its electronic project submission software (STCU Project Software, or STCUPS) system to the field and it has begun to show positive results in the more accurate creation of STCU proposals and project workplans. By using this software, project-related data such as budget information will be checked for accuracy and completeness by the software, and the data will be in such a format as to be automatically entered into the STCU Project Database. So far, only minor operational questions have been raised; for the most part, the STCU recipient scientists have been able to use the software with few problems.

Also in May, the STCU initiated a contract to begin development and installation of the new integrated financial software system that will replace both of the current financial and procurement software systems at the STCU. This integrated software has long been a recommendation in the STCU’s annual external financial audits, and once the system is up and running, it will not only remove this recurrent audit finding, but will also improve the STCU’s ability to track rapidly all the day-to-day modifications and changes made to active STCU projects

Andrew Hood  
Executive Director

**IMPLEMENTING PROCESS ACTION TEAMS  
RECOMMENDATIONS**

**STCU Goals**

	<b>More Successful Grant Proposals/Valuable S&amp;T Research (Attractive to Research Customers, Competitive)</b>	<b>Increased Private-Sector Partner Funding)</b>	<b>Successful, Sustainable Institutes</b>	<b>Effective Program Stewardship (Efficient Processing of Information, Accurate Records, Modern Office Tools, Measurable Progress)</b>
<p><b>Process Action Teams</b></p> <p><b>S&amp;T Quality Improvement</b> <i>Lead: L. Henry, E. Manninen</i></p>	<p>Make effective use Workshops and Targeted R&amp;D Initiatives to focus effort on high-value S&amp;T research areas. Create clear paths for scientists to transition from reliance on STCU projects to self-sustainability</p>	<p>Improve or create new ways for advertising proposals to private-sector audience (to promote partner funding of unfunded regular project proposals)</p>	<p>Improve abilities of STCU and scientists to identify targeted S&amp;T project work that emphasizes institute strengths, creates centers of excellence, and increases institute capabilities and reputation</p>	<p>Make effective use of Targeted Training and other supplemental activities in promoting S&amp;T funding opportunities, grant-writing skills, presentational skills, etc. Improve access to research tools and information sources for grants competition, S&amp;T market interests. Measure STCU effectiveness in improving S&amp;T project quality &amp; success.</p>
<p><b>Patent/Licensing</b> <i>Lead: J. Zimmerman</i></p>	<p>Improve the awareness and effective planning for IP protection/patent/licensing in proposals and project work plans. Integrate STCU with Party patent systems to take advantage of those systems.</p>	<p>Create “fair compensation” IPR/patent policies and clear guidelines for private-sector companies. Modify MPA articles to capture these policies, esp. non-license compensation</p>	<p>Improve awareness and abilities of STCU and institute leaders to develop institute-managed patent/licensing strategies and technology transfer capabilities.</p>	<p>Improve timeliness and comprehensive benefit of project-related invention disclosures and patent applications. Integrate into Party systems for invention review and patent application support. Effectively monitor invention disclosures, patent applications, and licensing exploitation. Make effective use of Targeted Training and other activities to promote understanding of basic IPR, patent, and licensing issues.</p>
<p><b>Institute Sustainability</b> <i>Lead: J. Zimmerman, E. Manninen</i></p>	<p>Improve ability of institute labs to develop effective strategies for attracting external funding and to compete effectively for such funding.</p>	<p>Improve institute awareness, strategies, and in-house capability to conduct beneficial technology transfer.</p>	<p>Improve institute awareness and abilities to develop their own strategies and plans for diversifying research income sources and managing future institute development</p>	<p>Reliably measure institute’s “sustainability factor” and progress toward improving institute self-sustainability. Make effective use of Targeted Training and other activities to develop understanding of basic tech. transfer issues, strategic planning, and business management practices.</p>



<p><b>Public Outreach</b>  <i>Lead: B. Atamanenko, (support D. Cleave)</i></p>	<p>Improve STCU and project team ability to promote proposals publicly, to attract interested customers and aid Parties in their partner outreach efforts (e.g., ISTC Promising Abstracts Database).                  Streamline and improve Proposal processing system, (e.g., elimination of SF, HGC tracking, reducing # of signatures for CS release) w/o losing the benefits of these steps.</p>	<p>Effectively publicize STCU and project team capabilities, successes, and advantages for private sector so as to attract new partners.</p>	<p>Effectively publicize, in a positive manner, the successes and R&amp;D capabilities of institutes.</p>	<p>Improve quality, timeliness, attractiveness, and effectiveness of mass media coverage of STCU events, promotional material, annual reports. Make effective use of electronic tools such as STCU Web site, email system, web sites of cooperative partner organizations (e.g., Party program websites, ISTC Website, CRDF, other NGO websites)</p>
<p><b>STCU Process Improvement</b>  <i>Lead: E. Manninen, B. Atamanenko</i></p>		<p>Improve STCU “customer service” to private sector Partners (e.g., new web site design, project processing reform, central customer service point).</p>	<p>Improve STCU ability to gather standard, meaningful data on institute sustainability on a regular schedule.</p>	<p>Improve efficiency, speed, and accuracy of financial/procurement systems and practices. Integrate improved financial/procurement systems with supplemental activities that require financial/vendor support (e.g., Conferences/Workshop support, Targeted Training, Performance Measurements.</p>

Process Action Teams will be made up of a representative cross-section of the STCU organization, and will be responsible for reviewing and evaluating the effectiveness of existing STCU practices, procedures, tools, and activities/programs. Each Team will offer consensus recommendations for changes, improvements, or creation of new procedures/processes/activities that will increase the effectiveness of the STCU in achieving its overall goals and objectives in 2005.

Process Action Teams:

- Led by a Deputy Executive Director, possible supported by another DED or a Chief Officer.
- In addition to Team Leaders, teams will consist of approximately six (6) people, with at least one (1) member from each STCU Department, Finance Office, and Administrative Office (the same STCU staff member can sit on more than one Team, but each Team should represent the interests across the STCU organization).
- Meet as often as needed to complete tasks before deadlines, ideally 3-4 hours per work week.
- Deadline: Preliminary recommendations, including steps that require further study, to be presented to Management Committee by 2 February. Team Recommendations/Comments will be provided to Advisory Committee members at the 8 February meeting.
- Teams will continue to meet during the year to (1) continue discussions on recommendations that require further study and evaluation, and (2) to evaluate the implementation of their recommendations and the impact on STCU operations and results.

Tasks:

- Each Team will work on the tasks that are generally described in the above Team/Goals matrix. These tasks connect the STCU existing group of processes, procedures, and activities with the goals to be pursued during the next year.
- Each Team is free to identify other tasks if it feels accomplishing such tasks are necessary for improving STCU effectiveness in each of the Goal categories.
- Each Team will evaluate existing STCU processes, practices, procedures, and tools against the effectiveness of STCU staff to achieve STCU goals and objectives.
- Each Team will produce a set of recommendations for improving the STCU processes, making the STCU more effective in progressing toward its Goals. These recommendations could be include modifying exiting STCU processes/procedures/activities, or could include proposals for the creation of new processes.



# Final Recommendations from 2005 Process Action Teams

15 March 2005

# Improved Success/S&T Value of Grant Proposals

## S&T Quality Improvement

- Accelerate Time Required for Proposal Approval (HGC, Party review); Allow for Quality Improvement of Proposal after Full Form Release
- More Frequent Contact and Proposal Review Feedback from Western experts/customers
- Publish summaries of other grant applications to aid in identifying collaborators and collaborations opportunities
- More Regularly Scheduled Training on Grant Writing, Sustainability Planning,
- Improve Recipient Ability to Keep "Up to Date" on Science Advances and Interests

## Patents & Licensing

- Input from successful Tech. Transfer managers at recipient institutes for "lessons learned" and incorporation into training modules
- Publish Patents/Licensing section in Sustainability Planning Guide

## Institute Sustainability

- Determine Partner technology needs and factor these needs into future projects and project proposals
- Revise some web page references to "weapons"

## Public Outreach

- Create a "promising technologies" database on web site to advertise proposal opportunities

## STCU Internal Processes

- Dramatically improve Ukrainian HGC to allow for 2-week decision on Partner Project proposals
- Replace Ukrainian HGC for partner project extensions with "old system" of 3 DED concurrence
- Eliminate Short Form; Reduce # of DED signatures on Cover Sheet; Create an e-system for STCU approval of proposal processing (at different levels)
- Modify STCU proposal system to allow for improvements to proposals as offered by collaborators
- Share results of Funding Party reviews and rationale behind funding decisions, as a feedback to recipient scientists

## Increased Private-Sector Partner Funding

- S&T Quality Improvement
  - Improve Effectiveness of “Targeting” Roadshows, Conferences, etc., using Party-based experts/advisors to help gather information on private sector interests
  - Create web-based portal to promote proposals, advertise technology/business opportunities, enable partners to search capabilities of institutes
  - Increase Availability of Information on Recipient R&D Strengths, and Proposed Research
    - Promising Proposals Database, accessible through website
    - Institute Profiles, accessible through website
    - Train and Advise Institutes on Effective Outreach (e.g., effective use of descriptions and “keywords” in Institute website)
  - Encourage recipients to understand private sector perspectives on IP, encourage institutes to take the lead in negotiating with private sector partners on licensing/purchasing IP rights
- Patent & Licensing
  - Modify MPPA to Strengthen “fair and reasonable compensation” to Recipients for IP developed under Partner Projects
    - Train STCU staff to recognize “unfair” or “unreasonable” compensation during project agreement negotiation and during project monitoring.
  - Institute Sustainability
  - Allow Partners access to “Short Forms” (after signing NDA)
  - Establish new “Sustainability Support Program for a Targeted Institute” (Supplemental activity, 3.5 years/\$250K) involving seminars, training which would bring a specific technology to market
- Public Outreach
  - Posters on project team achievements after completion of project
- STCU Internal Processes
  - Create Partner Information Center on Web site for central information portal on all relevant needs for Partners
  - Revise/modify document location on Web site (clients often have hard time finding things)
  - Financial Officer/Senior Specialist assignment for partner’s benefit

## Successful, Sustainable Institutes

### S&T Quality Improvement

- Assist Institutes to take more active role in protecting/commercializing innovations; assist in developing Institute policies on technology ownership between Institute and scientists
- Until institutes establish their own tech. transfer office, STCU should be willing to broker between institutes and external organizations
- STCU should explore establishing an equipment “technopark” for common use by institutes
- Assist Institutes in developing marketing team within the Institute, capable of screening technologies, conducting market research, developing business plans

### Patents/Licensing

- Make Marketing and Licensing Strategies a Required Submission for Patent Support Applications and Proposal Submissions (requires development of new forms/modifying current Full Form sections)

### Institute Sustainability

- Create a new “promising technologies” section on the web site to include present S&T abstracts by PMs or derived from project agreement/proposal materials
- Create a new section on the web site with links to the 180 research groups that have worked with the STCU
- Create a “Business Plan Development” fund to support expert consults work with Institutes (similar in function to the Patent Support Fund)

### Public Outreach

- Create Institute General Profile Tool with short, descriptive information on each institute and its capabilities (along with line to institute’s web site)
- Conduct seminars for STCU recipients on customs and procurement issues, procedures

### STCU Internal Processes

- Continue Institute Sustainability survey process but with modifications based on past experience, expert advice, and other similar surveys (like those conducted by the EU). Consider grouping the survey according to technology area, or responsible governmental ministry, etc.

## Effective Program Stewardship

### S&T Quality Improvement

- Observation: Present level of grant funding (15-20%) insufficient for maintaining technology distinctiveness...need to raise project funding by 20-30% by enhancing quality of proposals and identify additional sources of grant funds
- Senior Specialists should work in their areas of expertise (both with projects in their technical area of expertise and through professional development)
- Targeted training to STCU staff on sustainability planning and tech. transfer
- Establish depository for STCU Powerpoint and other presentations, with a designated person to keep these current
- Make maximum use of workshop materials: deliver live training sessions once a year, improve access of materials to those not able to attend, establish method for assessing training effectiveness

### Patents & Licensing

- Advanced training sessions on IPR exploitation during the pre-proposal stages for select PMs and institute officials

### Institute Sustainability

- Establish entrepreneurial training program for specially selected young scientists and marketing executives at institutes
- Establish a 'pre-seed' fund to support promising projects based on Technical Audit and monitoring reports

### Public Outreach

- Prepare booklet (perhaps online as well) on main cooperative partner grant organizations for recipient scientists (e.g., TACIS, CRDF, etc.)

### STCU Internal Processes

- Improved Inter-team communications
- General STCU Manual and Procedures Training for PMs (including restart of "Happy Faces" meetings; also include training in the field)
- Hire Customs Officer for UZ and Georgia
- Create "Conferences Team" for handling cross-department issues in conference org.
- Revised VAT exemption process
- STCU's own lawyer (?)
- Revise "tender thresholds" by twice in "Awarding of Contracts"

# Common Themes

- Streamline Approval Process
- 1. Eliminate steps/signatures in STCU proposal/project processing
  - Elimination of Short Forms
  - Reduction in Required Signatures for Internal Concurrence of Project Agreements
- 2. Clarify/Improve Host Government Concurrence Procedures
  - Agree on Criteria for Proposal Improvements that do not require HGC
  - Allow STCU-directed approvals of Partner Project extensions without returning to HGC
- Increase Direct Contact with Western Experts
  - Feedback on Proposal Quality
  - Inclusion of more Western Expert participation in Training
- Improve Advance Targeting/Info Gathering for International Roadshows
- Create Information Portals and other Modifications to Web Site
  - Abstracts on Proposals
  - Summaries of Projects
  - Institute Profiles
- More Training
  - Advanced IPR, Technology Transfer, Entrepreneurship, Marketing/Business Techniques for Scientists
  - Procurement/Project Procedures Training (especially in-the-field training)
  - Public Outreach/Presentation training at the Institute level



## New Ideas

- Creating of New STCU Activities
  1. Sustainability Support Program (for targeted institutes)
    - Business Development Plan fund
    - Pre-Seed Fund for Promising Technologies
  2. Equipment “**technopark**” ?
- Require Patents/Licensing Plans in Patent Support Application
- Modify Model Project Agreement
  - “Fair Compensation”
  - Patent/Licensing Plans
  - Financial Table Modifications?
- STCU Direct Assistance to Institutes
  - To develop and train tech. transfer offices and staff
  - To act as broker when technical units are not capable of interacting with external customers

# Final Recommendations

## FOCUS OUR EFFORT (FROM “CASTING NET WIDE” TO “PRECISION TARGETING”)

- **Prioritize Towards Creating Sustainable In Research Groupings (Technical Units – ‘TUs’, Institutes, Consortiums)**
  - Develop Internal Evaluation Process to Prioritize Institutes/TUs for further Sustainability Focus
  - Agree with Institutes/TUs on Cooperative Efforts to Develop Tech Transfer Capability
- **Shift Program Approach Toward “Capacity Building” in Selected Institutes/Technical Units**
  - Target Training, Internships for Selected Institute/TU Leaders to Develop Tech Transfer Capability within Research Groupings
  - Create Targeted “Seed” Programs to Nurture Promising Technologies to Market, (Business Planning/Development Funds, “Pre-Seed” Technology Development Funds)
    - ***New Funding or Funds from Projects at a Institute/TU...i.e., Project-Specific “Seeding”?***
- **Monitor Efforts to Exploit Results of Projects after Project Completion**
  - Enter into Tech. Transfer Relationships with Local Organizations that have a Mandate to Transfer Technology (NAUKA in Ukraine, AITT in Moldova, etc.)
  - Require Patent Support Applications to include Specific Plans (to include Monitoring by STCU) for Exploiting the Invention
- **Develop S&T Strengths of Recipient Countries within Specific Research/Technology Areas**
  - Shift Regular Project Funding Towards R&D Market Interests (Expressed by Partners, Marketing Studies, Other Info. Sources)
  - Seek More “Jointly Funded” Targeted Research Initiatives with National-level S&T Agencies to Promote R&D “critical masses”

# Final Recommendations

## COMMUNICATE MORE EFFECTIVELY

- Reorganize STCU Web Site to Improve “Customer Friendliness” and for New Information on S&T Opportunities in Recipient Countries
  - Promising Proposals/Project Abstracts
  - Institute Competency Profiles
  - Research Grant Opportunities for Recipient Scientists
  - Grouping Documents Together More Effectively (Particularly for Partner Program Documents)
  
- Increase Interaction with Western Experts, Collaborators, Partner Organizations
  - Proposal Quality Feedback from Western Peer Reviews
  - Input from Western experts on S&T “state of the art” and Technology Market Needs
  - Selected Use of Specific Western Trainers for Specialized Training Events (and Record these Trainers for use in Standard Training Modules)

# Final Recommendations

## IMPROVE OUR PRODUCTIVITY

- Streamline Internal Approval Processes (Eliminate Short Form Proposals, Reduce Number of Signatures on Internal Documents)
- Clarify Guidelines and Criteria for post-Host Government Concurrence Improvements to Proposals or Project Modifications
- Modify Model Project Agreement to Reflect New Requirements for Following-Up on Results Exploitation, Financial Auditor Recommendations
- Make Better Use of Regional Offices and Project Monitoring Trips to Conduct Standard Training of Project Managers and Institute Personnel (STCU Procurement Procedures, STCU Project Implementation Procedures, Base Module Training in Grant-Writing, IPR, etc.)
- More Advance Planning/Preparation for Travel/Training Grant Recipients, and More Effective Feedback from Them (esp. Groups We Target for Tradeshows, Partner Promotion Roadshows, and Matchmaking Opportunities)

# **AUDIT REPORT**

**SCIENCE AND TECHNOLOGY  
CENTER IN UKRAINE**

Financial Statements for the  
Year Ended 31 December 2004

**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 21, of the Science and Technology Center in Ukraine as at 31 December 2004 at the request of the Board of Governors. The financial statements comprise the Statement of Revenues and Expenditure, the Balance Sheet, the Statement of Cash Flows and the Notes to the financial statements. These financial statements are the responsibility of the management of the Science and Technology Center in Ukraine. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

As more fully explained in the Accounting Policies, fixed assets used for both the Center and the projects funded by the Science and Technology Center in Ukraine, which have useful lives extending beyond the current year were expensed immediately on acquisition to the Statement of Revenues and Expenditure. The management of the Science and Technology Center in Ukraine believe that because of the unusual nature and circumstances of its activities this treatment properly matches the revenues specifically contributed by the funding parties with the related expenditure. International Accounting 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 2004, 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*  
*[Signature]*  
13 MAY 2005



# 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:

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## ACCOUNTING POLICIES

---

### **Project Recognition**

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

### **Project Expenditure**

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

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

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

### **Project Revenues**

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

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## 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.

### **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

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## ACCOUNTING POLICIES

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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.

### **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 17<sup>th</sup> Board of Governors Meeting, concluded in USD, differ from the

## SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

### ACCOUNTING POLICIES

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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 2004

	Note	2004 USD	2003 USD
<b>REVENUES</b>			
Project Revenue		17,675,237	17,937,532
Administrative Revenue			
- Administrative Operating Budget		1,891,037	1,755,512
- Supplemental Budget		1,946,671	1,483,183
New Building Fund		-	94,853
Partner Fees		124,146	129,587
Interest Income		404,958	318,952
		<u>22,042,049</u>	<u>21,719,619</u>
<b>EXPENDITURE</b>			
Project Expenditure	<b>1</b>	17,675,237	17,937,532
Administrative Expenditure	<b>2</b>		
- Administrative Operating Budget		1,816,549	1,731,469
- Supplemental Budget		1,946,671	1,483,183
New Building Fund		-	94,853
		<u>21,438,457</u>	<u>21,247,037</u>
<b>NET SURPLUS</b>	<b>3</b>	<u>603,592</u>	<u>472,582</u>

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

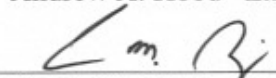
SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

BALANCE SHEET AT 31 DECEMBER 2004

	Note	2004 USD	2003 USD
<b>CURRENT ASSETS</b>			
Receivables			
Amounts due from funding parties	5	6,561,908	9,094,008
Other receivables	6	26,237	44,306
Prepayments and accrued income	7	80,362	42,776
Cash and cash equivalents		41,143,759	37,379,117
		<u>47,812,266</u>	<u>46,560,207</u>
<b>CURRENT LIABILITIES</b>			
Amounts payable – projects	8	(2,317,981)	(2,688,795)
Amounts payable – non-project		(236,715)	(187,803)
		<u>(2,554,696)</u>	<u>(2,876,598)</u>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>45,257,570</u>	<u>43,683,609</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Designated capital – projects	9	20,916,901	22,348,183
Designated capital – administration	10	1,959,358	1,726,214
Designated capital – supplemental	11	4,660,357	4,382,932
Undesignated capital	12	17,720,954	15,226,280
		<u>45,257,570</u>	<u>43,683,609</u>

Signed on behalf of  
The Science and Technology Center in Ukraine 6 MAY 2005

  
Andrew A. Hood – Executive Director

  
Curtis M. Bjelajac – Chief Financial Officer



SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
STATEMENT OF CASH FLOWS AT 31 DECEMBER 2004

	Note	2004 USD	2003 USD
<b>Cash Flows from Operations</b>			
<b>Cash Inflows</b>			
Net Cash Received from Funding Parties	13	24,913,683	19,573,829
Interest Income and Partner Fees Received		487,134	456,894
Total Cash Inflows		<u>25,400,817</u>	<u>20,030,723</u>
<b>Cash Outflows</b>			
Project Expenditure		(18,046,051)	(16,467,892)
Administrative and Supplemental Expenditure		(3,590,124)	(3,281,855)
Total Cash Outflows		<u>(21,636,175)</u>	<u>(19,749,747)</u>
Net Cash Inflows From Operations		3,764,642	280,976
Cash and cash equivalents at 1 January		37,379,117	37,098,141
Cash and cash equivalents at 31 December		<u>41,143,759</u>	<u>37,379,117</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:	
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 2004	<u>86,709,786</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>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
<b>a) Administrative Operating Budget</b>		
Business Operations	282,685	334,611
Public Affairs	39,130	52,651
Personnel	646,432	603,006
Personnel Support and Development	118,749	123,590
Sustainability Group Operations	79,929	62,166
Legal, Auditing, and Banking	271,654	262,748
Fixed Assets	145,051	82,188
Headquarters and Branch Offices	232,919	210,509
	<u>1,816,549</u>	<u>1,731,469</u>

Included within 'Legal, auditing and banking' are exchange losses of 12,050 USD (2003 - 9,605 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>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
<b>b) Supplemental Budget</b>		
Technical, Collaborator and Contractor Travel Support	36,196	95,572
Information Technology Support	51,458	45,185
Communication Support	2,555	-
Business Training/ Sustainability Group Support	19	67
Patent Support	23,335	14,185
Travel and Mobility Support	210,870	214,101
Expert Review and Advisors	27,609	9,182
Seminars/ Workshops Support	86,034	36,523
Service Contracts	1,508,595	1,068,368
	<u>1,946,671</u>	<u>1,483,183</u>

### 3. Net Surplus Revenues Over Expenditure

The net surplus of 603,592 USD comprises the following;

	<b>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
Surplus Administrative Budget Revenues	76,109	18,161
Investment Income	404,958	318,952
Partner Fees	124,146	129,587
Other Revenue/(Expense)	(1,621)	5,882
	<u>603,592</u>	<u>472,582</u>

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

### 4. Taxation

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

The VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs because, for the time being there is no practical process in place for the recovery of VAT for project purchases within Ukraine, Georgia, 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.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
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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 2004 has been credited back to the corresponding expense account to which it relates.

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

	<b>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
United States	2,370,527	2,147,035
Canada	233,372	229,222
European Union	1,164,132	2,588,104
Partners	1,591,908	3,091,467
	<u>5,359,939</u>	<u>8,055,828</u>

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

	<b>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
European Union	625,888	579,611
Partners	576,081	458,569
	<u>1,201,969</u>	<u>1,038,180</u>
<b>Total due from funding parties</b>	<u>6,561,908</u>	<u>9,094,008</u>

**6. Other receivables**

	<b>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
VAT Recoverable	13,968	17,052
Other Receivables	12,269	27,254
	<u>26,237</u>	<u>44,306</u>

**7. Prepayments and accrued income**

	<b>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
Prepayments	24,342	21,772
Accrued Interest	56,020	21,004
	<u>80,362</u>	<u>42,776</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**8. Amounts payable projects**

	<b>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
Grants Payable	1,475,083	1,900,822
Overhead Payable	234,828	228,397
Overhead Retainage	608,070	559,576
	<u>2,317,981</u>	<u>2,688,795</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.

	United States	Canada	Japan	European Union	Partners	Total
	USD	USD	USD	USD	USD	USD
<b>Balance at January 1, 2004</b>	9,634,007	366,306	-	4,567,134	7,780,736	22,348,183
New Projects Signed During 2004	7,660,992	185,772	145,000	4,235,033	4,054,958	16,281,755
2004 Adjustment	-	-	-	-	(30,736)	(30,736)
Revaluation of Project Agreements	-	-	-	369,329	48,035	417,364
Adjustment for Terminated Projects	-	-	-	-	(218,629)	(218,629)
Adjustment for Closed Projects	(29,093)	(716)	-	(13,577)	(162,413)	(205,799)
<b>Transfer to Statement of Revenues and Expenditure</b>						
Expenditure Incurred on Projects in 2004	(8,179,659)	(270,910)	(55,015)	(4,037,307)	(5,132,346)	(17,675,237)
<b>Balance at December 31, 2004</b>	9,086,247	280,452	89,985	5,120,612	6,339,605	20,916,901

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
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**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, 2004</b>	1,105,172	-	186,326	434,716	-	-	1,726,214
Additional Contribution for 2004	-	-	-	-	-	164,823	164,823
Transfer to Statement of Revenues and Expenditure	(1,105,172)	-	(186,326)	(434,716)	-	(164,823)	(1,891,037)
Administrative Budget 2005	1,270,885	-	196,492	491,981	-	-	1,959,358
<b>Balance at December 31, 2004</b>	1,270,885	-	196,492	491,981	-	-	1,959,358

**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, 2004</b>	3,043,641	103,695	35,958	985,779	213,859	-	4,382,932
Supplemental Budgets Approved	1,566,693	-	71,623	483,876	85,000	-	2,207,192
Transfer from Undesignated Capital Contributions	-	505	-	-	-	-	505
Adjustment for Revaluation	-	-	-	16,399	-	-	16,399
Transfer to Statement of Revenues and Expenditure	(1,362,228)	(4,656)	(24,975)	(509,097)	(45,715)	-	(1,946,671)
<b>Balance at December 31, 2004</b>	3,248,106	99,544	82,606	976,957	253,144	-	4,660,357

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, 2004</b>	11,336,810	-	-	373,417	792,987	2,804,718	(81,652)	15,226,280
Advances Received from Funding Parties	9,950,259	-	-	-	5,368,498	2,496,743	-	17,815,500
Transfer to Designated Capital for Signed Projects	(7,660,992)	-	-	(155,150)	(2,500,973)	(1,021,036)	-	(11,338,151)
Adjustment for Closed Projects	29,093	-	716	-	13,577	162,413	-	205,799
Allocation of Surplus Income for 2004	465,954	505	33,895	2,691	103,742	-	-	606,787
Adjustment for 2004 Other Purposes	7,355	-	132	-	406	33,272	(1,621)	39,544
Adjustment for Revaluation	-	-	-	-	278,825	-	-	278,825
Transfers to ISTC	(1,000,000)	-	-	-	-	(746,770)	-	(1,746,770)
Transfer to A/P Non-Projects	-	-	-	-	-	(6,780)	-	(6,780)
Transfer to Designated Capital – Supplemental Budget	(1,413,098)	(505)	-	-	(198,003)	(57,000)	-	(1,668,606)
Transfer to Designated Capital - Administrative Budget	(1,200,980)	-	(34,743)	-	(455,751)	-	-	(1,691,474)
<b>Balance at December 31, 2004</b>	10,514,401	-	-	220,958	3,403,308	3,665,560	(83,273)	17,720,954

Note : The amount of 1,621 USD under 'Other' relates to the performance of the 2003 and 2004 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 2004 audit cost is accrued as an expense in the 2004 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2005 AOB.



SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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

	<b>2004</b>	<b>2003</b>
	<b>USD</b>	<b>USD</b>
Canada	414,994	400,685
Sweden	-	-
Ukraine	56,138	159,980
Partners	6,019,104	6,451,430
United States	8,956,524	7,765,580
European Union	9,466,923	4,796,154
Japan	-	-
	<u>24,913,683</u>	<u>19,573,829</u>

**14. Financial commitments**

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

No material commitments existed at December 31, 2004.

b) **Funding parties**

At December 31, 2004 the funding parties had approved but not signed 31 projects with a total funding of 4,245,230 USD (2003 - 10,243,707 USD). The agreements for these projects are expected to be signed in 2005. As a result of political unrest in Ukraine at the end of 2004, the 19<sup>th</sup> STCU Governing Board meeting scheduled to be held on December 2, 2004 in Kyiv, was postponed until February 10, 2005, at which time the funding parties approved but not signed 25 projects with a total funding of 2,544,835 USD and 775,000 Euro (equivalent to 1,057,410 USD at December 31, 2004).

**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.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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.

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

	2004		2003	
	Amounts due from Funding Parties USD	Cash at Bank USD	Amounts due from Funding Parties USD	Cash at Bank USD
Euro's	1,265,792	6,074,135	2,262,897	2,856,564
Ukrainian Hryvna	-	9,396	-	88,923
Azeri Manat	-	16		
	<u>1,265,792</u>	<u>6,083,547</u>	<u>2,262,897</u>	<u>2,945,487</u>

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

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

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

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

## SCIENCE AND TECHNOLOGY CENTER IN UKRAINE NOTES TO THE FINANCIAL STATEMENTS

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

In early October 2002, with no agreement reached between the former landlord and the Government of Ukraine on either of the aforementioned issues, the former landlord interrupted the electricity supply to the STCU's former facility. As per the decision of the STCU Board of Governors related to any interruption in STCU utilities, the Executive Director of the STCU declared "force majeure" (as described in Note 1) and the STCU moved into a temporary facility in mid-October 2002. The STCU returned the keys and the control of the former facility to the former landlord at the end of November 2002 and moved into its new premises at 21 Kameniariv, Kyiv in late December 2002.

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

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

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

## SCIENCE AND TECHNOLOGY CENTER IN UKRAINE NOTES TO THE FINANCIAL STATEMENTS

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On July 2, 2004, as a result of the Prosecutor General of Ukraine's motion with the Supreme Arbitration Court of Ukraine, Solominsky District Court cancels the court decision #3/335.

On July 9, 2004, the Civil Court of Kyiv issues letter stating that a new case will be opened with the case #3/335-2/308, within which the STCU will be named as a defendant, along with the Cabinet of Ministers (instead of the Ministry of Foreign Affairs as stated previously in case #3/335).

In late July, 2004, the Government of Ukraine and the STCU agree to lodge a counter-claim against the STCU's former landlord, requesting repayment of rent and renovations paid by the STCU up until the date of documented ownership (December, 2000) by the STCU's former landlord. The amount of the counterclaim was 852,496.30 UAH (159,943.02 USD).

On November 12, 2004, the Supreme Arbitration Court of Ukraine provided a final verdict on both the original claim of the STCU's former landlord and the counterclaim advising that the court had declined to satisfy any claim from either party stating that the term of term or statute of limitation (counting from the initial lease signing date on May 26, 1995) had expired. The court provided 10 days for both sides to appeal. Neither side lodged an appeal. Thus, according to STCU's legal advisors, this seemingly constitutes a draw and unless either party decides to lodge a new case, the court decision (#3/335) in the previous case (case #89-04/03) is closed.

Finally, according to STCU's legal advisor's, the STCU's former landlord has until October 2005 to start a brand new case against the STCU before the statute of limitations on the period of unpaid rent expires. At that point in time, the STCU's former landlord should have no legal recourse to recover funds for unpaid rent at the STCU's previous facility.

With these Ukrainian Court actions and written assurances by the Ministry of Science and Education on behalf of the Government of Ukraine and having regard to the Agreement establishing the STCU, the management of the STCU believes that it is not liable for unpaid rent and utilities of its former premises located at Laboratornyj Provulok 3. Accordingly, the financial statements do not include any provision for the unpaid rent and utilities of the STCU's former facility.

**LUBBOCK FINE  
CHARTERED ACCOUNTANTS**

**SCIENCE AND TECHNOLOGY**

**CENTER IN UKRAINE**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED 31 DECEMBER 2004**

THIS REPORT HAS BEEN PREPARED FOR THE SOLE USE OF THE BOARD OF GOVERNORS AND THE MANAGEMENT OF THE SCIENCE AND TECHNOLOGY CENTER IN UKRAINE AND MUST NOT BE SHOWN TO THIRD PARTIES WITHOUT PRIOR CONSENT. NO RESPONSIBILITIES ARE ACCEPTED BY LUBBOCK FINE TOWARDS ANY PARTY ACTING OR REFRAINING FROM ACTION AS A RESULT OF THIS REPORT.

Mr A Hood – Executive Director  
Mr C Bjelajac – Chief Financial Officer  
Science and Technology Center in Ukraine  
21 Kameniariv  
03138 Kyiv  
Ukraine

Dear Sirs

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
FINANCIAL AUDIT FOR THE YEAR ENDED 31 DECEMBER 2004  
MANAGEMENT LETTER – EXECUTIVE SUMMARY**

**I. Introduction**

We have now completed our audit of the financial statements of the Science and Technology Center in Ukraine (STCU), based in Kyiv, Ukraine, for the year ended 31 December 2004.

Our audit was performed in accordance with internationally recognised Auditing Standards. In planning and performing our audit we have considered the STCU's internal control structure in order to assess the level and nature of auditing procedures for the purpose of expressing an opinion on the financial statements.

In conjunction with our review of internal controls in place for the financial year ended 31 December 2004 we have also reviewed the Management Letter which we prepared for the year ended 31 December 2003, to ascertain whether the weaknesses identified in 2003 still exist in 2004.

In general we have noted that a number of improvements have been made by the STCU in the internal control and recording of transactions, however a number of weaknesses still exist where controls and procedures can be improved. Of the 8 Observations noted last year, 3 have been addressed and are no longer considered to be an issue. The remaining 5 Observations are still considered to be of significance and require some form of corrective action, although we would point out that in relation to some of these issues improvements have been made. The outstanding matters not yet resolved are all referred to in the body of this letter.

Please find below a summary of the observations, full details of which are set out in section II of the report. These observations were discussed with Curtis "B.J." Bjelajac prior to written comments being obtained, which are incorporated in this report.

**II. Observations Summary**

1. The use of two software packages, ACCPAC (a dedicated accounting package) and ACCESS (a database package tailored

for STCU's needs) to record financial transactions limits the availability of financial information.

We now note that this issue, which has been raised at the last four audits, is now being addressed and an agreement has been reached with a company for the supply of a fully integrated accounting and reporting software package, with its implementation likely to happen in the second half of the year. (See Observation No.1).

2. We noted that there was no bonding insurance for the transportation of large amounts of cash from First Ukrainian International Bank to the STCU. (See Observation No.2).
3. During the course of our review we noted that a number of contracts concluded with the project beneficiaries were not dated by all signatories of the contract. (See Observation No.3).
4. It was noted that some 42 scientists had claimed grants for more than the permitted 220 days per year. (See Observation No.4).
5. In relation to the technical and financial audits carried out by the USDCAA, it was noted that a number of issues were raised regarding the completion of time cards by participants. In addition issues were raised regarding the identification of project equipment and the verification of time inputs to documentary evidence for one participant. (See Observation No.5).
6. During the course of our review we noted there was no one system for the filing of project invoices. This impairs the efficiency of tracing expenditure back to invoices. (See Observation No. 6).
7. It was noted that the posting of accruals for working cash at the year end was incorrectly carried out. The method used understated working cash and accruals at the year end. (See Observation No. 7).

This report has been prepared for the sole use of the Board of Governors and the Management of the Science and Technology Center in Ukraine and must not be shown to third parties without prior consent. No responsibilities are accepted by Lubbock Fine towards any party acting or refraining from action as a result of this report.

Yours faithfully

  
Lubbock Fine

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## **I. AUDIT FINDINGS SUMMARY**

**AUDIT FINDINGS SUMMARY**

<b>Item No.</b>	<b>Title</b>	<b>STCU Comments (Agreed or Not Agreed)</b>
1.	The use of two software packages for the maintenance of financial information.	<b>Agree</b>
2.	Lack of adequate insurance cover.	<b>Agree</b>
3.	Contracts not dated.	<b>Partially Agree</b>
4.	Monitoring of grant payments.	<b>Agree</b>
5.	Technical and financial monitoring of projects	<b>Agree</b>
6.	Filing of invoices for project expenditure	<b>Agree</b>
7.	Method of treating accruals for working cash expenditure	<b>Agree</b>

## **II. AUDITOR'S REVIEW**

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 1**

Title: The use of two software packages for the maintenance of financial information.

Description: Currently the STCU uses two different, independent, software packages for the preparation and monitoring of financial information. The principal package used for the preparation of the financial statements is ACCPAC, a recognised, off the shelf, accounting package. The second package, ACCESS, is a database that has been tailored to the needs of the STCU, primarily for the monitoring of project activity.

As a general rule ACCESS is used for the day to day entry of transactions relating to the projects. Specifically, the payments relating to project expenditure are all recorded in ACCESS on a daily basis. New procedures have been adopted by the STCU to record all project transactions on ACCPAC on a monthly basis, ensuring that more accurate information is available and is reviewed throughout the year.

Whilst the ACCESS system developed by the STCU is a powerful tool for monitoring purposes, it is not an accounting package, and accordingly there are limitations in the manner in which financial information can be produced. The problems associated with extracting financial information from ACCESS, and the lack of interaction or integration with ACCPAC are detailed below.

- (i) ACCESS acts primarily as a database, and is not an accounting package. As such it does not have the capacity to generate reports that would be associated with a more familiar accounting package. This particularly applies to accounts payable where a standard accounting package would generate reports indicating what liabilities of the organisation are due, when the liability was due, and break it down to components.

The inability to generate reports then prevents an effective review of the figures to be undertaken. This then has the effect of obvious errors not being spotted and rectified.

- (ii) The use of two separate systems, in the manner operated by the STCU, means that certain data is entered twice, which is not the most effective use of resources.

Recommendation: It is our understanding that the primary reason for the reliance on ACCESS for the posting of day to day payments, was the dissatisfaction of using the job cost module on ACCPAC. We are further aware that STCU now has an in-house IT department which will take more control over ACCESS and that the system is in the process of being documented.

We accept that there are advantages of using ACCESS for project management, and that for the short term changes have been made to the current system.

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2004**  
**Management Letter**

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**Observation No. 1**

The short-term considerations included in the management letter for the years ended 31 December 2000 to 2003 have now, in the main been, been implemented. For example, the STCU are in the process of documenting the system and are increasing the involvement of the IT department in the control of ACCESS. Also project transactions are now entered onto ACCPAC monthly.

In the longer-term, we are aware that the STCU has now entered in to an agreement with a software company to provide an integrated accounting package which will cater for the various needs of the STCU. This package is due to be operational in late 2005, and therefore the observations noted above will continue to be an issue for a short while yet.

STCU Comment: The STCU concurs with Lubbock Fine's recommendations. As mentioned, the STCU management plans to focus primarily on performing the steps necessary to address the long-term systems issues. The STCU management has accomplished in 2004 and plans to perform the following long-term steps in 2005 to address this observation:

- (i) In November 2004, the project team underwent training on Navision in order to get a better understanding of the system and its functionality. During this period, the project team discussed preliminary design issues related to the implementation.
- (ii) In December 2004, the STCU Board of Governors approved the remaining funds required for the purchase and implementation of Navision.
- (iii) In the second-half of December 2004, the STCU signed the software agreement for the purchase of Navision and remitted payment.
- (iv) In May 2005, the STCU is scheduled to sign the consulting agreement with Innaware (the winner of the tender) for the implementation of Navision.
- (v) At the end of May 2005, the STCU is scheduled to "kick-off" the implementation of Navision with a scheduled "go live" date of Aug. 31, 2005.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 2**

Title:	Lack of adequate insurance cover.
Description:	<p>During our examination of insurance costs, it was found that the current insurance cover of the STCU is insufficient to safeguard its assets in one key respect.</p> <p>We noted in the management letters for the years ended 31 December 1999 to 2003 that there was no bonding insurance for the transportation of cash from the First Ukrainian International Bank to the Center.</p> <p>We now note the STCU pays all STCU local employees by bank transfer and travel advances for less than US\$3,000, and as a result the volume of cash being withdrawn and transported at any one time has been significantly reduced as has the frequency of withdrawals. We are also aware of the fact that armed security guards now accompany the treasurer when withdrawals of cash are made.</p> <p>We would point out that the STCU has attempted to obtain insurance cover, however as yet it has been unable to find a suitable cover.</p>
Recommendation:	Whilst we acknowledge that the issue of insurance cover is problematic in Ukraine, and the fact that the STCU has attempted to obtain cover, we strongly recommend further investigation be carried out in order that such cover can be obtained.
STCU Comment:	The STCU concurs with Lubbock Fine's recommendation, and will continue to try and identify additional insurance providers that might provide quotes for a reasonable policy. If a reasonable quote is found, the STCU will utilize the funds provided for this coverage in the Administrative Operating Budget to secure adequate insurance for this issue.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 3**

Title:	Contracts not dated.
Description:	<p>In the management letters for the years ended 31 December 1999 to 2003 we noted that in the majority of cases, contracts concluded with project beneficiaries were not dated by all parties.</p> <p>During the course of our audit it was noted that in some cases, the contracts are still not being dated. However, we would point out that this issue relates primarily to the institutes not dating contracts, and in some instances project partners, the STCU was noted to have dated all contracts.</p> <p>As well as not being in accordance with standard business practice, the issue of not dating contracts creates a further difficulty with respect to capital accounts. The accounting policy of the STCU states that a project becomes designated when the contracts are signed. If all participants do not date the contract, then the accounting policy becomes harder to implement, and increases the risk that capital may be wrongly credited to either designated or undesignated project capital.</p> <p>Whilst we have noted improvements in this respect since this issue was first noted in the management letter for the year ended 31 December 1999, there were still instances during the year where the contracts were not dated by some of the parties.</p>
Recommendation:	All contracts must be dated by all signatories. The project accountant must check that the contract is signed and dated by all parties, before releasing any monies to the institute under the contract.
STCU Comment:	The STCU partially concurs with Lubbock Fine's recommendations, and will continue to work to ensure that all contracts are dated by instructing the STCU Senior Specialists to work with all parties (e.g. lead institutes, participating institutes, and partners) to ensure that they date their signatures. The STCU agrees that the dating of signatures is standard business practice. However, the STCU must weigh the interest of the Parties to see the project agreements signed in a timely manner in order to meet their non-proliferation goals, versus teaching and enforcing a Western standard business practice. Dating signatures was not a general business practice in the former Soviet Union, which hampers the STCU in its efforts to teach the institute directors this Western business practice. Thus, in summary, although the STCU agrees that the dating of signatures is a very good practice, it will not return those contracts not dated by the signatory parties, because this will slow down even more an already lengthy process of starting an STCU project. The STCU feels that any further delays in the starting of STCU projects would be detrimental to the aforementioned non-proliferation goals of the Parties.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 4**

- Title:** Monitoring of grant payments.
- Description:** As part of our review of the project costs incurred during the year we attempted to ascertain whether any of the scientists or support personnel receiving grants had claimed for more than 220 days a year, which is deemed to be a normal working year.
- The STCU generated a report from ACCESS showing individuals who worked for more than 220 days in the year ended 31 December 2004 and also showing rolling 12 month totals for each month. This report indicated that some 42 (2003 – 14) scientists had claimed for more than the permitted 220 days, with a total of 816 (2003 – 525) days being potentially being claimed in excess of this limit.
- Of particular concern was Mineev who claimed to be working 16 hours a day for the whole of April and May 2004 (on 2 separate projects).
- Whilst STCU has the ability to run a report showing individuals who work more than 220 days in a year, this is done retrospectively at the end of each quarter. At present no action is taken to prevent the scientists from exceeding this limit in the future.
- In addition, we noted that the requirement for scientists to work no more than 220 days per year on STCU-funded projects is not included in the agreement between the individual scientists and STCU. It is therefore possible that the scientists are not aware of this requirement and this increases the likelihood that scientists will exceed this limit.
- In relation to the issue of the 220 working days per year, which is used as a benchmark by the STCU, we believe that this figure is low, and does not fully reflect the reality of the STCU projects. In addition the situation is further complicated with regard to partner projects where there seem to be less restrictions on the working days rule, for instance a grantee working 12 hours in a day is able to claim 1.5 days (based on an 8 hour standard day).
- We note that as of 1 March 2005 the STCU clarified the situation by specifying an upper limit on days worked per year of 220. This limit can be extended to 242 days upon written approval of the STCU.
- Recommendation:** We would make the following recommendations;
- (i) In relation to the 42 scientists already identified, and in particular Mineev, we would recommend that the STCU undertakes a thorough review of the grants claimed by these individuals. This will involve identifying all of the projects that they have worked on and then obtaining copies of their time sheets for these projects. The time sheets should then be compared and any duplications identified.
- If duplications are identified, steps should be taken to recover the grants that the individuals were not entitled to.



**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 4**

If no duplication occurred and the scientists genuinely worked the amount of days claimed, STCU should write to the scientists reminding them of the 220 day limit and requesting that they keep better control over the number of days they work in the future.

(ii) In order to ensure that such exceptions do not occur in the future, any exceptions noted when the number of days worked is reviewed should be followed up with the scientists concerned.

As a further measure the finance department should ask the Senior Specialists to report to them instances where they believe that certain individuals are claiming more grants than they are entitled to.

(iii) The agreement between STCU and the individual scientists should be amended to include the requirement that the scientist may not work for more than 220 days per year on STCU funded projects and that this may be increased to 242 days upon the written approval of the STCU. The agreement should also stipulate the requirement to calculate this total on a rolling basis.

STCU Comment: The STCU concurs with Lubbock Fine's recommendations, and will implement the recommendations presented in the following manner:

(i) The STCU will conduct a thorough review of the time cards of those 42 scientists identified in order to ensure that there are no occurrences of payments made for duplicate time worked on multiple projects. If duplication is found to have occurred, then the STCU will take appropriate action. If no duplication is found, then the STCU will send a letter to the scientists, with a copy to the appropriate Project Managers and Institute Directors of the projects associated with these scientists, informing them of the situation and requesting them to ensure that there is no reoccurrence of this issue in on-going and future projects.

In the case of Mr. Mineev, the STCU wrote a letter dated March 18, 2005 to Mr. Mineev, as well as the two project managers associated with the projects that he worked on claiming 16 hours per day, asking Mr. Mineev to substantiate the hours claimed on his timecards. On March 23, 2005, the STCU received e-mail responses to the STCU's written letter within which Mr. Mineev and the two project managers associated with the projects charged with the time worked, substantiated the time worked by Mr. Mineev in manner acceptable to the STCU. In short, because of time constraints on both projects, as well as Mr. Mineev's key role on both, he was forced to work substantial overtime hours in order to achieve the deliverables in the timeframes required in the two project workplans. Both project managers reiterated that Mr. Mineev did indeed work the hours indicated in his timecards. .

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 4**

- (ii) The STCU worked closely with the ISTC to review and incorporate its policy in this matter. As a result of the discussions with the ISTC, the STCU developed a policy (entitled "SOP XXIV - Project Participant Participation in STCU Projects") within which the STCU allows project participants to work up to 242 days within one rolling calendar year with the permission of the senior specialist, and stipulates courses of action for those participants who work more than 242 days.
- (iii) As was noted above, in the past when the STCU discovered that a scientist worked more than 220 days in a rolling calendar year, the STCU generated a warning letter to the project participant with a cc: to the project manager. With the newly implemented (effective as of March 1, 2005) policy mentioned above, the STCU will allow project participants to work more than up to 242 days with the permission of a senior specialist. In addition, the STCU project accountants will increase their cooperation with senior specialists in order to better prevent scientists from claiming grants not due to them.
- (iv) In 2004, the STCU amended the agreement between the STCU and the project participants to include the statement that the project participant may not work for more than 220 days per year on STCU funded projects, calculated on a rolling calendar year basis. Thus, the STCU will update the agreement again in 2005 to incorporate the details outline in the newly developed policy described above.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 5**

- Title: Financial and Technical monitoring of projects
- Description: At the request of the U.S. Department of State, the STCU recently completed 11 U.S. sponsored technical and financial project audits. The STCU worked closely with the U.S. D.O.S., Defense Contract Audit Agency, and a select group of technical auditors to perform integrated financial and technical audits.
- In relation to these audits the following issues were noted:
- (a) In relation to Projects 1538, 1556 and Uzb-39 (J) it was noted that participants were not completing their timecards properly, either because the timecards were not completed on the day of the work, they were being filled out in advance or they were potentially being completed by other people.
  - (b) In relation to Project Uzb-39 (J) it was noted that institute directors were claiming more hours than permitted by STCU regulations.
  - (c) In relation to Project P115 the USDCAA noted that there was insufficient documentary evidence to verify the work carried out by a particular project participant.
  - (d) In relation to Projects 1538, 1556, 1700, 1580 and 1766 the USDCAA has raised an issue concerning the overclaim of overhead costs resulting from the inclusion of VAT in total project costs.
- According to the project agreements, overheads are to be charged at a fixed % of total allowable costs. At present projects claim overheads on the total costs, however according to the USDCAA, VAT is not an allowable expense and should therefore be deducted from the total project cost before calculating the overhead payable. On this basis the USDCAA has calculated that a number of projects have been overpaid overhead costs because of the inclusion of VAT in the calculation.
- We would point out that in general the level of overpayment is very small, and it should be borne in mind that it has always been the practice to include VAT as there is no practicable mechanism to recover the VAT from the authorities.
- Recommendation: In relation to the above we would make the following recommendations:
- (a) With regard to the completion of the time cards we would recommend that the STCU reminds all project managers, at the various projects, of the manner in which time cards should be completed. The project managers should in turn be required to reiterate the procedures to the individual participants.
  - (b) Overclaim of hours by institute directors we recommend the STCU carry out procedures as described under observation number 4

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2004**  
**Management Letter**

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**Observation No. 5**

regarding the monitoring of grant payments.

- (c) In relation to the individual project participant the STCU should request the individual to present appropriate documentary evidence to the project manager at the STCU to determine whether the work carried out was in agreement with the amount of time claimed.
- (d) With regard to the issue of excess overheads being claimed due to the inclusion of VAT in project expenditure, we would recommend that either the STCU develops a mechanism to recover the excess VAT or it amends the project agreements to ensure that the VAT element is allowable.

STCU Comment: The STCU concurs with Lubbock Fine's recommendations and plans to perform the following steps to address this observation:

- (i) The STCU will require all senior specialists and project accountants to reinforce to all project participants of all projects including 1538, 1556 and Uzb-39 (J) the requirements of Article 8.1.7. (b) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "Individual participants must personally complete their time cards each day and in ink, and must sign their own time cards at the end of each month.". Furthermore, the STCU will require all senior specialists and project accountants to reinforce to all project managers and participating institute managers of all projects including 1538, 1556 and Uzb-39 (J) the requirements of Article 8.1.10. (c) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "ensure that individual participants correctly record the hours worked on this project according to the procedure described in Article 8.1.7.". Again, this reinforcement will occur throughout the year when project managers bring in their project's monthly timecards, as well as during the regularly scheduled STCU monitorings. Particular emphasis will be placed on time card procedures and policies during the first monitoring, which as per STCU Standard Operating Procedure VIII – Project Monitoring Policy is scheduled to occur within the first six months of the operative commencement date of the project. Furthermore, The STCU will develop a standard training program for project managers and participants in order to inform them about the changes to procedures brought about by the installation of Navision (scheduled for implementation in late summer '05), and will include a section about the requirements related to timely and accurately completion of their timecards.
- (ii) The STCU will require all senior specialists and project accountants to reinforce to all recipient signatories, deputy

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2004**  
**Management Letter**

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**Observation No. 5**

recipient signatories, and project managers of all projects, including Uzb-39, the requirements of Article F of STCU Standard Operating Procedure VI – Project Financing.

Furthermore, in the case of Uzb-39, the STCU followed up on DCAA's recommendation and secured the appropriate request for increased participation of the institute director from the project, which the STCU approved on in January 2005. A copy of this request with appropriate approval signatures is set out in Annex 1 to the Management Letter.

- (iii) In the case of the project participant on project P115 without satisfactory documentation to substantiate his hours on the project, the STCU followed up on DCAA's recommendation and sent a letter to the project manager emphasizing the importance of maintaining timely and accurate documentation. A copy of this letter is set out in Annex 2 to the Management Letter.

Furthermore, this matter will be reviewed again by a Senior Specialist during the final monitoring of this project.

- (iv) The STCU still views the recovery of STCU VAT as the ultimate resolution to this observation, and will continue its efforts to work with the recipient party governments to recover these funds. At the same time, the STCU worked closely with the management of the ISTC in July 2004 to clarify how the model project agreements are worded for the projects with that Center, and the STCU will modify its own model project agreement to mirror that of the ISTC's and present it to the STCU Governing Board for approval.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 6**

- Title: Filing of invoices for project expenditure
- Description: During the course of our audit, we noted that there was no systematic method of filing of project invoices. This caused difficulties in the tracing of project expenditure to invoices, for a number of projects for which there was a large volume of purchases. It was noted that some of the invoices were filed by invoice date, some by payment date, and a number seemed to be filed in no logical order.
- This issue has become more of a problem than the past when expenditure for each project tended to be much smaller and there were far fewer invoices per project. However, projects, such as P123, which had non-labour expenses during the year of \$458,767, have a much larger volume of invoices. With no consistent system for the filing of invoices it has become much more difficult to trace project expenditure to invoices.
- Recommendation: In relation to the above it is recommended that consistent policy for the filing of invoices should be adopted. This system should be designed to allow any individual to trace a purchase made from the financial records to the invoices utilising referencing and a systematic way of filing the invoices.
- STCU Comment: The STCU concurs with Lubbock Fine's recommendations and will develop a new policy for the filing of invoices in a consistent manner, allowing the tracking of transactions from the financial records to the invoices utilized.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2004  
Management Letter**

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**Observation No. 7**

- Title: Method of treating accruals for working cash expenditure
- Description: During the course of our audit we noted that an incorrect method was being applied for the treatment of accruals for working cash expenditure. At the year end, an entry was made for the total expenditure paid out of working cash in 2004 which wasn't entered into ACCPAC until the 2005 working cash replenishments, as follows:
- Dr Expenditure  
Cr Working cash
- The impact of this treatment was an understatement of working cash and accruals of \$17,768 at 31 December 2004.
- Recommendation: At the year end, a regular accrual should be made for any expenditure incurred in the financial year which hasn't been recorded in the current year. The journal entry is as follows:
- Dr Expenditure  
Cr Accruals
- This accrual should be reversed at the beginning of the following year.
- STCU Comment: The STCU concurs with Lubbock Fine's recommendations, and will ensure that the recommended entry for all working cash expenditures will be utilized for the generation of the accruals for the year end December 31, 2005 financial statements.

## **ANNEXES**

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This report has been prepared for the sole use of the Board of Governors and the Management of the Science and Technology Center in Ukraine. No responsibilities are accepted by Lubbock Fine towards any party acting or refraining from action as a result of this report.



## **ANNEX 1**

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This report has been prepared for the sole use of the Board of Governors and the Management of the Science and Technology Center in Ukraine. No responsibilities are accepted by Lubbock Fine towards any party acting or refraining from action as a result of this report.

To: Deputy Executive Director  
Esa Manninen  
Project Coordinator  
N.M. Dudko

From: Project Manager  
T.F. Bekmuratov  
Date: 21.01.2005.

Re: About an establishment of percent of participation N.O. Nabiev in the project

## ***“Development of the Cryogenic-Optical Sensor for the Highly Sensitive Gravity Meters”***

*Project manager: Bekmuratov Tulkun Faiziyevich, Doctor of Technical Sciences, Professor*

*Phone: +998 71 169-1266; 162-8946 Fax: + 998 71 162-8946*

*E-mail: tulkin@cyber.uzci.net, omonuz@mail.ru*

*Participating institution: The Scientific Research Institute “Algorithm - Engineering” of Academy of Sciences of Uzbekistan*

*Financing parties: USA*

*Operative commencement date: 01.AUG.2002*

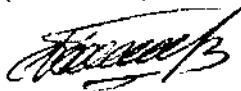
*Project duration: 3 years*

*Date of submission:*

Dear Esa Manninen,

In connection with necessity of the great volume works execution on creation of the new algorithms on filtration, noise compensation and modeling gravimetric gauge I ask you to resolve Nabiev Ozad Malikovich - the director of scientific research institute "Algorithm-Engineering" 68 percent for work in the project participation. Nabiev O.M. is well-known expert on signals modeling and processing. He took part in signals processing and was the supervisor of this subject. His qualification and experience are also necessary in the software development. For the period of the project execution the duty of the director will be partially carry out his assistant on scientific work.

Project manager  
(Uzbekistan)



Professor T.F. Bekmuratov

PC

DED

*agreed 14.02.05*  
*Esa Manninen 16.02.05*

## **ANNEX 2**

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This report has been prepared for the sole use of the Board of Governors and the Management of the Science and Technology Center in Ukraine. No responsibilities are accepted by Lubbock Fine towards any party acting or refraining from action as a result of this report.



Zamira Golubenko Ph.D  
Project Manager  
Project #P115

February 21, 2005

Dear Ms. Golubenko,

As you are aware, representatives of the STCU, DCAA, and USDA recently audited your project, P115, "Characterization of Phytoalexins from the Malvaceae in Uzbekistan" on November 5, 2004. During that audit a number of issues were discovered and discussed with you that require corrective action on your part, as well as on the part of the project participants. The following items were discussed with you during the audit, and we would like to request again that you ensure follow up on these items in the manner described below:

- During the audit it was discovered that not all project participants were keeping timely and accurate laboratory notebooks describing the work they had completed. Thus, at the time of the audit, it was difficult for the project participants to show results of their efforts. This in turn made it very difficult for the auditors to feel comfortable that project participants were actually performing the work that they were being paid for by the STCU. As you would agree, this is not a desirable situation. Thus, please ensure that the project participants are aware that timely and accurate laboratory notebooks are not only good scientific practice, but also extremely important if your project would ever like to patent any of its work. For your information, the STCU has developed "Project Notebook Principles and Guidelines" which can be found on STCU's website at the following web address:

[http://www.stcu.int/documents/general/Lab\\_Notebook\\_Guidelines.pdf](http://www.stcu.int/documents/general/Lab_Notebook_Guidelines.pdf)

- During the audit it was discovered that a project participant was working on a machine and processing cultures for both the institute and the STCU project, but charging all of his time to the STCU project. According to Article 8.1.10. (c) Annex II General Conditions, Part C (Allowable Costs) of the Model Project Agreement, the project manager should "ensure that individual participants correctly record the hours worked on this project according to the procedure described in Article 8.1.7.". Thus, please work with all project participants to ensure that they are completing their timecards for actual time worked on STCU projects, and not for time worked performing work required by the institute.

The STCU urges you to follow-up on these matters as soon as possible, in the manner indicated above. Furthermore, if you have any questions or comments related to this observation and follow-up actions, please feel free to contact your responsible project coordinator or project accountant. The STCU is more than happy to help clarify any questions or comments you might have.



Furthermore, if you have any questions or comments related to the contents of this letter, please feel free to contact me directly at 380-44-490-7150. Thank you for your time and consideration.

Sincerely,

Curt "B.J." Bjelajac  
Chief Financial Officer

Science and Technology Center in Ukraine



Cc: Mr. Shovkat Salikhov, Director, A.S.Sadikov Institute of Bioorganic Chemistry  
Marsha Hurtado, International Affairs Specialist, USDA/ARS  
Melanie Peterson, International Affairs Specialist, USDA/ARS  
Andrew A. Hood, Executive Director, STCU  
Borys Atamanenko, Senior Deputy Executive Director, STCU  
John Zimmerman, Deputy Executive Director, STCU  
Landis Henry, Deputy Executive Director, STCU  
Esa Manninen, Deputy Executive Director, STCU  
Peter Melnik-Melnikov, Senior Specialist, STCU  
Borys Rovinsky, Project Accountant, STCU



**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE - STCU  
STATEMENT OF ADMINISTRATIVE OPERATING BUDGET (AOB) as of APRIL 30, 2005**

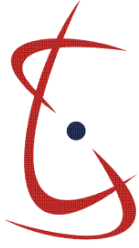
	Annual Budget	Booked Expenditures	Obligated Expenses	Remaining Budget	Percentage (Over)/Under
<b>Administrative Operating Expenses</b>					
<b>Non-Recurring Expenses</b>					
FACILITY IMPROVEMENTS	10 000	0,00	0,00	\$10 000,00	100,00%
FURNITURE & FIXTURES	10 000	557,85	0,00	\$9 442,15	94,42%
TELECOMMUNICATIONS EQUIPMENT	13 450	7 192,54	0,00	\$6 257,46	46,52%
OFFICE EQUIPMENT	10 000	7 162,99	0,00	\$2 837,01	28,37%
VEHICLE PURCHASE	25 000	21 152,83	0,00	\$3 847,17	15,39%
COMPUTER HARDWARE	35 700	32 305,47	0,00	\$3 394,53	9,51%
COMPUTER SOFTWARE	28 445	17 653,10	0,00	\$10 791,90	37,94%
<b>Subtotal Non-Recurring Expenses</b>	<b>132 595</b>	<b>86 024,78</b>	<b>0,00</b>	<b>\$46 570,22</b>	
<b>(1) Contingency - Non-Recurring</b>	<b>25 000</b>	<b>0,00</b>	<b>0,00</b>	<b>\$25 000,00</b>	<b>0,00%</b>
<b>Recurring Expenses</b>					
LOCAL GRANT PAYMENTS	789 000	196 760,19	0,00	\$592 239,81	75,06%
REPRESENTATION	15 000	3 131,85	0,00	\$11 868,15	79,12%
STAFF EDUCATION & TRAINING	63 280	13 117,38	0,00	\$50 162,62	79,27%
INTERNATIONAL TRAVEL	32 400	1 592	0	30 808	95,09%
TRAVEL WITHIN THE CIS	137 615	27 444	0	110 171	80,06%
LOCAL TRAVEL	18 625	5 747,58	0,00	\$12 877,42	69,14%
POSTAGE AND DELIVERY	10 000	2 521,28	0,00	\$7 478,72	74,79%
CUSTOMS FACILITATION	500	178,69	0,00	\$321,31	64,26%
GENERAL OFFICE SUPPLIES	23 000	10 044,74	0,00	\$12 955,26	56,33%
OFFICE EQUIPMENT REPAIR/MAINT	7 000	-186,87	0,00	\$7 186,87	102,67%
VEHICLE OPERATIONS	9 000	6 503,81	0,00	\$2 496,19	27,74%
PRINTING AND REPRODUCTION	24 000	1 436,80	0,00	\$22 563,20	94,01%
TELECOMMUNICATIONS SERVICES	40 000	9 783,24	0,00	\$30 216,76	75,54%
BUSINESS MEETINGS	6 000	2 927,42	0,00	\$3 072,58	51,21%
SUBSCRIPTIONS AND PUBLICATIONS	8 000	535,18	0,00	\$7 464,82	93,31%
PUBLIC AFFAIRS	34 500	7 482,95	0,00	\$27 017,05	78,31%
EMPLOYEE MORALE & WELFARE	22 000	5 010,77	0,00	\$16 989,23	77,22%
MEDICAL PLAN	71 850	19 392,34	0,00	\$52 457,66	73,01%
BUILDING SUPPLIES	7 000	3 822,88	0,00	\$3 177,12	45,39%
BRANCH OFFICES	90 720	9 476,36	0,00	\$81 243,64	89,55%
INSURANCE EXPENSE	9 000	2 588,11	0,00	\$6 411,89	71,24%
BANK FEES - OFFSHORE	75 000	20 234,29	0,00	\$54 765,71	73,02%
BANK FEES - ONSHORE	57 000	14 225,94	0,00	\$42 774,06	75,04%
BUSINESS GROUP OPERATIONS	50 000	-635,17	0,00	\$50 635,17	101,27%
LEGAL SERVICES	10 000	5 310,93	0,00	\$4 689,07	46,89%
ACCOUNTING AND AUDITING	83 273	83 273,00	0,00	\$0,00	0,00%
OTHER PROFESSIONAL SERVICES	98 000	8 322,50	0,00	\$89 677,50	91,51%
<b>Subtotal Recurring Expenses</b>	<b>1 791 763</b>	<b>460 042</b>	<b>0</b>	<b>1 331 721</b>	
<b>Contingency - Recurring</b>	<b>10 000</b>	<b>0,00</b>	<b>0,00</b>	<b>\$10 000,00</b>	<b>100,00%</b>
<b>Total Administrative Expenses</b>	<b>1 959 358</b>	<b>546 066,94</b>	<b>0,00</b>	<b>\$1 413 291,06</b>	<b>72,13%</b>

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE - STCU  
STATEMENT OF SUPPLEMENTAL BUDGET ACTIVITY**  
as of April 30, 2005

Activity	Sub-Activity	Supplemental Expense	Budget	Booked Expenditures	Obligated Expenses	Remaining Budget
01	TECHNIC., COLLABOR., CONT. TRAV. SUPP.		\$ 310,000 + € 130,000	\$ 228,069 + € 44,977.77	\$ 0 + € 0	\$ 81,931 + € 125,502.23
	- U.S. DESIGNATED TRAVELERS		\$ 310,000.00	\$ 228,069.00	\$ -	\$ 81,931.00
	- E.U. DESIGNATED TRAVELERS		€ 130,000.00	€ 4,497.77	€ -	€ 125,502.23
02	INFORMATION TECHNOLOGY SUPPORT (USA)		\$ 350,000.00	\$ 168,713.79	\$ -	\$ 181,286.21
	- U.S.DATABASE PROJECT		\$ 20,000.00	\$ 20,415.38	\$ -	\$ (415.38)
	- STCU SERVER UPGRADE		\$ 10,000.00	\$ 9,808.61	\$ -	\$ 191.39
	- Internet Initiative in Uzb., Geo., and Ukr Pilot		\$ 231,490.00	\$ 138,489.80	\$ -	\$ 93,000.20
	- UNIDENTIFIED		\$ 88,510.00	\$ -	\$ -	\$ 88,510.00
			\$ -	\$ -	\$ -	\$ -
03	COMMUNICATIONS SUPPORT (USA)		\$ 332,785.00	\$ 7,698.80	\$ -	\$ 325,086.20
	- Government of Ukraine's Registration Communication		\$ 7,500.00	\$ 5,143.67	\$ -	\$ 2,356.33
	- CASRI		\$ 2,955.13	\$ 2,955.13	\$ -	\$ -
	- UNIDENTIFIED		\$ 322,729.87	\$ -	\$ -	\$ 322,729.87
04	BUSINESS TRAINING/SUSTAIN. SUPP.		\$ 575,942.00	\$ 86,285.50	\$ -	\$ 489,656.50
	- SHARED		\$ 170,772.00	\$ 54,272.28	\$ -	\$ 116,499.72
	- U.S. DESIGNATED		\$ 400,000.00	\$ 32,013.22	\$ -	\$ 367,986.78
	04.02.01 3 Pilot Trainings (IPR Prof. Present. Bus. Plan)		\$ 38,419.20	\$ 32,013.22	\$ -	\$ 6,405.98
	04.02.02 Pilot Internship Project		\$ 25,000.00	\$ -	\$ -	\$ 25,000.00
	04.02.03 Unidentified		\$ 336,580.80	\$ -	\$ -	\$ 336,580.80
	- EU DESIGNATED		\$ 517,000.00	\$ -	\$ -	\$ 517,000.00
	PATENT SUPPORT		\$ 268,592.00	\$ 84,660.84	\$ -	\$ 183,931.16
	- SHARED		\$ 150,000.00	\$ 84,660.84	\$ -	\$ 65,339.16
	- U.S. DESIGNATED		\$ 100,000.00	\$ -	\$ -	\$ 100,000.00
06	TRAVEL AND MOBILITY SUPPORT		\$ 1,428,736.98	\$ 768,219.26	\$ -	\$ 660,517.72
	- TRAVEL GRANT FUND (SHARED)		\$ 380,000.00	\$ 270,229.35	\$ -	\$ 109,770.65
	- U.S. DESIGNATED TRAVELERS		\$ 378,000.00	\$ 259,664.72	\$ -	\$ 118,335.28
	- E.U. DESIGNATED TRAVELERS		\$ 111,676.00	\$ 15,393.64	\$ -	\$ 96,282.36
	- PARTNER DESIGNATED TRAVELERS		\$ 446,325.00	\$ 209,739.84	\$ -	\$ 236,585.16
	06.04.01 U.S. Department of Agriculture		\$ 205,000.00	\$ 119,924.96	\$ -	\$ 85,075.04
	06.04.02 U.S. National Cancer Institute		\$ 171,325.00	\$ 68,886.55	\$ -	\$ 102,438.45
	06.04.03 U.S. Department of Energy/IPP Program		\$ 70,000.00	\$ 20,928.33	\$ -	\$ 49,071.67
	06.04.04 U.S. Environmental Protection Agency		\$ -	\$ -	\$ -	\$ -
	- SW DESIGNATED TRAVELERS		\$ 104,199.86	\$ 4,655.59	\$ -	\$ 99,544.27
	- CA DESIGNATED TRAVELERS		\$ 8,536.12	\$ 8,536.12	\$ -	\$ -
	07	EXPERT CONTACT (PROGRAM RELATED)		\$ 50,000.00	\$ 81.90	\$ -
- U.S. DESIGNATED TRAVELERS			\$ 50,000.00	\$ 81.90	\$ -	\$ 49,918.10
			€ 60,000.00	€ 51,960.99	€ -	€ 8,039.01
08	EXPERT REVIEW AND ADVISORS		€ 60,000.00	€ 51,960.99	€ -	€ 8,039.01
	- E.U. DESIGNATED REVIEWERS		€ 60,000.00	€ 51,960.99	€ -	€ 8,039.01
09	SEMINARS/WORKSHOPS SUPPORT		\$ 322,884.00	\$ 199,637.02	\$ -	\$ 123,246.98
	- SHARED		\$ 161,800.00	\$ 146,972.51	\$ -	\$ 14,827.49
	- SHARED - NATO		\$ 64,000.00	\$ 10,826.79	\$ -	\$ 53,173.21
	- E.U. DESIGNATED SEMINARS/WORKSHOPS		\$ 47,084.00	\$ -	\$ -	\$ 47,084.00
	- U.S. DESIGNATED SEMINARS/WORKSHOPS		\$ 50,000.00	\$ 41,837.72	\$ -	\$ 8,162.28
			\$ -	\$ -	\$ -	\$ -
10	SERVICE CONTRACTS		\$ 386,734.00 + € 143,292.00	\$ 299,253.63 + € 1,230,371.03	\$ 0 + € 0	\$ 874,808.37 + € 202,548.97
	- U.S. DESIGNATED CONTRACTS		\$ 3,867,340.00	\$ 2,992,531.63	\$ -	\$ 874,808.37
	- E.U. DESIGNATED CONTRACTS		€ 1,432,920.00	€ 1,230,371.03	€ -	€ 202,548.97
11	TARGETED R&D		\$ 500,000.00	\$ -	\$ -	\$ 500,000.00
	- SHARED		\$ 500,000.00	\$ -	\$ -	\$ 500,000.00
12	TARGETED TRAINING		\$ 117,000.00	\$ 13,126.98	\$ -	\$ 103,873.02
	- SHARED		\$ 117,000.00	\$ 13,126.98	\$ -	\$ 103,873.02
			\$ 8,123,279.98	\$ 4,549,024.72	\$ -	\$ 3,574,255.26
	<b>Total Supplemental Expenses</b>		€ 1,622,920.00	€ 1,286,829.79	€ -	€ 336,090.21

**REVISIONS TO STCU REGULAR, GOVERNMENT  
PARTNER, AND NON-GOVERNMENT PARTNER  
MODEL PROJECT AGREEMENTS**





SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

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**Project Agreement**

*enter*

**between**

**THE SCIENCE AND TECHNOLOGY CENTER IN UKRAINE**

**and**

***RECIPIENT (S)***

**Kyiv**

**OPERATIVE COMMENCEMENT DATE:**

\_\_\_\_\_

The Science and Technology Center in Ukraine (hereinafter referred to as “**the Center**”),

the *named leading Institution* ,

and the *named other Institutions*,

(hereinafter referred together as “**the recipient entity(ies)**”), represented for the purpose of signing this Project Agreement (hereinafter referred to as “**the agreement**”) by their authorized representatives (with the Center and the recipient(s) hereinafter referred to collectively as “**the signatory parties**”),

## **TAKING INTO ACCOUNT THE FOLLOWING CONSIDERATIONS:**

The United States of America, 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 (hereinafter, “Party” means an entity that was an initial signatory to the STCU agreement or that has acceded to the STCU agreement),

Additional states may accede to the STCU agreement to participate in the activities of the Center (Georgia acceded to the STCU agreement on March 18, 1998; Uzbekistan acceded to the STCU agreement on December 29, 1997; [Azerbaijan acceded to the STCU agreement on June 27, 2003](#); [Moldova acceded to the STCU agreement on December 7, 2004](#)),

The Center is a legal entity and has been accredited by the Ministry of Foreign Affairs of Ukraine as an ~~international~~ [intergovernmental](#) organization with its headquarters in Kyiv,

The recipient(s) is a legal entity within Ukraine (or other CIS state),

The Governing Board of the Center has approved the financing of a project through the Center in the domain covered by the agreement. The (*names of STCU Parties*) (hereinafter referred to as “**the Financing Parties**”) have agreed to provide financial support for such a project,

As set forth in the STCU agreement, funds received by a legal entity in connection with the Center’s projects shall be excluded in determining the profits of that organization for the purpose of tax liability, and funds received by persons in connection with the Center’s projects shall not be included in these person’s taxable incomes,

## **HAVE AGREED AS FOLLOWS:**

### **Article 1 - Scope of agreement**

1.1 The recipient entity(ies) shall carry out the work plan set forth in Annex I according to the conditions of the agreement, subject to the provisions of the STCU agreement, and the statute of the Center (hereinafter referred to as “**the STCU statute**”) which govern in case of conflict. The activities carried out under the agreement are entitled *title of project* (hereinafter referred to as “**the project**”). All Project Activities subject to this Agreement are to be executed by the Recipient, using only funding provided by the Center and/or sources approved by the Center. The recipient entity(ies) shall notify the

Center immediately if it and/or other participating institutions determine at any time to utilize any other funding sources to execute such Project activities.

1.2 Subject to any amendments or exclusions by any other articles, the detailed terms of the agreement are specified in the annexes which form an integral part of the agreement. In the case of conflict between any provision in the annexes and any other provision of the agreement, the latter shall prevail.

## **Article 2 - Duration of the project**

The duration of the project will be *up to* 36 months from the first of the month following the date this Agreement is signed by the STCU Executive Director, or from the first of the present month if this agreement is signed by the fifteen of the present month inclusively (hereinafter referred to as **“the operative commencement date”**).

## **Article 3 - Organizational structure of the project**

3.1 The scope of work for each institution which takes part in the project, the organizational structure of the project, as well as financial requirements of such an institution, are attributed and stipulated in Annex I. The *named leading Institution* (hereinafter referred to as **“the coordinating institution”**) and the other institutions participating in the agreement will hereinafter be referred to collectively as **“participating institutions.”**

3.2 In the agreement, the authorized representatives of participating institutions, the project manager and the participating institution managers who are identified in Annex I, shall be responsible for the scientific, financial, personnel, and administrative management of the project in accordance with the terms and conditions of the agreement. The project manager from the coordinating institution shall be responsible for all aspects of the project including authorization of requests for payments associated with fulfilling the work plan, coordination between participating institutions, and the submission of all documents on behalf of the recipient(s) to the Center, whereas the participating institution managers shall be responsible for work carried out by their respective participating institutions and the submission of documents on behalf of their respective participating institution to the coordinating institution.

3.3 In the agreement, the authorized representatives of participating institutions, the directors, shall be responsible for general administrative and legal agreement's support in accordance with the terms and conditions of this agreement. The directors hereby accept the project manager, the participating institution managers and the project grantees; agree that the project will be performed on the premises of their respective institutions and that necessary facilities and services will be made available to support the project manager, the participating institution managers and the project grantees during the performance of the project.

3.4 The recipient entity(ies) is bound by this agreement to take all necessary and reasonable precautions to make safe all money and property according to this agreement and bears responsibility for any loss or damage of items provided. The project manager and the participating institutions managers shall have exclusive rights to utilize all equipment and materials provided to or procured by respective participating institution during the term of the project.

## **Article 4 - Financial contribution of the Center**

4.1 The total cost of the project to the Center shall not exceed \$ *dollar amount*<sup>1</sup>. This total includes the cost of items described in Articles 4.2, 4.3, and 4.6 below.

4.2 The Center shall make grant payments directly to the project grantees. The amount of such payments is estimated to be \$ *dollar amount*. This total amount may be increased with the concurrence of the Center project coordinator provided that (1) such increase results from the additional time worked on the project rather than an increase in the rate of pay and (2) an offsetting reduction is made to the cost of items in article 4.3.

4.3 The Center shall pay for items ordered by the project manager on behalf of the participating institutions including: equipment, materials, other direct costs, travel and subcontracts. The amount of such payments is estimated to be \$ *dollar amount*.

4.4 Equipment purchased in accordance with Article 4.3 will be preserved, accounted for, and maintained throughout the term of the project by the participating institutions. Such equipment shall be used only in areas that are open for monitoring and auditing in accordance with Article 9.

4.5 Title to equipment purchased in accordance with Article 4.3 with an acquisition per item cost of less than \$2,500 will vest in the participating institution at the time of delivery. Title to all other equipment will remain with the Center until termination, cessation, or completion of the project, at which time title will be vested in the participating institution unless prior to or on that date the Center informs the participating institution of its intention to retain title to the equipment.

If the Center retains title to the equipment, the Center will provide instructions to the participating institution for disposition of the equipment. The Center will pay the cost of disposing of such equipment.

4.6 The Center will pay overhead to participating institutions, represented by their respective directors, in an amount not to exceed 10% of the allowable-direct project costs for each participating institution.

## **Article 5 - Cash payments by the Center**

5.1 The Center shall pay its financial contribution through special bank accounts established by the Center.

5.2 Pursuant to Article 4.2, the Center shall make grant payments directly to private bank accounts of the project grantees in accordance with Letters of agreement between the Center and with each project grantee.

Each project grantee shall personally withdraw grant payments from his or her bank account. The use of a power of attorney to allow one individual to withdraw grant payments from the individual accounts of the project grantees is not permitted without the express permission of the Executive Director of the Center.

The Center shall make the advance payment, which is one third of the first quarter grant payment to the project grantees, as soon as possible following the operative commencement date.

The Center shall make quarterly grant payments in accordance with the payment level rates set forth in Annex I and the amount of time devoted to the project by each grantee. Such payments are made after approval by the Center the cost statement for the last completed quarter. The Center, at its option, may require the project manager to provide completed time cards certified by the project manager to the Center on a monthly basis to support the time devoted to the project.

Since the project grantees will remain employees of the participating institutions, the Center's act of direct grant payments to the project grantees will not transfer from the participating institutions to the Center any liability for damages caused by the project grantees during execution of the projects or any liability for damages to the project grantees during execution of the project.

5.3 Pursuant to Article 4.3, the Center shall make current payments directly to vendors in amounts which are estimated in Annex I. Such payments shall be based on vendor invoices and other documents delivered to the Center with written requests from the project manager.

5.4 Pursuant to Article 4.6, the Center shall make payments of overhead to the participating institutions represented by their respective directors as [a fixed payment](#).

~~a percentage of costs incurred.~~

One half of the overhead will be paid after approval of quarterly progress and cost statements by the Center. A retention shall be made by the Center of the remaining one half of the allowable overhead for the project. The retention shall be released to the participating institutions represented by their respective directors within one month following the approval by the Center of the last technical or financial document or other deliverable required by the agreement.

5.5 Within Ukraine, all cash payments will be made in the national currency of Ukraine. Conversion of US dollars to the national currency of Ukraine will be according to the exchange rate of the ~~National Bank of Ukraine~~ [Interbank Rate of Ukraine](#). Within Georgia, ~~and~~ Uzbekistan, [Azerbaijan, and Moldova](#), all cash payments will be made in U.S. Dollars [or Euros where possible.](#) -

## **Article 6 - Cost Statements by the recipient**

6.1 Quarterly cost statements (consolidated by the project manager and for each participating institution) covering each three-month period shall be submitted within 15 days by the project manager to the Center in English and Ukrainian (Russian optional, if the project is located in other CIS State), in hard copy and in electronic format on disk (Microsoft Word and Excel). The statements shall be appended to the relevant progress reports specified in Article 7. The format of the cost statements will be provided by the Center. The quarterly cost statements will include a representation that all project activities conducted by the Recipient during the preceding quarter were funded only with funding provided by the Center and that no other source of funding was utilized in carrying out such activities. If cost statements are not submitted on time, the Center may request in writing its submission. If the Center does not receive the submission within twenty days after such a written request, the Center may consider the previously claimed costs to be final and determine to make no further reimbursement.

## **Article 7 - Reports and other project outputs**

7.1 The recipient entity(ies), represented by the project manager, shall submit the following reports in accordance with the format prescribed in Annex III, in English and Ukrainian (Russian optional, if the project is located in other CIS State), in hard copy and in electronic format on disk (Microsoft Word and Excel):

(a) Quarterly progress reports covering each three-month period following operative commencement date will be submitted within one month after the end of each reporting period. Quarterly progress reports are not required on the dates when annual progress reports are due.

(b) Technical reports will be submitted within one month after the significant results are achieved according to the milestones defined in work schedule (see Section 9 of Annex I).

(c) Annual reports will be submitted within one month following the anniversary date of the operative commencement date and will cover the previous twelve months of project activity.

(d) A draft final report will be submitted within two months of the completion of the project work plan, cessation or termination of the agreement, or the agreed completion date of the agreement, whichever will be the earliest. The Center will submit to the recipient(s) its evaluation of the work performed and the draft final report within two months after receipt by the Center of the report. The definitive final report will then be submitted to the Center within one month following the receipt of the Center's evaluation and will take into account the Center's evaluation. If the Center does not submit an evaluation within two months, the draft final report shall be considered the definitive final report.

(e) All reports shall be submitted by the project manager from the coordinating institution, as mutually agreed with all participating institutions, prepared in a suitable form for publication and satisfactory to the Center.

(f) The beginning of each period defined in accordance with (a), (b), (c), (d) of this article can be shifted by corresponding number of months, if the first advance payment will be late more than one month after the operative commencement date.

7.2 For the purposes of the agreement, "deliverables" are defined as any significant outputs of the project to be submitted in accordance with Annexes I, II, and III.

## **Article 8 - Ownership and exploitation of results**

8.1 When intellectual property arises under this agreement, the entity which creates it will inform the other entities participating in the project and the Center's Executive Director, who will inform the Parties in a timely fashion.

8.2 The recipient entity(ies) shall hold all rights worldwide to intellectual property arising from this agreement, as set forth in Part E of Annex II, except for the rights in the Financing Party's territory enumerated in Article 15.2 of Annex II.

8.3 Exploitation of results shall be limited to applications for peaceful purposes. In this regard, the participating institutions shall ensure that any results which could result in concerns over proliferation of weapons technology and transfer of sensitive technologies will be treated in accordance with relevant laws of Ukraine-Recipient country(s) and international agreements and conventions to which Recipient country(s) Ukraine-is(are) a party.

## **Article 9 - Auditing and monitoring**

9.1 Access by the Center and Financing Parties to carry out on-site monitoring of all activities of the project shall be granted by the participating institutions, and information and assistance shall be given for the verification and evaluation of the project activities as set out in Annex II.

9.2 Audits of costs may be carried out by the Center and the Financing Parties as specified in Annex II.

## **Article 10 - Amendments, variations, or additions**

The provisions of the agreement and its annexes may be amended or supplemented by means of a written agreement signed by authorized representatives of the signatory parties.

## **Article 11 - Disputes**

Disputes arising during performance of the agreement including, in particular, (i) a claim by the recipient entity(ies) for any payments deemed due; (ii) an interpretation of a provision of the agreement; or (iii) a request for relief or approval related to the agreement, shall be subject to the following procedure.

The recipient entity(ies), represented by the project manager, shall submit any claim, demand, or request in writing to the Executive Director. The written decision of the Center shall be delivered to the project manager within four weeks of the receipt of the submission.

Exceptionally, the coordinating institution may appeal the Center's decision in writing through the Executive Director of the Center to the Governing Board of the Center within four weeks of the communication of the Center's decision.

The decision of the Governing Board shall be final and binding. Pending the final settlement of disputes, the participating institutions shall, nevertheless, proceed diligently with the performance of the agreement.

## **Article 12 - Liability**

12.1 The Center shall not be liable for any material loss, damage, or injury of any nature arising from, or in connection with, the performance of the work under the agreement solely by virtue of financing the project, including liability from direct grant payments to project grantees as set forth in Article 5.2.

12.2 The Center shall not be liable to the participating institutions or third parties for claims arising from

- (a) the publication or transmission of any report in accordance with Articles 4 and 13 of Annex II,
- (b) the application of the contents of any report by a third party, or
- (c) the handling or use of products which result from the project.

## **Article 13 - Termination of the agreement and Issuance of Stop Work Orders**

13.1 The Center may terminate the agreement by a written notice to the recipient entity(ies), with the termination to be effective after 30 days or a longer period as determined by the Center following receipt of the notice by the recipient entity(ies). The project manager, with approval of the Center, may terminate the participation of a participating institution by a written notice, with the termination to be

effective after 30 days or a longer period as determined by the Center following receipt of the notice by the recipient. Notwithstanding any termination, the submission of reports and cost statements covering the period up to termination shall be required.

13.2 The agreement may be terminated due to force majeure or to other factor beyond the control of the participating institutions.

13.3 If the agreement is terminated pursuant to paragraphs 13.1 or 13.2, costs shall be limited to the allowable costs incurred by the participating institutions prior to the termination and such other costs as the Center considers to be fair and reasonable having regard to commitments which have been reasonably entered into and which cannot be canceled or avoided.

The participating institutions shall comply with the directions of the Center in the termination notice to reduce or mitigate these costs.

Notwithstanding any termination, the following provisions of the agreement will continue to apply: Article 11 (Disputes); Article 7 and Article 8.2 (Equipment) of Annex II; and Part E of Annex II (Intellectual Property Rights).

13.4 Furthermore, if the Center terminates the agreement because of actions by the participating institutions which obviously violate the national laws of Recipient country(s)Ukraine or which obviously are contrary to the stated objectives of the Center or to other conditions specified under the STCU agreement or the STCU statute, the participating institutions shall, upon demand by the Center, promptly return all payments and goods previously provided to the participating institutions. Notwithstanding the provisions of Article 13.1, termination pursuant to this paragraph shall be effective immediately upon receipt of the written notification of the termination by the recipient entity(ies). Notwithstanding any termination, Part E of Annex II will continue to apply.

13.5 If the Center determines that the participating institutions have violated (1) the national laws of Recipient country(s)Ukraine, (2) the objectives of the center as stated in the STCU agreement or the STCU statute, or (3) the terms and conditions of this project agreement, the Center shall have the right to issue a stop work order to the project manager and the participating institutions. Upon issuance of a stop work order, all work on the project will cease immediately. Project grantees will not be paid for work performed during the period that the stop work order is issued, the Center will review the circumstances which caused the stop work order to be issued and determine what action must be taken to remedy the situation. If and when the situation is remedied, the Center shall cancel the stop work order and thereby allow work on the project to resume. Alternatively, the Center may determine that the situation is so severe that the project agreement should be terminated pursuant to paragraph 13.4.

## **Article 14 - Annexes**

As specified in Article 1.2, the Annexes are an integral part of the Agreement. They are:

Annex I - Work plan

Annex II - General conditions

Annex III - Formats for progress and technical reports



## **Article 15 - Entry into force of the agreement**

This agreement shall enter into force on the operative commencement date.

Prepared in Kyiv in the English and Ukrainian languages ([Russian optional, if the project is located only in other CIS State](#)). In the event of inconsistencies between the English and [Ukrainian-other](#) texts, the English text shall take precedence.

## Annex I Work Plan

### 1 Project Information

~~1.1 Title of project~~ **Project Title** *Enter the title of your project [populated automatically from information entered elsewhere in STCUPS]*

~~1.1 Key Words~~ *Enter key words*

### 1.2 1.2 Project Science and Technology Technical Areas

**Primary:** *[populated automatically from boxes ticked in STCUPS:*

*01. Nuclear Safety; 02. Environmental Monitoring & Protection; 03. Energy Saving & Production; 04. Medicine & Health Care, Biological Technologies; 05. Transportation Infrastructure; 06. Communication Infrastructure; 07. Information Technologies; 08. Experimental Industrial Technologies; 09. Experimental Technologies: Equipment & Devices; 10. Experimental Technologies: Sensors, Measuring Systems; 11. Experimental Technologies: Material Design; 12. Experimental Technologies: Coating; 13. Basic Science; or 14. Other.]*

**Secondary:** *[populated automatically]*

*: Enter number and title of technical area presented in the proposal*

~~1.32. Project manager~~ **Project manager:** *Enter name and surname of the project manager, position, telephone, fax [all fields populated automatically]*

**Name:** *[Last name, First name Middle name (Academician)]*

**Phone:** *[(+380.44) 4444444]*

**Fax:** *[(+380.44) 4444444]*

**E-mail:** *[mail@mail.ru]*

### 1.4 Coordinating Institution: [all fields populated automatically]

**Name:** \_\_\_\_\_

**Address:** \_\_\_\_\_

**x, and e-mail**

- ~~Coordinating Institution:~~ *Enter name/address*

### 1.5 2.1. Participating institution manager [all fields populated automatically]

**Name:** *[Last name, First name Middle name (Academician)]*

**Phone:** *[(+380.44) 4444444]*

**Fax:** *[(+380.44) 4444444]*

**E-mail:** *[mail@mail.ru]*

~~1.6 Enter name and surname of the participating institution manager, position, telephone, fax, and e-mail (for more than one participating institution only)~~

~~Participating Institution: [all fields populated automatically] Enter name/address (for more than one participating institution only)~~

**Name:** \_\_\_\_\_

**Address:** \_\_\_\_\_

### 1.37. Foreign Collaborators [all contact information populated automatically]

**Person:** *[Last Name First Name Middle Name]*

**Country:** [Liechtenstein]  
**Organization:** [Institute]  
**Phone:** [(+423.03) 000]  
**Fax:** [(+423.03) 001]

~~Please Name foreign collaborators involved in your work, provide name/address of institution, telephone, fax, and e-mail. Indicate the Collaborator's intended contribution to the Work Plan and attach relevant information to the Project agreement.~~

**1.8 Project location and facilities** [pre-populated from information entered elsewhere in STCUPS. Please note – the following explanation/instructions do not appear to have made the transition to STCUPS. If they are essential, then they should be somehow re-included:

~~Specifically describe the location of work to be conducted under the project. Provide such information for each institution, including building number, laboratory, and room number. If any work is to be executed outside of the coordinating or participating institutions, describe that additional location in detail. List all equipment to be utilized under the project and provide adequate data about its location. Estimate the total amortization cost for equipment to be used under the project by all participating institutions. In case any equipment is used/operated jointly for making a large-scale unit or system, please describe what, specifically, will be done. Also include all planned modifications to existing, rented and/or borrowed equipment that will be used under the project.]~~

## **42 Detailed Description of Work Plan**

### **2.1 Introduction and overview**

#### **What's the objective**

~~Specifically state the primary objective of the project.~~

#### **What's is the problem?**

~~Describe the current state of the problem, the area of research, and why this problem is important.~~

### **2.1 Literature Search**

#### **What are are other people doing?**

~~Describe the main achievements and weak points in this field in the world and in Ukraine your own country. , to the extent possible list the leading firms, scientists and other specialists in this fields. Be sure to look beyond the Commonwealth of Independent States, to include the other major scientific and industrial nations, when compiling this list.~~

#### **How are their results being applied?**

~~Indicate any current technical, commercial, industrial or other practical applications of research in this field. To the extent possible list the leading firms, laboratories, and university centers whose scientific activities (commercial, fundamental, or both) depend upon advancements in your field. When developing this list, be sure to look beyond the Commonwealth of Independent States, to include the other major scientific and industrial nations.~~

### **2.3 Purpose and Objective**

### **What are we are going to do?**

~~Explain how~~ Indicate the contribution of your project to will help to solving this problem. Describe ~~Give the detailed information about subject of your~~ proposed investigation. Provide, as appropriate, graphs, pictures or diagram to illustrate your explanation. Please be sure your description in order to covers the main-specific points of -your project.

### **What is the objective?**

Succinctly state the primary objective of the project.

## **2.4 Expected Significance**

### **What's new?**

Describe and compare in what way your project work and results are new, unique, and/or different from similar ~~researches~~ research all over the world. If your research has any practical application, explain how it will contribute to developments in the appropriate commercial or technical sectors. If your research is theoretical or fundamental, explain how it will further scientific understanding, and your team's ability to compete for funding. Support any claims with reference to preliminary or published results, if possible. -

## **2.5 Organization, Qualification and Staffing**

### **Who we are we?**

Briefly describe the institutions and participants of your project, their qualification with references on to previous significant results and what they will do in the project. Please highlight, in addition to technical qualifications, any market or social science research skills, or business training the participants may possess. Please note any foreign language capabilities of team members.

### **How does this project relates to our other work?**

Briefly describe other projects in which these people or organizations are involved. Note who (your government, a foreign government, a private company or corporation, foundation, your institute or organization) funds this work. Describe what stage of research or technological development you have already reached. Provide references for any relevant published papers. Note any patents received or pending. If the proposed research or activities will move your team closer to financial stability (commercial or grant-supported), please highlight this contribution.

## **2.65. Expected results**

### **What will be done in the framework of this project?**

Indicate and describe scientific, technical, commercial, or other results that will be achieved in the framework of this project. Be specific.

### **What's next?**

~~It is desirable for you to indicate~~ the possible possible areas of the project results application, industrial or commercial applications of the project results. Note any expected patent applications. Describe ~~the~~ economic and other benefits you may obtain during the project implementation; state these expected benefits in quantitative terms. If possible list firms and companies you know to be

interested in implementation of your results. If your project has limited commercial applicability, describe how you intend to use these results to attract funding for further research. Briefly relate what direction that research would take.

## **2.7 6. Scope of activities**

### **How will the investigation be organized?**

Describe the major phases or stages of your proposed activities under the project. For each stage, describe the specific activities included, and any intermediate results and milestones that are expected. Specify who or which work groups will be doing the work. Note the time-sequence of the stages. When work is to be done in parallel, or will be done at multiple sites, specify which part of the work is to be performed by each participating institution. Use organization charts, diagrams of work structure, and/or work schedules to illustrate the division of activities into stages and their allocation to different work groups. Provide careful description of the research and development work to be carry out, writing it in clear and precise terms. Divide your work on major activities under the project. Describing each activity list main directions of this activity. Take into account and describe parallel work and part of the work to be performed by each participating institution. Synthesize information about the work allocation. Use suitable diagrams and flow charts to clarify logical sequences in the work structure and interaction between separate tasks. Relate the overall scope of activities to the stages and sub-stages itemized further in Table 1the Work Schedule page of the STCU Project Software.

## **2.8 7. Technical approach and Methodology**

### **How will the science be done?**

Describe the scientific and technical approach, methods and methodologies to be in each phase of the project used on each direction of the project activity for solving the problem. Where appropriate, underline any novelty and/or uniqueness of the methodological background: approach for solving the problem. Describe how any preliminary work performed validates the proposed approach.

## **2.9 Sustainability Planning**

This section is a new requirement. Here, your team should present specific market research objectives to be addressed during the lifetime of your project. Please describe your proposed market-related activities with the same rigor that you describe your scientific activities in the sections above. Specific stages and milestones should be included in your Work Schedule page. Personnel who will be engaged in market research should be identified along with other project team members on the Scientists page. All expenses related to your sustainability planning should be listed in the Budget page.

### **Which "Market will we study?"**

Briefly describe your vision of how your scientific team could ensure its ability to continue its scientific or technical activities after the conclusion of the project. Describe the specific "market" of interest. As well, please highlight information that you do not yet know, that you will need to gather in order to achieve this vision.

### **What is our specific market research objective?**

Given your vision and the information gaps described above, formulate one or two specific market research objectives that you can address during the lifetime of your project:

- A. You may wish to pose a hypothesis about the market, e.g. “we believe that companies of X type would be interested in producing our crystal to sell to their customers.” Your research objective would then be to gather sufficient information to test that hypothesis.
- B. Or, you may wish to ask a general question, e.g. “who funds research in area Z?” In this case, you should establish clear boundaries to reflect what you believe to be achievable, e.g. “we will research organizations of types X and Y, in countries A, B, and C, that fund research in area Z, and identify their current priorities and application procedures.” In this case, your research objective would be to understand whether your scientific direction matches the funding priorities of any of the targeted organizations and whether your team is qualified to apply for grants.
- C. Or, you may set a very specific objective, e.g. developing a business plan with one particular type of partner.

Regardless of the form, please be as precise as possible in formulating your questions, hypothesis, or objective(s). Do NOT write simply «contact potential partners» or «conduct Internet search».

### **What are we going to do?**

Explain what concrete steps your team will take to achieve the market research objective(s) described above. We require that your team set milestones that will mark your progress towards achieving your objective(s). Please specify when during project implementation these discrete steps will occur. The more specific your proposal, the better.

### **What will result?**

Describe what form the final results will take. Identify the next steps if your assumptions are proved correct, and suggest possible paths if they are proved incorrect.

In addition to any marketing of your project-specific results, you should plan and budget to provide three additional pieces of marketing information. You will be required to prepare a short text, PowerPoint slide and Webpage that describe the capabilities of your scientific team. These will be used by STCU and funding parties to reach additional markets. Further information about the specific form of these three 'deliverables' will be provided on the STCU website.

## **8. Project location and facilities**

~~Specifically describe location of works under the project. Provide such information on each institution, building number, laboratory, room number. If works are executed outside the institution, describe their location in detail.~~

~~Show all available equipment to be utilized under the project and give data about its location. Estimate total amortization cost for equipment to be used under the project by all participating institutions.~~

~~In case any equipment is used/operated jointly for making a big-scale unit or system, please describe what specifically will be done.~~

~~Also include all modifications to be made to existing, rented and/or temporarily owned equipment that will be used under the project.~~

## **93. Work schedule**

Definite stages of the project implementation are represented in matrix diagram in Table 1.

Table 2 graphically displays timing and duration of the stages involved, as well as interdependence of the stages.

## **104. Personnel commitments**

Table 3 displays personnel commitments for the project implementation.

#### **115. Goods and services, Services, and Other Direct Costs**

Tables 4 ~~—~~, 5, and ~~6~~7 displays the equipment, ~~and materials~~, services, and other direct costs to be purchased, ~~subcontracts to be signed with other companies, and other direct costs to be spent by the recipient for different purposes for the project.~~

#### **126. Travels**

Table ~~8-7~~ estimates displays the costs necessary for travel outside and within ~~Ukraine, Georgia and Uzbekistan~~country of residence.

#### **137. Financial summary**

Tables ~~98~~ and ~~109~~ reflect display aggregate financial information and define the first advanced payment.

#### **148. List of personnel**

Table ~~11-10~~ contains detailed information about each individual person involved.

#### **15:9 Allocation of the project budget among participating institutions** *(for more than one participating institution only)*

Supplementary tables ~~S98~~ and ~~S10-S9~~ provide display estimated expenditures by each participating institution separately.

## Annex II General conditions

### **Part A Implementation of the work**

Article 1	General provisions
Article 2	Justification of changes
Article 3	Monitoring of the Work
Article 4	Reports
Article 5	Completion or expiration of the agreement

### **Part B Payments**

Article 6	Payments by the Center to the recipient(s)
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### **Part C Allowable costs**

Article 7	Accounting principles, allowable costs, and transfer of costs
Article 8	Direct costs
Article 9	Overhead
Article 10	Retainage
Article 11	Costs not allowed

### **Part D Justification of cost and auditing**

Article 12	Books of account and documentation
Article 13	Auditing

### **Part E Intellectual Property Rights**

Article 14	Definitions
Article 15	Ownership and License rights
Article 16	Promotion of technology and information on results Confidentiality Information and technology promotion
Article 17	Reporting of inventions
Article 18	Notification of limitations, restrictions, and obligations
Article 19	Duration and implementation of Part E



## **Part A - Implementation of the work.**

### Article 1 - General provisions

1.1 The participating institutions shall make their best efforts to achieve the objectives of the project and shall comply with all Ukrainian laws applicable to the project.

1.2 The participating institutions shall, in particular, comply with all laws and regulations applicable to safety.

1.3 The recipient(s) shall notify the Center's project representative without delay of any event or circumstance which may materially affect the project.

### Article 2 – Justification of changes

2.1 The project manager, on behalf of participating institutions, shall submit any required change in the original estimates of expenditures as set forth in Annex I.

2.2 The original estimates of expenditures may be adjusted by the project manager between categories with the prior approval of the Center, except for reductions in personnel costs, and provided that the transfers do not fundamentally alter the scope or content of the project.

2.3 The project manager may increase the time commitments of any individual by up to 10 percent during a quarter without approval of the Center but may not change any daily rate without approval of the Center. The project manager may request more significant changes in personnel commitments; including changes in the names of personnel. Such significant changes must be fully justified in writing. Changes in scientific personnel must provide for the new individual participants to have technical credentials and previous weapons experience comparable to those of the individual participants they replace.

2.4 The project manager may request changes in procurements, services, travels, or other direct costs, against estimated expenditures as set forth in Annex I. Significant changes must be fully justified in writing with references to the related activities in the technical schedule, and provided that the transfers do not fundamentally alter the scope or content of the project.

### Article 3 - Monitoring of the work

3.1 The Center, or its representatives, shall:

(a) Have access to portions of facilities where the project is being carried out and to all equipment, documentation, information, data systems, materials, supplies, personnel, and services which concern the project for monitoring the progress of the project as described in Annex I.

(b) Be provided with technical and cost information concerning the management and progress of the project requested at any time.

(c) Give the institution not less than 20 days advance notice of any intended on-site monitoring of the project.

3.2 Each financing party, or its representatives, shall be entitled to the same rights as the Center under Article 3.1 of this annex should they choose to exercise them through the Center.

3.3 The participating institutions have the right to protect those portions of facilities that are not related to the project.

3.4 After completion or termination of the project, the participating institutions may utilize the facility or portion of the facility previously used for the project for other work. However, all documentation and records, including those associated with equipment, data systems, materials, supplies, and services utilized on the project must be maintained and made available for review by the Center, the financing parties, or their representatives, for two years following the project's completion or termination.

3.5 The coordinating institution shall, if requested by the Center, participate and assist in meetings to review or evaluate the project during the lifetime of the project.

#### Article 4 - Reports

4.1 The recipient(s), represented by the project manager, shall submit the following reports, in English and Ukrainian (Russian optional, if the project is located in other CIS State), in hard copy and in electronic format on disk (Microsoft Word and Excel), to the Center for approval:

- (a) Periodic cost statements and progress reports, as required in Articles 6 and 7 of the agreement;
- (b) Technical reports containing a description of the significant results according to the Milestones defined in the work schedule (see section 9 of Annex I);
- (c) Annual reports, as required in Article 7;

(d) A final report suitable for publication, covering all the work, objectives, results, and conclusions of the project, including a suitable summary of all these aspects, and

(e) Reports, as mutually agreed, prepared in a suitable form for publication and satisfactory to the Center.

4.2 The recipient(s), represented by the project manager, shall submit all reports and other deliverables specified in the agreement.

4.3 The recipient(s) should clearly identify and mark any reports or portions of reports that contain confidential business information as defined in Part E, Article 14.4 of this annex. The recipient(s) also may include a suitable disclaimer in any report against possible claims by third parties.

#### Article 5 - Completion or expiration of the agreement

5.1 The agreement shall be deemed to be completed on the approval by the Center of the last deliverable required or last payment by the Center, whichever shall be the latter.

5.2 Subject and without prejudice to the provisions in Part D of this annex, the participating institutions shall be deemed to have discharged their obligations in respect of the performance of the work after the approval of all the reports and any other deliverables required by the agreement.

## **Part B - Payments**

### Article 6 - Payments by the Center

Payments of allowable costs, shall be made in accordance with the following principles:

6.1 Within Ukraine, all cash payments will be made in the national currency of Ukraine. Conversion of US dollars or Euro to the national currency of Ukraine will be according to the Interbank Rate of Ukraine exchange rate, of the National Bank of Ukraine.

6.2 The financial contribution by the Center shall be paid in installments as specified in Article 5 of the agreement.

6.3 If the Center considers that the work has not effectively been commenced within three months of the payment of the first advance, the Center may require the reimbursement of the advance, together with any interest earned on the advance.

6.4 If on completion, cessation, or termination of the work, the payments made by the Center exceed the actual allowable costs, the participating institutions shall promptly reimburse the difference to the Center. Interest may be added to this amount at the prevailing market rate as determined by the Center one month after the reimbursement date specified by the Center.

## **Part C - Allowable costs**

### Article 7 - Accounting principles, allowable costs, and transfer of costs

7.1 Costs shall include actual costs incurred for the project after the operative commencement date which are necessary for the performance of the project. Allowable costs may include only ~~the~~ cost categories defined in Articles 8 and 9 of this annex.

7.2 The participating institutions shall ensure that no unnecessary cost or unnecessarily high or extravagant cost is charged to the agreement.

### Article 8 - Direct costs

#### 8.1 Personnel

8.1.1 Personnel costs shall be separated into two categories as described in Annex I. Even though some or all of these costs may be reimbursed by the Center through direct grant payments to individual participants, the project manager or participating institution manager is responsible for certifying the times devoted to the project by the individual participants within their respective institutes, as reflected in project time cards prepared by individual participants.

8.1.2 Personnel costs charged to the project shall be in increments of one hour.

8.1.3 Personnel costs for a specific period of time may not be charged to this project if pay (except regular employment salary from the Institute/Recipient) is being received from other sources for the same period of time.

8.1.4 The Center will not pay personnel costs associated with holidays, vacations, overtime, or sick leave. Such additional costs, if any, are the responsibility of the participating institutions.

8.1.5 The project manager or participating institution manager shall ensure that the scheduling of annual leave by the individual participants does not interfere with accomplishment of the work plan in Annex I.

8.1.6 The participating institutions are responsible for any medical expenses or compensation claims for injuries or other losses for personnel working on the project which are directly or indirectly related to the project.

8.1.7 Individual participants must record the hours worked on STCU projects on time cards according to the following procedures:

#### Project Manager and Participating Institution Manager Responsibilities

Project managers and Participating Institution Managers are required to do the following:

- i. Provide project participants with a separate time card for each STCU project that they will work on. Each time card must contain a project number.
- ii. Ensure that project participants understand which time card must be used to record hours worked on each project.
- iii. Ensure that all project participants correctly record the hours worked on STCU projects according to the procedure described in the project participant responsibilities section below.
- iv. Transmit completed time cards to the STCU no later than the 10th of each month.
- v. Control blank time cards provided by the STCU.
- vi. Certify that the hours recorded on the time cards are true and accurate by signing them.
- vii. Obtain signatures of two other project participants on their own (project managers' and participating institution managers') time cards in addition to their own signature.

#### Project Participant Responsibilities

Project participants are required to do the following:

- i. Complete a separate time card for each STCU project that they work on. Time cards are for a period of one month.
- ii. Personally complete their time cards **each working day and in ink.**
- iii. Correct time cards by crossing out mistakes and inserting the correct information on the next line; no erasures may be made to time cards. Project workers must initial the corrections.
- iv. Sign their own time cards at the end of each month.

v. Certify, on an as needed basis, that the hours recorded on the time cards of the project manager or participating institution manager are true and accurate by signing their cards.

~~(a) Individual participants must complete a separate time card for each STCU project that they work on. Time cards are for a period of one month.~~

~~(b) Individual participants must personally complete their time cards **each day and in ink**~~

~~(c) Corrections to time cards must be made by crossing out mistakes and inserting the correct information on the next line; no erasures may be made to time cards. Individual participants must initial the corrections.~~

~~(d) Individual participants must sign their own time cards at the end of each month.~~

~~(e) Hours recorded on the time cards must not be more than the actual hours worked.~~

~~(f) On an as needed basis, individual participants may be required to certify that the hours recorded on the time cards of the project manager or participating institution manager are true and accurate by signing their cards.~~

8.1.8 Payments to individual participants will be based on properly completed time cards as described in Section 8.1.7 above.

8.1.9 The Center will provide blank time cards for use on this project. Such time cards will be printed on card stock and will be serially numbered. Only time cards provided by the STCU may be used to record hours worked on STCU projects; photocopied time cards are not acceptable.

8.1.10 ~~The project manager or participating institution manager is responsible for:~~ Project participation is limited as described in the STCU Standard Operating Procedure XXIV – Project Participation in STCU Projects: A copy of the this procedure may be obtained on the STCU's website at the following address: <http://www.stcu.int/documents/reports/financial/>.

~~(a) Providing individual participants a separate time card for this project.~~

~~(b) Ensuring that individual participants understand which time card must be used to record hours worked on this project.~~

~~(c) Ensuring that individual participants correctly record the hours worked on this project according to the procedure described in Article 8.1.8.~~

~~(d) Transmitting completed time cards from all participating institutions to the Center no later than the 10th of each month.~~

~~(e) Controlling blank time cards provided by the Center and issuing them to individual participants.~~

~~(f) Signing the time cards thereby certifying the accuracy of the information contained thereon.~~

~~(g) Obtaining signatures of two other individual participants on their own (project managers' or participating institution manager') time cards in addition to their own signature.~~

## 8.2 Equipment

8.2.1 The cost of equipment used in the project, which is purchased, fabricated, or leased, may be charged to the project as a direct cost. The total lease costs may not exceed the purchase price of the equipment.

8.2.2. Equipment purchased for the project should be identified as described in the STCU Standard Operating Procedure XXIII - Identification Of Equipment Purchased For Stcu Projects. A copy of the this procedure may be obtained on the STCU's website at the following address: <http://www.stcu.int/documents/reports/financial/>.

### 8.3 Materials

8.3.1 The costs of materials required for the project shall be allowable costs.

### 8.4 Services and Other direct costs

8.4.1 Costs associated with (1) testing facilities, (2) computer services, (3) ~~dedicated~~ communication, (4) ~~dedicated~~ security services, (5) repairing/maintenance of equipment, (6) laboratory tests outside, (7) publications, and (8) patenting, but excluding items covered by Article 11 of Annex II, may be charged as direct costs to the project through cost allocation formulas approved by the Center, provided such facilities and services contribute to the project and are accessible for monitoring and auditing in accordance with Article 9 of this agreement.

### 8.5 Travel and per diem

The following travel costs may be charged to the project:

- i. Airline Tickets. Reimbursement is limited to the cost of coach or economy class airfare by the most direct, cost-effective routing.
- ii. Train Tickets. Reimbursement for first class rail fare is authorized.
- iii. Lodging.
  - A. Within Country of Residence, reimbursement is limited to the lower of the actual cost or \$100.00 (taxes not included) per day.
  - B. Outside Country of Residence, reimbursement is limited to the lower of the actual cost or the maximum amount allowed in the U.S. Joint Travel Regulations (taxes not included). If lodging is pre-arranged for the traveler because of conference participation funded by the STCU, then the maximum amount allowed in the U.S. Joint Travel Regulations may be exceeded by up to 25% (taxes not included). In those exceptional cases where there are no accommodations available within the maximum amount allowed or accommodations are unacceptable, then the most cost-effective accommodation is authorized with prior approval of the responsible Deputy Executive Director. Maximum lodging rates outside of a country of residence may be obtained from the STCU treasurer or at <http://www.state.gov/m/a/als/prdm/xxxx><sup>1</sup>

<sup>1</sup> Where "xxxx" is the year the travel will begin. For example: 2004.

C. Lodging without receipt is not compensated.

iv. Meals and Incidental Expenses (M&IE).

1. Within Country of Residence, the M&IE is \$35.00 per day.

2. Outside Country of Residence, the M&IE is \$50.00 per day.

v. Other Costs. Actual cost of passports, visa, or conference registration is authorized with receipt. Withdrawal fees accepted by the STCU.

vi. Use of Privately Owned Vehicle. Reimbursement for the use of a privately owned vehicle to perform travel is authorized at the rate of \$.10 per kilometer. Records must be kept for this activity, including destination and kilometers traveled, and odometer readings. Documents must be signed and approved by project manager.

vii. Local Travel. Reimbursement for the actual cost of local travel (taxi, bus, etc.) is authorized. Receipts must be obtained.

8.5.1 Additional Travel and per diem information is contained in STCU Standard Operating Procedure V – Project Participants Travel. A copy of the this procedure may be obtained on the STCU’s website at the following address: <http://www.stcu.int/documents/reports/financial/>.

~~i. Airline Tickets. Reimbursement is limited to the cost of coach or economy class airfare by the most direct, cost-effective routing.~~

~~ii. Train Tickets. Reimbursement for first class rail fare is authorized.~~

~~iii. Lodging.~~

~~A. Within Country of Residence (Ukraine, Georgia or Uzbekistan) reimbursement of the actual cost of lodging, not to exceed \$100.00 per day, is authorized.~~

~~B. Outside Country of Residence (Ukraine, Georgia or Uzbekistan), reimbursement of the actual cost of lodging, not to exceed the maximum amount allowed in the U.S. Joint Travel Regulations, is authorized. In those exceptional cases where there are no accommodations available within the maximum amount allowed or accommodations are unacceptable, then the most cost-effective accommodation is authorized with prior approval of the responsible Deputy Executive Director of the Center. Maximum lodging rates outside of Ukraine, Georgia or Uzbekistan may be obtained from the STCU financial department.~~

~~C. Lodging without receipt is not compensated.~~

~~iv. Meals and Incidental Expenses.~~

~~1. Within Country of Residence (Ukraine, Georgia, or Uzbekistan), the daily allowance for meals and incidental expenses is established at the rate of \$35.00 per day.~~

~~2. Outside Country of Residence (Ukraine, Georgia, or Uzbekistan), the daily allowance for meals and incidental expenses is \$50.00 per day.~~

~~3. When meals are provided, for example at a conference, seminar, show or similar event, one half of the normal per diem is authorized.~~

~~v. Other Costs. Reimbursement for the cost of passports, visa, or conference registration is authorized with receipt.~~

~~vi. Use of Privately Owned Vehicle. Reimbursement for the use of a privately owned vehicle to perform travel is authorized at the rate of \$.10 per kilometer. Records must be kept for this activity, including destination and kilometers traveled, and odometer readings. Documents must be signed and approved by project manager.~~

~~vii. Local Travel. Reimbursement for the actual cost of local travel (taxi, bus, etc.) is authorized. Receipts must be obtained.~~

## ~~8.6 Subcontracts~~

~~8.6.1 In selecting a subcontractor, the recipient shall compare prices and quality of several subcontractors and choose the most cost effective offer. For any subcontractor costing more than \$25,000, the recipient shall organize a bidding process. For any subcontractor costing between \$10,000 and \$25,000, written quotations shall be obtained from three sources, to the extent possible.~~

## Article 9 - Overhead

9.1 A fixed amount may be charged for project overhead to cover the cost of such items as general administration, institutional management, depreciation of buildings and equipment, maintenance, utilities, ~~and staff training~~ or any other cost at discretion of the institute management.

9.2 The total fixed amount may not exceed 10 percent of total direct costs, exclusive of the cost of itemsequipment provided in-kind by the Center.

## Article 10 - Retainage

One half of the direct overhead costs will be retained by the Center until project completion.

## Article 11 - Costs not allowed

Allowable costs shall not include:

(a) Profit;

(b) Contributions to pension, medical, or other social funds;

(c) Provisions for possible future losses or liabilities;

(d) Taxes, including profit tax, value added tax, personal income tax, local taxes, tariffs, dues, customs duties, import duties, or others; and



(e) Costs allocable to another project.

## **Part D - Justification of costs and auditing**

### **Article 12 - Books of account and documentation**

The participating institutions shall maintain, in accordance with the accounting practices set forth in the agreement, proper books of account and appropriate documentation, such as invoices and time cards, to support and justify the costs reported. These shall be made available for audit by the Center and the financing parties during the period of the project and for a period of two years following completion, cessation, or termination of the project.

### **Article 13 - Auditing**

13.1 Cost statements are subject to verification even after the Center has reimbursed costs. The Center and each financing party have the right, pursuant to the STCU agreement and STCU statute, to carry out on-site audits of all activities of the project. The participating institutions will be given not less than 20 days notice of any intended audit. For the purposes of the audit, the participating institutions shall make accessible all portions of facilities, equipment, documentation, information, data systems, materials, supplies, personnel, and services related to the project.

13.2 The participating institutions have the right to protect those portions of facilities that are not related to the project.

13.3 The participating institutions shall maintain all documentation and records, including those associated with equipment, data systems, materials, supplies, and services utilized on the project and shall make such documents, records, and to the extent possible, personnel available for audit for a period of two years following completion, cessation, or termination of the project.

13.4 The Center and the financing parties shall have the right to select audit organizations or individuals to carry out audits of the project. These individuals selected by the financing parties shall be entitled to the same rights, should they choose to exercise them, as the Center and each financing party in respect of access to, and verification of, any document under the agreement for the purpose of any audit.

## **Part E - Intellectual Property Rights**

### **Article 14 - Definitions**

14.1 Intellectual Property Rights: Rights within the meaning of Article 2 of the Convention Establishing the World Intellectual Property Organization, done at Stockholm on July 14, 1967.

14.2 Business Confidential Information: Information containing know-how, trade secrets, or technical, commercial, or financial information, which:

(i) Has been held in confidence by its owner;

(ii) Is not generally known or available from other sources;

(iii) Has not been made available by its owner to others without an obligation concerning its confidentiality; and

(iv) Is not available to the receiving party without obligations concerning confidentiality.

#### Article 15 - Ownership and License rights

15.1 The recipient entity(ies) (or its designee) shall hold all rights worldwide to intellectual property arising from this agreement, except for the rights in the Financing Party's territory enumerated in paragraph 15.2 below. The recipient entity(ies) (or its designee) shall provide adequate protection of such intellectual property (except as provided below). The Financing Party (or its designee) may, if requested, provide assistance to the recipient entity(ies) in managing the intellectual property. If the recipient entity (or its designee) decides not to protect the intellectual property in the territory of a Party other than the recipient entity's territory, each such Party and the Financing Party (or its designee) have the option to protect the intellectual property in that territory in conformance with the laws of the recipient entity's territory.

15.2 In the territory of the Financing Party, the Financing Party (or its designee) has the Intellectual Property Rights arising from this agreement. In such cases, the Financing Party (or its designee) and recipient entity(ies) (or its designee) shall agree on appropriate compensation for persons named as the inventors or authors of the intellectual property. Costs of protecting intellectual property in that territory shall be borne by the Financing Party (or its designee). If the Financing Party (or its designee) does not seek protection for intellectual property in its territory within a reasonable time after such intellectual property is created and duly reported in accordance with Art. 17.2, then the recipient entity (or its designee) may seek protection in the Financing Party's territory.

15.3 Each Party and the Center shall be entitled to a non-exclusive, irrevocable, royalty-free license with right to sublicense in all countries to translate, reproduce, and publicly distribute scientific and technical journal articles, reports, and books directly arising from this agreement. All publicly distributed copies of a copyrighted work arising from cooperation under this agreement shall indicate the names of the authors of the work unless an author explicitly declines to be named.

15.4 Upon the request of the Financing Party (or its designee), the Recipient Entity(ies) (or its designee) shall enter into negotiations for licenses in additional territories on fair and reasonable terms.

15.5 Upon the request of a Non-financing Party (or its designee), a non-exclusive license for commercial purposes, with the right to sub-license, shall be granted in that Non-financing Party's territory, on fair and reasonable terms to be mutually agreed, taking into account that Non-financing Party's contribution to the establishment and operation of the Center; in this case, the Financing Party (or its designee) shall be entitled to a license on the same terms in that Non-financing Party's territory.

15.6 A non-exclusive, irrevocable, royalty-free license for non-commercial purposes, with the right to sub-license, shall be granted to the Center and to each Party (or its designee) for the territory of each Party in which the intellectual property is protected. Upon request, the Parties will exchange information on licenses and sub-licenses granted under this paragraph.

15.7 Persons named as inventors and authors shall receive and share among themselves reasonable compensation but not less than 15% of any royalties earned from licensing intellectual property by any entity obtaining rights to such intellectual property under this agreement.

15.8 The recipient entity(ies) shall grant on fair and reasonable conditions to any other entity receiving the right to exploit intellectual property arising from this agreement the rights to intellectual property and information arising outside this agreement and owned by the recipient entity(ies) necessary for such exploitation, provided that the recipient entity is free to grant rights to such intellectual property or

information and that no major legitimate business interests of the recipient entity(ies) prevent the granting of such rights.

#### Article 16 - Promotion of technology and information on results

##### Confidentiality

16.1 All reports or portions of reports properly marked as invention information or Business Confidential Information shall be protected from public dissemination unless otherwise agreed by the signatory parties.

16.2 Subject and without prejudice to any rights and obligations under this agreement and in accordance with applicable laws and regulations, each signatory party agrees to keep confidential any invention information or Business Confidential Information communicated to it by the other signatory party or third parties in relation to the execution of this agreement, unless invention information so disclosed is or becomes legitimately available to the receiving signatory party through other sources without any obligation concerning confidentiality.

##### Information and technology promotion

16.3 The Center and participating institutions shall take appropriate steps to publicize new developments so that third parties may become aware of opportunities to license technology developed with Center support. The final report, publishable under Article 4.1(d) of this annex, shall include adequate information on the results arising from the project, their availability and other aspects of relevance for potential users or interested parties.

16.4 The Center shall be entitled to publish general information on this agreement including the identity of the recipient entity(ies), the title and objective of the agreement, its estimated costs and duration, the Center's financial contribution, and the names of managers and laboratories where the research is being carried out.

16.5 Any communication or publication concerning the project shall acknowledge the participating institutions and the cooperative support of the Center and of the Financing Parties.

#### Article 17 - Reporting of inventions

17.1 The recipient entity(ties) will disclose without delay to the Executive Director of the Center, who will inform the STCU Parties and any other participating institutions in a Center-approved form, every invention made or conceived under this agreement within two (2) months of the date on which such invention is made or conceived. These disclosures must be in sufficiently complete detail to convey a clear understanding, to the extent known at the time of disclosure, of the nature, purpose and operation of the invention.

17.2 The recipient entity(ies) will notify the Executive Director of the Center, who will inform the STCU Parties, of each territory in which the recipient entity(ies) decides to protect inventions through patenting within six (6) months of the reporting of such inventions in accordance with Article 17.1 above.

17.3 The recipient entity(ies) will file patent applications in each territory in which it decides in accordance with Article 17.2 above to protect each invention through patenting. The first patent application will be filed in the territory where the invention was made within twelve (12) months of reporting the invention in accordance with Article 17.1 above. The remaining patent applications will be

filed in the other territories within respective time periods to ensure that the priority date of the first patent application is obtained for these later filed applications. The recipient entity(ies) will provide the Center with copies of all patent applications which recipient entity(ies) files.

17.4 If the recipient entity(ies) subsequently determines not to file a patent application in any territory of a STCU Party in which it has previously decided in accordance with Article 17.2 above to protect an invention, then said STCU Party may obtain title to that invention and file a patent application in that territory. The determination not to file shall be transmitted to such STCU Party no later than two (2) months prior to the end of the time periods for filing patent applications set forth in Article 17.3 above.

#### Article 18 - Notification of limitations, restrictions and obligations

18.1 The participating institutions shall use reasonable care and diligence in determining whether information or patents are, or may become, subject to the limitation, obligations, or restrictions of this article.

18.2 The participating institutions shall notify the Center prior to the signature of, and promptly during this agreement of:

(a) Any obligation to grant rights for the intellectual property arising under this agreement to a third party, which may affect the exploitation or commercialization of the results of this agreement; and

(b) Any restriction arising from contractual obligations or government or similar regulations which may materially and adversely affect rights necessary for the performance of the work or the exploitation or commercialization of the results of this agreement.

#### Article 19 - Duration and implementation of Part E

19.1 The rights and obligations of the recipient entity(ties) resulting from this part of this annex shall apply:

(i) For the duration of the Intellectual Property Rights in respect of Articles 15.1, 15.2, 15.6, 15.7 and 15.8; and

(ii) For a period of 10 years after the expiration, or termination, of this agreement in respect of the remaining obligations.

19.2 The cessation of the rights and obligations under this article shall not affect the continuance of any access rights where they were duly requested prior to such cessation.

# **USE OF EQUIPMENT ON PROJECTS' COMPLETION**



## USE OF EQUIPMENT ON PROJECTS' COMPLETION: CURRENT STATUS AND OPTIONS

In response to the 19<sup>th</sup> Governing Board's request to look into the current practice of the use of equipment on projects' completion the Secretariat would like to detail and summarize the current STCU practice and how the historical procurement system works and how equipment is dealt with under the current system.

### STCU Current Procurement Procedures

STCU Administration Department is responsible for procuring all project items.

- Once procured the equipment are immediately expensed and fully depreciated up front upon purchase.
- The asset is not actually in the STCU's books accounting wise as an asset but rather placed as an item on an equipment list.
- The assets are purchased (customs cleared as necessary), and forwarded to the Institute concerned for their use. This is confirmed normally by documentary evidence by checking the delivery receipt (Not physical delivery from STCU side).
- Under the project agreement it states that title of equipment for less than \$2,500 is vested to the participating Institute at the time of release.
- Equipment more than US\$2,500 remains the property of STCU until termination or cessation/completion of the project at which time the title will be vested to the participating Institute unless appropriate instructions will be provided by STCU. (STCU has never provided such instructions).
- During the term of the project the assets (over US\$2,500) legally remain the property of STCU and the STCU can legally take repossession these assets yet the STCU allows these assets to be continued to be used by the Institutes etc.
- On completion of the project an equipment transfer act is signed between the STCU and the Institute(s).
- As the equipment is fully depreciated up front the asset has in essence` no value after the project expires.
- In reality generally after 3 years of a projects life the equipment in reality would effectively be worth nothing anyway. For example Computers which generally have a lifespan and are depreciated over 3 years anyway.
- The fact that we depreciate assets up front and do not have these assets on our books but only on an inventory list allows for more manageability in respect to accounting and checking of assets.
- The STCU Project Account and Senior Specialist will during normal monitoring of active projects will check whether the purchased items are in place and used properly, based on our equipment list. Random test checks will be made by our external auditors as well.
- Historically the checking of asset inventory has not been done after the expiry of the project.

### Differences between STCU & ISTC including Pros & Cons

- STCU procurement items tend to be for small amounts / items compared (i.e less than US\$75,000), with much larger big-ticket fixed asset equipment items procured by ISTC.
- The only real big ticket asset purchase item in the past was for the Y2K project where there was an issue to prove transfer of assets to the project users but this was resolved via a Memorandum of Cooperation devised by STCU.

- A similar scenario currently exists for the Kharkiv Europium Test Facility Project No: P-095 whereby STCU issued a memorandum of cooperation extension to circumvent potential tax liability by the Institute on asset / equipment ownership.
- STCU fully depreciates the asset upon purchase. Does not have the assets on its books but maintains an Inventory/Equipment register which is used during the life of the project for monitoring and asset checking purposes.
- The STCU agreement states that the equipment will automatically be vested to the Institute upon project completion via a signed Transfer Act.
- ISTC assets remain in the ISTC books and they do not sign any transfer or acceptance certificates. We understand that the ISTC may send letters to the Institutes to the effect that the Institute keeps the equipment for the reasons of temporary storage.
- The ISTC has a much more complicated and mixed accounting system and has both accounting and tax problems with project assets. It appears the Russian Tax Authority is more difficult than the Ukrainian Tax Authority.
- ISTC are currently looking at a procedure to write off the assets from their books after project expiry. (In process).
- The STCU system works well and the Tax Authorities have left us alone in ALL Countries that the STCU is present in. Thus there is no reason to upset or change this system
- Some difficult questions arise on types of specialist equipment for example hazardous materials. If it remains the property of STCU or then later held by the Institute after project expiry who would be liable should an accident occur with this material. STCU or the Institute. So far this is hypothetical and has not occurred or been an issue.

#### **Use of assets after project expiry & potential tax problems**

- The project assets legally remain the property of STCU until the project matures. After this point there is no longer a grant situation. Thereafter the STCU will sign a transfer and acceptance certificate with the relevant Institute and the equipment will automatically be vested over to the Institute.
- Should the assets be granted in kind or signed over to the Institute then “potentially”; (contrary to Western tax regulations), the receiver of the asset or having received benefit of use in kind has to pay income tax at 30% of the facilities use or pay tax on the outstanding market value or useful life left.
- In reality the STCU and the Institutes have had no real problems with the Tax Authority who have left us alone. If there were problems then the Scientists would contact us but these incidents have been very rare. It appears the Ukrainian Tax Authority have a clearer understanding of the accounting and tax issues of grant assets than their Russian counterpart(s).
- Potentially the only likely people who may have problems with the Tax Authority are small private company project participants since they may be subject to more thorough tax inspections.
- STCU does not want to get involved with any long term monitoring of equipment and after project maturity the STCU does not check on these assets. Essentially, the asset is fully depreciated and thus has not enough value to warrant for us to do that.
- The responsibility for looking after the equipment should rest with the concerned Institute during and after the project.
- Likewise it is up to the Institute to share this equipment as they see fit after the expiry of the project.
- The STCU has the option to exercise its rights to take back the equipment prior to project maturity. – Historically and in actuality this has never been done.

#### **Questions for the Governing Board to consider**

- Based on the above explanation(s), does the GB wish to change the current procedure? Bearing in mind that STCU does not want to change the current set up which works well with no previous issues with the authorities, but will conform to the wishes of the Parties.

The STCU Secretariat is open for discussion and is ready to answer any questions on these issues.

# **PRESENTATION OF NEW PUBLICATIONS**





## PRESENTATION OF NEW PUBLICATIONS

At the 19<sup>th</sup> Board of Governors, February 10, 2005, the P/O department presented a general concept and a draft of the 2004 STCU Annual Report. Having reviewed the draft, the Governing Board members approved its format, cover page and color and committed the P/O department to present a final version of the 2004 STCU Annual Report at the next Board of Governors.

The 2004 STCU Annual Report is mainly devoted to the STCU Reorganization process and its new structure was approved at the 19<sup>th</sup> Governing Board. It contains welcoming remarks of the Chairman of the Governing Board – Vic Alessi and STCU ED – Andrew A. Hood. Other sections of the Annual Report are: description of all the newly-created departments, departments' achievements for the reported period and plans for the year 2005. It also includes highlights of the year 2004 and success stories of the passed year.

An English version of the book is 24 page-long and 1,500 AR copies are already printed and available to date. The Annual Report's e-version will be placed on the STCU website as soon as we get the approval from the Governing Board members. It is also possible to develop a CD-format version of the Annual Report if necessary.

Ukrainian and Russian versions are also ready. We are looking forward to your comments on the Annual Report and instruction on how many Ukrainian and Russian copies should be ordered for print.

# **TARGETED RESEARCH INITIATIVES**



## TARGETED R&D INITIATIVES

The rationale for, and approach taken in, establishing the Targeted Initiatives Programme (TIP) in Ukraine were discussed and approved at the 19<sup>th</sup> Board Meeting. At the upcoming meeting, the Board will be brought up to date regarding Ukraine and apprised of developments in Georgia. The TIP is intended to address a number of key challenges which must be overcome in order to create an innovative and competitive environment within the recipient countries. In both Ukraine and Georgia the challenges were identified as the need to;

- accelerate the development of science/technology (S&T) capability and capacity, in key areas, for national competitiveness
- develop a more effective nationwide innovation system
- improve the innovative capacity and performance of key research institutions
- integrate / improve business- attitudes to R&D and innovation
- stimulate demand for new knowledge and innovation
- improve access to knowledge, knowledge flows and knowledge management in both countries
- enhance the transformation of knowledge into products and processes that add-value across industrial sectors for maximum socio-economic benefits
- position the participating countries as technology leaders in key strategic knowledge industries

**Ukrainian Initiative** - In establishing the basis for success as well as to provide direction and impetus, the STCU is preparing to sign an Agreement to cooperate with the National Academy of Sciences of Ukraine (NASU). In executing said Agreement, the signatories committed \$1,000,000 (in total) during the current fiscal year towards R&D, within the targeted area(s). This landmark agreement is seen as having far reaching implications. It ensured;

- **commitment** by the signatories to S&T that translated into Ukrainian State budget financing (the NASU committed \$500k). This joint initiative is one of the single largest national cooperative science efforts of its kind in Ukraine's history.
- that the STCU had a **supportive and responsive institutional framework** (i.e. NASU) as a active partner
- the signatories could **optimize the utilization of resources** in strategic priority areas – priorities were previously established through consultation with key stakeholders and is reflected in existing legislation
- the STCU could **strengthen Ukraine's innovation capability** through expanding and upgrading of the S&T infrastructure
- **collaboration** by promoting interdisciplinary and multi-institutional partnerships and synergy to enhance the innovation capabilities
- **technology advancement** of competitive products and processes that meet market demands
- the STCU and NASU could promote a **culture of creativity, innovation and entrepreneurship**
- **enhanced quality of scientific proposals** (and hence their competitiveness) through direct consultation with international experts

Given the limited budget, it was not possible to support a full range of skills and capabilities in all the research areas. It was agreed to prioritize the TIP in one of the emerging technologies. Nanotechnology/nanomaterials were selected as the focus for the current fiscal year. The decision was based on relevance, market-driven need, distinctive technical competence and available budget. A

framework detailing the procedure of project submission, review (including host-government concurrence) and financing was agreed by the STCU and NASU, following approval by the Parties. Guidelines have been developed for the project reviewers.

TIP was officially launched on April 2005 with the call for proposals. Given the National focus, programme information was provided through direct mailing as well as being posted on the STCU and NASU websites. In addition, the programme was promoted through visits to Donetsk, Dnepropetrovsk, Odessa, Lviv and Zaporozhye. The TIP was well received by the scientific community within Ukraine and 62 project proposals (short form) were submitted to the NASU within the required two week timeframe. Following review by the NASU, 15 proposals were selected for further development. The full-proposals will be submitted to the STCU in June (together with Host Government Concurrence) at which time, they will be reviewed by the Parties to ensure compliance with STCU's mandate. Simultaneously, the proposals will be reviewed by STCU personnel, STCU Party representatives, and Western scientific collaborators and contributors, with meaningful value-added interactions between the reviewers and the Ukrainian scientists / technical teams. The entire review process is expected to take 4 – 6 weeks. Funding of successful proposals is expected to begin in August of 2005.

The impact of the funding will be the establishment of National focal points for nanotechnology/nanomaterials which is expected to serve as a hub of R&D activity. In support of this goal, we have enacted a series of initiatives aimed at nurturing Ukrainian scientists and institutes in becoming more sustainable as well as encouraging closer linkages between indigenous and external scientists, in the targeted area. This will be accomplished through the interactive project review process as well as supporting the travel of 10 – 12 eminent nanotechnology/nanomaterials scientists from across Ukraine to Canada. Through support from the STCU, the scientists will participate in an advanced NATO ASI Workshop on Nanoscience (Quebec, Canada) in September. Following the Workshop, the scientists will have the opportunity to visit academic and for-profit institutions to facilitate additional linkages. In preparation for the event, the selected scientists will receive specialised training in presentation techniques and negotiation skills.

We will also be assisting in the development of partnerships between Ukrainian research institutions and Western companies for the co-development of technologies with a view to increasing indigenous technology capability. In such an approach, a focused technology CIDA mission of Canadian companies to Ukraine is planned for the end of summer 2005. Scientific research with commercial potential will be identified and linkages established. The incoming CIDA mission is planned to coincide with the rescheduled STCU-NATO Workshop.

**Georgian Initiative** – In April 2004, the STCU initiated discussions with Dr. Levan Tsintsadze, Director of the Dept. of Science & Technology within the Ministry of Science & Education of Georgia. The STCU was appraised of the existing structures and resulting issues in Georgia regarding conducting and financing scientific research. Not surprisingly, the challenges identified are comparable to those identified in Ukraine (see above). It was agreed that the TIP launched in Ukraine provided an excellent model that could be used within Georgia. Dr. Tsintsadze and the STCU are currently developing an agreement to launch a TIP in Georgia during fiscal year 2005. While Dr. Tsintsadze could not immediately specify or commit to a specific cost-sharing budget figure, he noted that the Ministry, through a National Science Foundation that was being set up as part of the science restructuring efforts, was nevertheless committing itself to determine the Georgian contribution as soon as possible.

Finally, we are working at implement information-age initiatives that will promote optimum connectivity, i.e. greater use of ICT as a means of improving the innovative capabilities within research institutions in Ukraine.

# **REGIONAL OFFICE ACTIVITIES**



## REGIONAL OFFICES REPORT

### **Azerbaijan Regional Office (Baku)**

Our Regional Officer, Dr. Adalat Hasanov, gave a presentation about STCU to a major conference in April which the Azerbaijan National Academy of Sciences organized to acquaint the S&T community with foreign grant-making institutions. Dr. Hasanov also represented STCU at a meeting hosted by the Ministry of Foreign Affairs, "Azerbaijan and the Extractive Industries Transparency Initiative." In addition, we have begun work to open a new internet café, this one at the Institute of Medical Prophylaxis.

### **Uzbekistan Regional Office (Tashkent)**

In April, the Tashkent Office assisted in arranging a workshop to bring together key stakeholders in a future International Pest Management Center for Central Asia which Michigan State University – a new STCU Partner – hopes to establish in Tashkent in the near future. Dr. Sattarova hosted a visiting delegation from the U.K. Department of Trade and Industry which worked with their Uzbek colleagues at the Institute of Nuclear Physics to develop a proposal under the Closed Nuclear Cities Program. Mr. Leahy set up an STCU booth at a conference in early May sponsored by the U.S. Department of Agriculture; Mr. Alexey Kim, the newest member of the Tashkent Office, gave a presentation on STCU.

### **Georgian Regional Office (Tbilisi)**

Since last STCU Governing Board meeting, Tbilisi Regional Office has participated in organizing several events in Georgia:

- 3 days "Science and Technology Entrepreneurship Program (STEP)" workshop arranged jointly by CRDF and STCU, with partial financial support of STCU (in amount \$25.000). It was held in March 14-17, 2005.
- Official meeting of STCU delegation from (DED Landis Henry and Alex Sich) with Georgian officials Mr. Levan Tsintsadze (Head of Department of Science and Technology of Georgia) and Mr. Tamaz Gamkrelidze (President of Academy of Science of Georgia) in April 2005. The aim of the meeting was to explore additional areas of cooperation between STCU and Georgia. More specifically, the launch of a Targeted Initiative Program.
- Preparation of the 20-th GBM in Georgia required preliminary work of Regional Office Manager in March, 2005. With the help of Ms. Tatiana Teryakhina, logistical and events organization issues were addressed, including cultural program for the Governing Board delegations. The GBM invitations were delivered to Embassies, Ministries, and other officials in Tbilisi.

In addition, improvements have been made to the Regional Office's furniture and equipment, and its walls and windows were newly painted. An additional small water tank is also installed in the rest room to ensure water supply in case of shortages that can happen in Tbilisi during summer time. The Regional Office is located in the building of Institute of Mining and Technology.

## **Ukrainian Regional Offices (Lviv, Kharkiv, Dnipropetrovsk)**

A restructuring of the Regional Offices in Ukraine, led by DED (Technology Advancement) Landis Henry, was carried out to improve efficiency, effectiveness and teamwork and thereby to enhance the quality of services to scientists and institutions (client). A new operational structure was established wherein Senior Specialists are expected to work more closely in their area of expertise and provide more value-added activities to the client. There is closer co-ordination and more interaction with Head Office (weekly tele-conferencing). The Offices are expected to;

- Support regional activities that enhance STCU profile in the Region e.g. providing logistic support for various types of regional activities, regional conferences, technical meetings, working groups etc
- Organize regional conferences, training sessions, coaching of individual institutes, soliciting project submissions, providing logistic support to help scientists
- Actively promote the activities of STCU including the delivery of seminars and the distribution of STCU publications
- Promote cooperation with national and international organizations whose mandate supports the goals and activities of the STCU

Working with the Regional Offices, DED Henry met with key scientists and institutions in the cities of Kharkiv, Donetsk, Dnepropetrovsk, Lviv and Kyiv. The meetings provided the opportunity to establish the framework for implementing STCU's new direction on developing self-sustainability and successful value-adding science research. Furthermore, they enabled us to identify the tools and skills that are needed in advancing STCU programme as well as in the development of technologies with the ultimate goal of commercialization.

A number of other activities have been undertaken by the STCU through these Ukrainian Regional Offices:

- Organization of a number of training sessions focusing on areas of consideration in technology development and exploitation, e.g. the impact of regulatory issues on development of medical technologies.
- Preliminary planning for an Environmental Workshop aimed at prioritizing research and development in environmental sciences (a possible new Targeted Initiative in 2006)
- Engagement of Bio-Institutes, in particular the Anti-Plague Institute in Odessa (a key institute in the U.S. Party's focused engagement on biological institutes)
- Enhancement of the quality of project proposals submitted to STCU, in an improve (by example) the scientists skill in writing a competitive, technically valuable research proposal
- Working closely with CIDA to establish linkages between Canadian companies and Ukrainian technical teams

# **STCU SUSTAINABILITY ACTIVITIES**





## SUSTAINABILITY DEVELOPMENT PROGRAM

Since the 19<sup>th</sup> Governing Board meeting in February, the Sustainability Development effort has begun to take shape. Taken in the same order as the 2005 Budget Presentation, following are the main activities of each group within the Department:

### Partnership Promotion

We have taken an entirely new approach to selecting the participants in our road shows – that of competition. In a new section of the STCU website, we advertise major, upcoming technology events and solicit candidates based not only on their professional experience, but also on whether they are, on their own initiative, able to arrange meetings with prospective commercial collaborators in the days surrounding the main event (e.g., a high-tech trade show).

- The first such road show will take place June 4 – 9 in Munich and Berlin. Organized in cooperation with the Kiev office of the International Bureau of the German Federal Ministry of Education and Research and the German Embassy, Dr. Lyubov Taranenko will take five Ukrainian scientists to the Nanotrends Conference. We will host a training session (May 23 – 24) for the participants to help hone their presentations. STCU also will have a small booth at this conference. The scientists represent institutes in Kyiv, Donetsk, Lviv and Kharkiv and all have had contacts with firms in Europe, Japan and the U.S.
- Preparations are underway for the second road show event, the NATO Advanced Study Institute on Photon-based Nanoscience and Technology, which will take place in Sherbrooke, Canada, September 19 - 29. It appears that the Government of Canada, through CIDA, will support the travel of six scientists to the workshop and exhibition, in addition to the four which we have already selected.
- In cooperation with the Kyiv office of the Otto von Guericke Foundation (AiF), Mr. Boris Komarov is leading a group of five Ukrainian scientists to matchmaking meetings in Dusseldorf and Berlin, as well as participating in the INTEC trade show, May 29 – June 4. German companies are helping to defray some of the travel costs. The scientists represent the Kharkiv Aviation Institute, the Institute of Material Science and the Odessa Filatov Institute of Eye Diseases. Two of the participants will join the Nanotrends delegation in Berlin for joint meetings with companies.

To expand our ties with the Ukrainian technology transfer company, Scientific Industrial Concern “Nauka,” Mr. Komarov accompanied their Technical Director and a technology transfer specialist to the conference, “Technology Innovation Information 2005,” held in Fribourg, Switzerland in late April. “Nauka” presented ten new technologies to the conference and is pursuing the follow-up matchmaking opportunities. The organizers of TII2005 have given “Nauka” access to a specialized database: we may want to build our relationship with this organization centered on the database as a means to promote Ukrainian technologies developed by STCU recipient scientists or institutes.

The first Science and Technology Entrepreneurship Program (STEP) seminar, arranged by the U.S. Civilian Research and Development Foundation (CRDF), was held in Tbilisi in March. STEP brought together researchers and prominent members of the Tbilisi business community (e.g., the Federation of Businessmen of Georgia and the Association of Banks of Georgia) to review R&D proposals with commercial potential. The second seminar in early June will cover two days and concentrate on bringing ideas closer to the marketplace and in addition, lay the foundation for a new high-tech, business

association. The final seminar is planned for September. STCU contributed \$40,000 to support these three STEP seminars.

Since the previous Governing Board Meeting, our new Partners are Michigan State University (U.S.), Photon Control, Inc.(Canada) and Intel (U.S.). We also are preparing for visits of large delegations from Boeing, Intel and Pratt & Whitney.

### **Market Analysis**

As of February 2004, prospective Program Managers for all regular project proposals were required to fill in a new sustainability section in the Full Form. Of the projects approved for funding by the 19<sup>th</sup> Governing Board, four were evaluated by STCU staff as appropriate for sustainability planning assistance in advance of writing the Project Agreement. That is, for the first time STCU is helping scientists to develop sustainability strategies for regular projects. In practice, this means that the Sustainability Development group reviews proposals, conducts preliminary market analysis (in order to test scientists' assumptions about their market), and provides recommendations about fruitful paths of investigations to the Senior Specialists. The Science Excellence Group or the Technology Advancement Group then work with the Program Manager to strengthen the work plan included as part of the Project Agreement. The goal is to ensure that promised deliverables are both meaningful and "audit-able."

As an example, the sustainability section for Project 3514 noted that the Ukrainian research group intended to establish a spin-off company to market a new probiotic preparation. The group claimed their new product would have no competition and they provided scant justification for establishing a new company. The SD group determined that competing products already exist and recommended to the project team that it expand the workplan to include a detailed, three-stage approach: the preparation of a competitive analysis of markets for probiotic products in Ukraine and in the near abroad (Year 1); development of a full business plan for the spin-off company (Year 2); and, development and implementation of a contact plan for potential investors and/or licensees (Year 3).

### **Sustainability Development**

In mid March, as a result of the integrated recommendations from the Process Action Teams, we sent the Parties a message which outlined how we intended to pursue our sustainability promotion effort and in particular, presented a list of institutes which we felt were well positioned to benefit from the type of specialized support and training which we can now offer. Based on the institute survey undertaken in autumn 2003, we had refined an original grouping of some 60 organizations down to 14, which we concluded were most promising. In addition, we included another 21 which we did not believe to be on the cusp of transition, but which might be of interest to the Parties. Out of this collection of organizations, we asked the Parties to give us their priority 5 – 7 institutes on which we should center our sustainability efforts. In particular, these efforts would include establishment of tech transfer officers, development of business plans, training and inclusion in STCU-sponsored activities.

The U.S. Party responded with its list of priority organizations. We then re-examined the question of how closely we had tailored our institute list to the funding levels requested last winter and following a lengthier analytical process, offered the Parties an expanded sustainability program in late April (with a request to increase funds over the 2005 budgeted amount), one which would have an even greater likelihood of success. We presented the Parties with the possibility of selecting 10 or more institutes from a much longer list. The U.S. and Canada have noted their support for the expanded initiative, and we are preparing to engage our consultants in developing a workplan for the initiative.

Meanwhile, we have advertised twice for the new position of Sustainability Development Officer; the first round was inconclusive and the deadline for applications for the second round is the end of May.

## Patent and IPR Support

In mid March, we sent the directors of Ukrainian institutes and research organizations with which we have active projects a standard Non-Disclosure Agreement (NDA), along with a cover letter from the Executive Director. In the letter, we noted that an NDA between STCU and an institute would allow us to work with them more effectively. Moreover, we observed that this type of agreement is a common business practice among scientific and commercial organizations in the Funding Party nations and one which will be instrumental in developing enhanced commercial relations among the Ukrainian S&T community.

Subsequently, the Director of the Center for Intellectual Property and Technology Transfer at the National Academy of Sciences of Ukraine sent us a letter proposing that we add relevant legal definitions to text of the NDA. Drawing from the STCU Statute and regular Project Agreement (Annex II), we incorporated many of his proposed changes and met with him to discuss them. The NDA and cover letter will be resent to the institute directors.

Separately, we have also attempted to meet with the appropriate senior official at UkrPatent, the Ukrainian state patent agency, to discuss the procedures which the Government of Ukraine follows in clearing a patent application for foreign review. This issue was raised during the IPR Workshop held in September 2004, and the STCU feels that a more clear understanding of the Ukrainian regulations on the foreign patent application process is needed before Ukrainian scientists will feel comfortable in allowing the STCU Financing Parties to review their invention disclosures for possible patenting within the Financing Party territories.

We have been unable to make progress in obtaining comments from all of the Parties on the draft IPR Handbook. An attempt to arrange a meeting the last week in May in Brussels with representatives of the U.S., EU, Canada and ISTC was unsuccessful. The lack of a coordinated Handbook is preventing the STCU from fully implementing a clear and understandable IPR and Patent Support program, putting the Center at a distinct disadvantage to assist scientists in protection intellectual property developed under STCU activities.

Working with Dr. Melnik-Melnikov (Senior Specialist), the Patent Officer developed a follow-up questionnaire for use by patent grant applicants to track how successful they have been in commercializing their project results. In the course of explaining the new form to groups of researchers in Lviv, Kharkiv, Kyiv and Dnipropetrovsk, they came across some new IPR success stories. The following page presents a few of these stories.

## IPR Success Stories

Following is a summary of new success stories which Dr. Melnik-Melnikov, Senior Specialist, and Mr. Zalozhenkov, STCU Patent Officer, uncovered in their meetings in Ukraine:

- Dr. Komarov, Kyiv Institute of Electrodynamics was the program manager for an STCU regular project. He developed engineering designs and specifications which are used to produce and manufacture power supplies at a Kyiv plant for purchase by Western customers. The manufacturing designs are protected by the Ukrainian patents taken out by Dr. Komarov.
- In the course of Project #2170, scientists from Small Enterprise "Lileya" developed a micromanipulator based on piezoelectric motors. STCU supported their patent applications in Ukraine and the U.S. An American company, which is interested in licensing this technology, became an STCU Partner and is funding a Partner project with "Lileya."
- Dr. Primisky of the Ukrainian company "Ukranalit" has been the manager of two regular projects and has three patents on a gas analyzer design. Such analyzers – able to detect methane, ethane,

butane and other hydrocarbons – are in demand for emissions testing of automobiles and are widely sold in Ukraine and Russia. Dr. Primisky is receiving royalties from the manufacture of the gas analyzers by Ukranalit.

- The Program Manager of Project #559, Mr. Shovgenyuk, has patents and patent applications covering methods and devices for holographic protection and identification of documents and other objects. He will soon be receiving revenues from the National Bank of Ukraine after signing a licensing agreement.
- Through his involvement with regular and partner projects, Dr. Ushkalov, Dnipropetrovsk, has eleven Ukrainian and Russian patents on a new design for railway car wheels which increase significantly the durability of the wheels and tracks. The patent was licensed by a US-Ukrainian joint venture, “A. Stucki-Rail,” and 400 wheel units have been retrofitted using Ushkalov’s invention.
- The last example was a little bit unexpected. Mr. Leshchyshyn, the manager of an STCU regular project, holds a Ukrainian patent on a “vacuum washing machine.” He claims that his revenues are coming from a court decree following a lawsuit against a Western company for patent infringement in the Ukrainian market. Mr. Leshcheyshyn took out this patent in the late 1980s.

Other than the last case (which pre-dates STCU), all of the other patents were obtained based on research funded by STCU.

# **PROJECT APPROVAL & FUNDING**



To obtain a copy of the signed 20<sup>th</sup> STCU Funding Sheet, please go to the following web address: [http://www.stcu.int/documents/gbm/gbm20/Funding\\_Table.pdf](http://www.stcu.int/documents/gbm/gbm20/Funding_Table.pdf)

# **NEW PARTNER REQUEST LETTERS**

FEB-25-2005 12=50

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Santa Clara, CA 95052-8119  
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February 4, 2005

Mr Jason Witow, Deputy Coordinator  
Science Centers Program  
Office of Proliferation Threat Reduction  
NP/PTR, Room 3327  
U S. Department of State  
Washington, DC 20520

Dear Mr. Witow:

Intel Corporation is the world's largest semiconductor chip maker, supplying advanced technology solutions for the computing and communications industries. Our goal is to be the preeminent building block supplier to the worldwide digital economy. We were incorporated in California in 1968 and reincorporated in Delaware in 1989. Our Internet address is [www.intel.com](http://www.intel.com)

Intel is requesting U.S. Department of State Science Center Partner status with the Science and Technology Center Ukraine (STCU). An Intel scientist has developed a strong working relationship with the Institute of Cybernetics, Kiev, Ukraine and we are interested in expanding that relationship. We propose a research project to develop and implement a generic methodology for descriptive supervised optimization. The key deliverable is a robust, scalable, production grade software that will be integrated into Intel's own advanced statistical learning system. Yield & Process control improvement and diagnostics would be one of several major opportunities for using this technology. Methodologies/algorithms developed as a part of this research have general applicability in data analysis of massive and complex data. The potential research results will be submitted to open sources (conferences/journals) for publications,

Intel plans to fund \$25,000 for one project with the Institute of Cybernetics, Kiev, Ukraine under the Science and Technology Center in Ukraine (STCU). The overhead from this project would be taken from the \$25,000. There will be no additional dollars for travel but travel could be considered in the future as necessary for the Institute scientists on a case by case basis and would be covered by additional funding from Intel.

The Intel Corporation accepts the nonproliferation objectives of the STCU and the terms of the STCU Agreement and Statute. We welcome the opportunity to work with the STCU and kindly request that you consider our application for participation in the STCU Partner Program,

Sincerely,

,---^"

A handwritten signature in black ink, appearing to read "D. Tennenhouse".

David L. Tennenhouse  
Vice President, Corporate Technology Group  
Director, Intel Research  
Intel Corporation

An Equal Opportunity Employer



4^04



United States Department of State  
*Bureau of Notiproliferation*  
*Office of Proliferation Threat Reduction*  
*Washington, D.C 20520-6817*

February 25, 2005

Mr. Andrew Hood  
Executive Director  
Science and Technology Center in Ukraine  
Kiev, Ukraine

Dear Mr, Hood:

The United States is pleased to introduce Intel Corporation as a Science and Technology Center in Ukraine (STCU) Partner. Intel is a global provider of semiconductor chips, and is focused on providing solutions for the computer and communication industries.

The company has developed working relations with the Institute of Cybernetics in Kiev, and is interested in enhancing the relationship via the STCU. Therefore, Intel proposes funding a research project to develop production grade software that will be integrated into the company's own statistical learning system, Intel plans to fund \$25,000 for the institute project via the STCU.

Additional information on Intel Corporation is available at [www.intel.com](http://www.intel.com). We are confident that the company will make a valuable contribution to the STCU's work.

Sincerely,

Jason Witow  
Deputy Coordinator for STCU

**United States Department of State**

*Bureau of Nonproliferation  
Office of Proliferation Threat Reduction  
Washington, D.C. 20520-6817*

February 11, 2005

Mr. Andrew Hood  
Acting Executive Director  
Science and Technology Center in Ukraine  
Kiev, Ukraine

Dear Mr. Hood:

The United States is pleased to introduce the College of Agriculture and Natural Resources (CANR), at Michigan State University (MSU) as a Science and Technology Center in Ukraine (STCU) Partner. MSU is experienced in international agricultural development and is recognized for distinction in areas such as training and capacity building. The Institute of International Agriculture (IIA) serves as a coordinating entity for CANR in relation to agricultural related activities.

Following the STCU 2003 Biotechnology Conference in Uzbekistan, MSU, via the IIA, developed working relations with the Uzbek Ministry of Agriculture and Water Resources and the Tashkent Agrarian University in Uzbekistan. Follow-on actions consisted of MSU developing a pilot research project with Uzbek elements on potato biotechnology. MSU and Uzbek researchers continue to discuss future collaboration in the areas of Integrated Pest Management (IPM) and Sustainable Agriculture. MSU envisions joint programs in biotechnology, IPM and Sustainable Agriculture on a long-term basis, upon completion of the pilot projects.

As a result, CANR (College of Agriculture and Natural Resources at MSU) is now interested in expanding cooperation within the STCU Partner Program framework. Additional information on CANR's coordinating entity, IIA, is available at [www.iaa.msc.edu](http://www.iaa.msc.edu). We are confident that CANR will make a valuable contribution to the STCU's work.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Schland".

Mark Schland, Senior Coordinator for Science Centers

**MICHIGAN STATE  
UNIVERSITY**

February 2, 2005

Mr. Mark Scheland  
Office of Proliferation Threat Reduction  
Department of State  
2201 C St. NW, Rm. 3327, Truman Building  
Washington, DC 20520

Dear Mr. Scheland:

Michigan State University has a long history of international agricultural development and is recognized as a worldwide center of excellence in international, research, training and capacity building. The Institute of Intentional Agriculture (IIA) is a coordinating unit for international agriculture related activities ([www.iaa.msu.edu](http://www.iaa.msu.edu)) in the College of Agriculture and Natural Resources (CANR) at MSU.

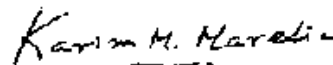
MSU through IIA has developed an excellent network and strong working relationship with the Ministry of Agriculture and Water Resources and Tashkent Agrarian University in Uzbekistan through the Science and Technology Center of Ukraine (STCU). We are interested in expanding our cooperation with the STCU and ISTC Partner Program framework.

MSU was represented in the regional Biotechnology Conference in Uzbekistan in October 2003 organized by the STCU. As a follow-up to this conference, MSU has developed a pilot research project with Uzbekistan on potato biotechnology. We are discussing future collaboration with Uzbekistan researchers in the areas of Integrated Pest Management (IPM) and Sustainable Agriculture. We envision joint development of a long-term biotechnology, IPM and Sustainable Agriculture programs following completion of the pilot projects.

CANR

accepts the nonproliferation objectives of the International Science and Technology Center (ISTC) and the Science and Technology Center in Ukraine (STCU), and the terms of the ISTC and STCU Agreement and Statute. We welcome the opportunity to work with the ISTC and STCU, and kindly request that you consider our application for participation in the ISTC and STCU Partner Programs.

Sincerely,



Karim M. Marcdia, Ph.D.  
Professor



Thomas G. Coon, Ph.D.  
Associate Dean, CANR



**INSTITUTE OF  
INTERNATIONAL  
AGRICULTURE**

College of Agriculture  
and Natural Resources

Dr. Karim M. Marcdia, Ph.D.  
Professor

Michigan State University  
Institute of  
International Agriculture  
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East Lansing, MI  
48824 USA  
Phone: 517-432-5167  
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Development Agency  
200 Promenade du Portage  
Gatineau, Quebec  
CANADA K1A0G4

www.acdi-cida.gc.ca

2005-02-01

Your File

Our File

UA/Z20158-02-2

Andrew Hood  
Executive Director  
Science and Technology Centre in Ukraine  
21 Kamenyariv St.  
Kyiv, Ukraine  
03138

Subject: **New Canadian Partner Proposed - Photon Control Inc.**

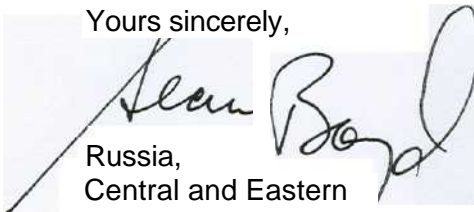
Dear Mr. Hood,

The purpose of this letter is to introduce a prospective Canadian partner to the STCU under our CIDA Partner Program - Photon Control Inc. of Burnaby, British Columbia. A copy of the firm's letter concerning their wish for partner status is attached, along with the details of their particular project interests.

Please note that the firm states that they plan to propose projects with the Main Observatory of the National Academy of Sciences, and the Institute of Semiconductor Physics.

We are confident that Photon Control Inc. will make a valuable contribution to the work of the STCU.

Yours sincerely,



Sean M. Boyd  
Sr. Program Manager/(Nuclear  
Safety/Institutional Partnerships)  
Ukraine and 3 Nuclear Programs  
Europe

c.c. Canadian Embassy, Kyiv  
Dr. Nabil Bassim, University of Manitoba  
Ivan Melnyk, Photon Control Inc.

encl.

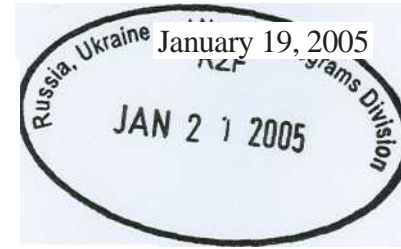
Canada

**PHOTON CONTROL Inc.**

8540 Baxter Place  
Burnaby, B.C.  
Canada V5A 4T8

Mr. Sean Boyd  
Senior Project Officer

Russia, Ukraine and Nuclear Programs Division  
Central and Eastern Europe Branch  
Canadian International Development Agency  
200 Promenade du Portage  
Hull, Quebec, K1A 0G4 fax: (819) 994-0928  
Dear Mr. Boyd;



Photon Control Inc. has been involved for 15 years in the development of fiber optic control devices for a number of industrial and medical applications. During last three years the Company has been focused on introducing a new optical technology for measuring natural gas and monitoring flare emissions in Canada and internationally. Over the past year, we have developed strong working relationships with the Main Observatory (MAO) and the Institute of Semiconductor Physics (ISP), both of National Academy of Sciences, Kiev, Ukraine. We are interested in expanding our cooperation with those institutions as a STCU Partner.

Photon Control Inc. has read and accepts the terms and conditions of the STCU Agreement and Statute and accepts the Principles for Non-Party Participation in the STCU.

Photon is going to propose two R&D projects, one with each institution, for the year ahead and plans to invest \$100,000-150,000 on these projects. One project will be titled "Optical Monitoring of Gases and Liquids". It will be carried on at MAO and the aimed is to develop a novel optical technique for monitoring hydrocarbons where we anticipate a very large market starting in 2006. The second project is titled "Optical Moisture Analyzer for Natural Gas", to be conducted at ISP. This product will be complementary to our current optical gas flow meters. Successful completion of this project will add an absolute superiority to our Canadian technology against competitors.

We welcome the opportunity to work with the STCU.

Sincerely,

A handwritten signature in black ink, appearing to read "Ivan Melnyk".

Ivan Melnyk, PhD C.T.O  
and Vice-President



United States Department of State

*Bureau of Nonproliferation  
Washington, D.C. 20520-6817*

Mr. Andrew Hood  
Executive Director  
Science and Technology Center in Ukraine  
Kamenyariv 21  
Kyiv, Ukraine 03138

Dear Mr. Hood:

The United States is pleased to inform you that the National Nuclear Security Administration's Office of Global Nuclear Material Threat Reduction (NA-212) of the U.S. Department of Energy (DOE), an agency of the U.S. Government, will provide funding support to STCU projects and activities consistent with the Agreement establishing the STCU. The Department of State's Office of Proliferation Threat Reduction requests on NA-212's behalf that it be allowed to use STCU Partner Procedures for review and approval of its projects. NA-212 will be directly responsible for administering funds designated to an NA-212 account at the STCU. Kasia Mendelsohn, the Acting Director of the Office of Global Nuclear Material Threat Reduction, and her Senior Technical Advisor, Igor Bolshinsky, will superintend the NA-212 project. An NA-212 representative will be in contact to work out the details.

NNSA has long experience in working with both the STCU and the ISTC, and has been involved in cooperative research activities with scientists of the former Soviet Republics, funded by both DOE and the Department of State. NA-212 is fully aware of, and has agreed to, the principles established in the STCU Establishing Agreement and Statute.

I believe that NA-212's participation in STCU programs will be a positive factor in achieving the STCU's nonproliferation and peaceful scientific research objectives.

Sincerely

A handwritten signature in cursive script that reads "Jason N. Witow".

Jason N. Witow

Deputy Coordinator, Science Centers Program



Marthe Leonidon  
 Principal Administrator  
 Directorate General Science, Research and Development  
 European Commission  
 International Scientific Cooperation Policy  
 De Meeus Square 8  
 B-1049s Brussels  
 Belgium

Mekelweg 4  
 2628 CD Delft  
 The Netherlands

Tel. +31 152781034  
 Fax +31 152784046

Your reference and date	Our reference	Office telephone	Date
—	LP/ILV5	+31 - 15 - 278 6230	— 19 October, 2004
Subject	—		

Nomination request as an STCU partner

Dear Mrs Leonidou,

The International Research Centre for Telecommunications and Radar (IRCTR) at Delft University of Technology has been involved in the research on telecommunications and radar for 10 years. Over the past years, we have developed a strong relationship with the IRE institute in Kharkov and de National Aviation University in Kiev, both in Ukraine. At this moment we are interested in expanding our cooperation with IRE in Kharkov as a STCU Partner.

IRCTR has read and accepts the terms and conditions of the STCU Agreement and Statute and accepts the Principles for Non-Party Participation in the STCU.

IRCTR plans to propose a project together with IRE over the next 2 years and plans to contribute for € 40.000,00 on this project. IRCTR is a research institute of the Delft University of Technology and can offer in the framework of projects the use of the latest equipment and exchange of knowledge. Our final proposal will be focused on applied electromagnetics and developed in near future.

IRCTR welcomes the opportunity to work with the STCU.

Sincerely yours,

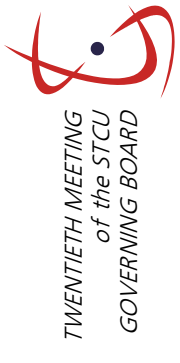


Prof. dr. ir. L.P. Ligthart  
 Director IRCTR-Delft University of Technology

CC: Mr. Andrew Hood, STCU Executive Director (fax nr. +380 44 490 7145)

# **20<sup>TH</sup> BOARD RECORD OF DECISIONS**





To obtain a copy of the signed 20<sup>th</sup> Board record of Decisions, please go to the following web address: [http://www.stcu.int/documents/gbm/gbm20/Record\\_of\\_Decisions.pdf](http://www.stcu.int/documents/gbm/gbm20/Record_of_Decisions.pdf)