



**TWENTY FOURTH MEETING**  
of the STCU GOVERNING BOARD

**TABLE OF CONTENTS**

<b>ITEM OF THE AGENDA</b>	<b>TAB #</b>
List of Delegates and Guests	1
Agenda for the Twenty Fourth Meeting of the STCU Governing Board	2
Minutes of the Governing Board Meeting Held on November 16, 2006	3
<b>REPORTS FROM SECRETARIAT</b>	
Executive Director Report	4
Update on the STCU Headquarters Building	5
2006 Audited Financial Statements & Management Letter	6
Continued Discussions on STCU Strategic Planning	7
Close-Out of STCU-Bankers' House Legal Suit	8
U.S. Request for Institute Sustainability Program	9
Targeted Initiatives Update	10
Update on Sustainability/Partners Program Activities	11
Summary of Hannover Messe Promotion Roadshow	12
<b>BOARD APPROVAL DOCUMENTS</b>	
Project Approval and Funding	13
24 <sup>th</sup> Governing Board Record of Decision	14
Press Release for the 24 <sup>th</sup> Governing Board	15

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**STCU TWENTY FOURTH GOVERNING BOARD MEETING  
LIST OF PARTICIPANTS AND INVITEES**

**CANADA**

Ms. Ann Pollack, Acting Director General, Foreign Affairs Canada, Global Partnership Program, Board Member  
Ms. Sabine Hey, Foreign Affairs Canada, Global Partnership Program, Advisory Committee Member

**EUROPEAN UNION**

Mr. ZORAN STANČIČ, Deputy Director-General, Directorate-General for Research, European Commission, Chairman of the Board  
Mr. Tarik Meziani, Research Program Officer, Unit D3: Multilateral Cooperation Activities, Directorate General for Research, European Commission, Advisory Committee Member  
Mr. Yves Maisonnny, Research DG - Unit D3 - Specific international cooperation actions, Directorate General for Research, European Commission  
Mr. Hans Spoor, Head of Unit for Administration and Finance, Director for International Cooperation, European Commission  
Mr. Wolfgang Lerke, Ambassador of Germany in Moldova, EU Presidency

**UKRAINE**

Mr. Yaroslav Yatskiv, Academician, National Academy of Science of Ukraine, Board Member

**UNITED STATES**

Mr. Victor E. Alessi, President & CEO, United States Industry Coalition, Inc., Board Member  
Ms. Jane J. Tannenbaum, Coordinator, Science Centers Program ISN/CTR, US Department of State, Board Member, Advisory Committee Member  
Mr. James Noble, Program Director, US Department of Energy/Initiatives for Proliferation Prevention Program

*FUNDING PARTIES*

**EU DELEGATION OF THE EUROPEAN COMMISSION TO THE REPUBLIC OF MOLDOVA**

Mr. Paolo Berizzi, I Secretary, Chief of the Political and Economical Section

**UNITED STATES**

Mr. Michael D. Kirby, Ambassador

*OBSERVERS*

**AZERBAIJAN**

Mr. Talyat Museib oglu Aliev, Ambassador

**UKRAINE**

Mr. Petro Chalyi, Ambassador



Mr. Anton Naumovets, National Academy of Science of Ukraine  
Ms Marina Gorohovatskaya, National Academy of Science of Ukraine

### **GEORGIA**

Ms Natia Jokhadze, Deputy Director, Georgian National Science Foundation

### **THE STCU SECRETARIAT OFFICIALS**

Mr. Andrew A. Hood, Executive Director, United States  
Mr. Borys Atamanenko, Senior Deputy Executive Director, Ukraine  
Mr. Michel Zayet, STCU Deputy Executive Director, European Union  
Mr. Landis Henry, STCU Deputy Executive Director, Canada  
Mr. Victor Korsun, STCU Deputy Executive Director, United States  
Mr. Curtis "BJ" Bjelajac, Chief Financial Officer, United States  
Mr. David Cleave, Chief Administrative Officer, European Union  
Ms. Tatyana Khmelevskaya, Executive Assistant, Ukraine

### **THE STCU INFORMATION OFFICE IN MOLDOVA**

Ms. Alfreda Rosca, Regional Representative

### **INVITED HONOURABLE GUESTS**

Mr. Gheorghe Duca, Academician, President of Academy of Sciences of Moldova  
Mr. Ion Tighineanu, Academician, Vice President of Academy of Sciences of Moldova  
Mr. Louise F. O'Neill, Ambassador, Head of OSCE Mission in Moldova  
Mr. Mariusz Kowalczyk, Customs Risk Analysis Adviser, European Union Border Assistance Mission to Moldova and Ukraine (EUBAM)  
Mr. Mark Tcaciuc, President's Assistant on Internal Policy, Presidency of the Republic of Moldova  
Mr. Mihail Platon, President's Assistant on Cultural, Education and Science Problems, Presidency of the Republic of Moldova  
Mr. Valeriu Ostalep, Vice Minister, Ministry of Foreign Affairs and European Integration  
Ms Irina Zgardan, Head of Section, National Office for the Stability Pact in the South-East Europe, Ministry of Foreign Affairs and European Integration  
Ms. Lidia Romanciuc, Executive Director, Moldavian Research Development Association  
Mr. Veaceslav Afanasiev, Director, Agency for Innovation and Technology Transfer  
Mr. Anatolie Barbarosie, Vice General Director, Customs Services of the Republic of Moldova  
Mr. Constantin Gaindric, President, National Council for Attestation and Accreditation  
Mr. Andryi Gurzhyi, First Deputy Minister of Education and Science of Ukraine

### **ACCOMPANYING DELEGATES**

Mr. Steven Gitomer, US Department of State Science Advisor  
Mr. Jurgen Sanders, European Commission Science Advisor



**AGENDA**  
**24<sup>th</sup> Meeting of the STCU Governing Board**  
Chisinau, Moldova  
Thursday, 31 May 2007

**1. Opening Session**

- 1.1 Opening Remarks from the GB Chair (Chairman, Governing Board)
- 1.2 Welcome from the Executive Director (Andrew Hood)
- 1.3 Opening Remarks from other GB Members/Invited Observers (GB Members/Other Officials)

**2. Administrative Topics**

- 2.1 Adoption of the Agenda
- 2.2 Approval of the Minutes of the 23<sup>rd</sup> GB Meeting: 16 November 2006, Kyiv, Ukraine

**3. Morning Session**

- 3.1 Executive Director Report (Andrew Hood)
- 3.2 Update on the STCU Headquarters Building (David Cleave)
- 3.3 2006 Audited Financial Statements & Management Letter (Curtis Bjelajac)
- 3.4 Continued Discussions on STCU Strategic Planning (Andrew Hood)
- 3.5 Close-Out of STCU-Bankers' House Legal Suit (Andrew Hood/Curtis Bjelajac/  
Borys Atamanenko)

*Lunch*

**4. Afternoon Session**

- 4.1 U.S. Request for Institute Sustainability Program (Andrew Hood)
- 4.2 Update on Targeted Initiatives Program (Landis Henry)
- 4.3 Update on Sustainability/Partners Program Activities (Victor Korsun)
- 4.4 Summary of Hannover Messe Promotion Roadshow (Michel Zayet)

**5. Review and Approval of Project Funding Sheet**

**6. Review and Approval of Record of Decisions**

**7. Review and Approval of Press Statement**

**8. Closing Session**

- 8.1 Final Issues/Statements from GB Members (GB Members)
  - 8.2 Final Remarks from Executive Director (Andrew Hood)
  - 8.3 Closing Remarks from the GB Chair (Chairman, Governing Board)
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**Executive Director Report**  
(Reporting Period: 16 November 2006 to 15 May 2007)

**Major Issues**

Uzbek Situation

There has been no change in the STCU's situation in Uzbekistan since the last Governing Board meeting.

- STCU ED forwarded an official letter to the Uzbek Ministry of Foreign Affairs (22 February 2007) reminding the Uzbek government of the STCU request to renew its accreditation one year ago and requesting an official update of the situation. To date, no official response has come.
- STCU projects continue to operate with the same time delays (approximately 5 months) in Uzbek scientists receiving their STCU grant money or advances.
- No new Uzbek proposals have been received since March 2006, but 40 STCU Projects still are active with Uzbek participation (30 of which are solely Uzbek-STCU Projects). However, STCU continues to receive unofficial information from several sources that the Uzbek government is instructing institutes to adjust their active STCU projects such that all STCU projects are completed by the end of 2008.
- STCU Information Office remains operational but there is no renewed agreement with the Uzbek Academy of Sciences to use their premises for this STCU office. The STCU Internet Web Site still appears to be blocked within Uzbekistan.
- STCU Ukrainian staff members conducted on-site project monitoring of active Uzbek projects in April, the first STCU visits to Uzbekistan since the November GBM.
- Informal comments from Uzbek scientists indicate that STCU science funding represents a majority portion of the R&D funding support in Uzbekistan (perhaps up to 75% of the funds available to Uzbek Academy of Sciences institutes). While not corroborated, recent STCU information suggests that this claim may have some validity: STCU survey data suggests that Uzbek institutes receive approximately 60% of their funding from non-governmental sources, and that STCU grants are as much as 80% of that non-governmental funding.

Update on Current STCU Headquarters Building and Ukrainian Regional Offices.

Discussions on the current 5-year user agreement for the STCU Headquarters Building (21 Kamenyariv Street) seem to be continuing. The current building landlord, the Ukrainian State Public Enterprise General Direction of Kyiv Municipal State Administration for Serving Diplomatic Missions (GDIP, the lessee of the Kamenyariv site), and the Ukrainian Ministry of Education and Science (the financer of the lease on behalf of GDIP and the Ukrainian government) are in negotiation over the terms of the lease renewal, and actions by the landlord and subsequent letters of inquiry from STCU has kept some pressure on the Ukrainian government to keep up these negotiations. STCU has received encouraging signs that a tentative agreement to extend the lease has been reached, but the terms are under review by the Ukrainian government agencies.



Still, history has shown that the Ukrainian government moves slowly when it comes to securing the STCU premises or making resolution of STCU premises issues a priority. The current political situation in Ukraine may cause more distractions that could push STCU down on the Ukrainian Government priority list.

The STCU management is proposing a Governing Board statement for the 24<sup>th</sup> GBM Record of Decisions that will strongly signal to the Ukrainian government the need to resolve this STCU premises issues quickly, with GB-approved instructions to the Executive Director to initiate certain contingency actions should there be STCU premises crisis between Governing Board meetings.

In addition, the STCU has conducted lease renewal negotiations to continue occupying office space for the STCU's three Ukrainian Regional Offices (Kharkiv, Lviv, Dnipropetrovsk). All three Ukrainian Regional Offices are located inside institute buildings, and because Ukraine is not obligated to provide these premises free-of-charge, STCU always has paid rent for these Regional Offices (Regional Offices in other STCU Recipient Parties are provided rent-free to STCU). Each year, STCU has managed to renew these leases with no significant increase in rental payments, but the 2007 renewals were more difficult than ever to hold the line on the Regional Office rental costs. Although STCU Secretariat is hopeful that it can continue to control the rise in rental costs at its three Ukrainian Regional Offices, it is a fact such increases will continue in the future.

#### Major Failure of STCU Internet System

On 12 February 2007, the STCU suffered a major failure in its local Internet system, shutting down the Secretariat's Internet communications to outside customers. The STCU IT Group and the local Internet Provider managed to restore the system after 4 days.

The event underlined the growing importance and reliance of STCU's IT systems to its operations, as well a growing vulnerability of the STCU Internet system to outside factors related to the STCU Headquarters location. In the Kamenyariv Street neighborhood, the electricity supply and service reliability is poor, and power spikes and surges are commonplace. This can (and does) cause problems to electrical hardware and IT systems in spite of the precautions taken by STCU. But STCU has experienced an increase in the incidence of electrical power unreliability as of late, and this might be due to the increasing number of houses being built near the STCU building, increasing the power demand on an aging local electrical grid. Therefore, STCU suspects that more power disruptions will occur in the future (although the local electricity provider, Kiev Energo, assured STCU that this will not be the case). Whatever the reason, STCU has experienced a jump in unreliability of its electricity supply that is a concern for the STCU IT system and STCU operations overall.

#### Other Outstanding Ukraine Party Issues

MES Funds Held by STCU. No further news on a final resolution on the MES funds held by STCU. The STCU Secretariat continues to wait for word from the Ministry on its proposal for fairly disposing of both the 299,000 UAH held by STCU and US\$139,000 that the Ministry would provide in compensation for past rental payments by the STCU Parties. The STCU Secretariat continues to wait for further communication from the Ukrainian government about these remaining MES funds.

Ratification: No movement on resolution to the STCU Agreement ratification process. When last reported, a new Ukrainian translation of the STCU Statute, Article XIII (on IPR from projects) was with the Department of Legal Agreements of MFA for official certification. The MFA translation department had stated that this certification would be



made earlier than October 2006, but no further word has come since that time. STCU DED (EU) Michel Zayet is pursuing this issue on behalf of the STCU.

### STCU in Moldova

The STCU ED and DED (EU) made an official visit to Chisinau on 28 February – 1 March 2007, primarily to begin preparations for the upcoming 24<sup>th</sup> GBM and to pay courtesy calls on some of the stakeholders in Moldova. Meetings were held with Prof. G. Duca (President, Academy of Sciences of Moldova) and other Academy officials, with Moldovan Presidential Administration officials and the Ministry of Foreign Affairs, institute directors, the European Commission Delegation, the German Ambassador to Moldova, and the U.S. Ambassador to Moldova.

The first two funded STCU Regular Projects involving Moldova have commenced, totaling about ₴267,360. The Moldovan Academy of Sciences (MAS) staff is working with STCU on developing a STCU-Moldova Targeted Initiative. In conversations with the STCU ED and other STCU officials, MAS President G. Duca indicated that Moldovan science has priority research areas, but that a higher priority was the procurement of modern scientific equipment and attraction/retention of “young scientists”.

Both the EC Delegation and the U.S. Ambassador suggested that the STCU engage in discussions with other programs working in Moldova, such as the EU Border Assistance program (Contact with EUBAM has been made with the additional help of UNDP in Kyiv, and STCU and EUBAM now are attempting to schedule a meeting). The U.S. Ambassador also supported a suggestion made by the Moldovan MFA on STCU participation in a “science & technology working group” under the Georgia-Ukraine-Azerbaijan-Moldova (GUAM) regional forum. In the U.S. Ambassador’s view, STCU might be a useful (albeit small) influence on the GUAM, as he thought the GUAM needed to focus more on practical non-controversial subjects that avoided sensitive political issues such as “frozen conflicts” involving the Russian Federation.

### **Current Activities**

#### Targeted R&D Initiatives Activity Update

The call-for-proposal phases of the National Academy of Sciences of Ukraine (NASU) Targeted Initiative and the Georgian National Science Foundation (GNSF) Targeted Initiatives were completed on schedule and project proposals from both Initiatives were sent to the Financing Parties. At the 22 March AC meeting, the Financing Parties agreed to coordinate their final proposal selections and preliminary funding decisions via tele-conferences and email exchanges prior to the Governing Board week.

A letter of commitment was received from the Azerbaijan National Academy of Sciences for an Azeri Targeted Initiative. The plan is for a call for proposals to be issued on 1 May, with a timetable geared toward final Azeri TI project selections at the 25<sup>th</sup> GBM in the autumn of 2007. The Azeris will commit up to US\$150,000 for co-financing for projects in three research areas: information technology, biological sciences applied to environmental studies, and semiconductor/polymer/nanocomposite materials research. The STCU ED is planning a trip to Baku after the 24<sup>th</sup> GBM to have a formal opening ceremony on the STCU-Azeri Targeted Initiative Program.

A proposal for a Moldovan Targeted Initiative was received from the Moldovan Academy of Sciences, whereby the MAS would pledge up to US\$150,000 for co-financing of projects. But the MAS also proposed calling for proposals in six research areas (vice the original 2-3 areas) and to design the project proposals such that the majority of the project



budget was used for equipment & material procurement. With the Secretariat facilitating communications between the Parties, the STCU Financing Parties offered a counter-proposal for an STCU-MAS Targeted Initiative focused on fewer research areas and with project budgets proportioned along typical STCU Regular Project lines (i.e., majority of budget dedicated to scientist grants and the remainder for equipment, materials, and overhead costs). This Financing Party consensus was relayed by the STCU ED to the President of the MAS, and the STCU now awaits a reaction from the Academy.

#### STCU Performance Surveys and Data Gathering

*Annual STCU Survey.* STCU has completed the 2006 round of its annual survey of STCU project managers as part of the STCU Performance Measures Program, evaluating the performance and impact of STCU activities on participating scientists and institutes/technical units. A draft preliminary report on the 2006 survey results has been drafted and is under internal STCU review. This 2006 survey involves all the STCU Recipient Parties that had active STCU projects in 2006. The 2006 results will be compared to the results of the 2005 survey, although the 2005 survey was limited to Ukraine (reference: "STCU-NASU Survey 2005: Evaluation of Performance of Technical Units Fulfilling STCU Projects and STCU's Impact on Technical Units' Activity".)

While STCU management has yet to evaluate the 2006 survey data, some of the preliminary results are mentioned here, for information purposes only:

DRAFT SURVEY RESULTS	Azerbaijan	Georgia	Uzbekistan	Ukraine (2006)	Ukraine (2005)
Questionnaires Sent	10	23	66	216	258
Responses Received	9 (90%)	19 (80%)	30 (45%)	160 (74%)	186 (72%)
Source of Financing: Gov Funding	58%	40%	39%	57%	59%
Source of Financing: Non-Gov Funding	42%	60%	61%	43%	41%
STCU Share of Total Gov+Non-Gov Funding	21%	47%	49%	28%	20%
STCU Share of Non-Gov Funding Portion	50%	78%	80%	65%	48%
% of Units That Presented Papers at Foreign Conferences	25%	22%	52%	38%	40%
# (%) of Respondents Considered Sustainable Units	5 (56%)	10 (53%)	18 (60%)	63 (39%)	46 (25%)
% of Respondents Considered Non-sustainable Units	4 (44%)	8 (42%)	7 (23%)	92 (58%)	91 (49%)
% of Respondents Considered Units with Unclear Sustainability Status	-	1 (5%)	5 (17%)	5 (3%)	49 (26%)





U.S. Party-sponsored Survey on the Impact of Grant Assistance on Ukrainian Scientific Community. STCU provided facilitation service to this U.S.-based study, assisting a locally contracted Ukrainian survey company to engage both STCU grant recipients and non-recipients on behalf of the U.S. expert team of Drs. D. Ball and T. Gerber. Thus far, STCU has not heard any further news about this study or any preliminary analysis from the U.S. team.

EU Party Evaluation of STCU Program. STCU met with two European experts in late March-early April, and facilitated meetings and institute visits for these two experts. The experts are conducting a program evaluation of the ISTC and STCU on behalf of the European Commission.

Financial Auditors. A team of Canadian government auditors visited STCU on 20-21 March to evaluate the STCU financial and management systems, and to develop a strategy for Canadian Government oversight of STCU operations in the future. At that same time, auditors from the firm Lubbock Fine Chartered Accountants were present at STCU, conducting STCU's annual external financial records and management system audits for the 2006 STCU financial statement.

#### Project Agreement Processing

The procedural steps that moved the internal STCU Project Processing into a modern, accountable on-line management system has begun to show tangible improvement in the STCU productivity. Thanks to the new standard processes, the use of deadlines, and on-line management tools, project agreements are now being processed and commenced much more quickly. In 2005, Regular Projects approved at a GBM took an estimated average of 330 days from the day of GBM Project Funding approval until final ED signature and project commencement; today it now takes less than 165 days. This has resulted in fewer Party-funded projects sitting in an "unsigned" status, substantially reducing the backlog of approved projects waiting to start, and resulting in a jump in the number of active Regular and Partner Projects (and in the rate of Project Expenditures). The STCU internal performance goal remains to reach 100 days or less in moving projects from GB approval to project commencement.

	2006 (avg. monthly total - June to December)	1 January 2007	1 February 2007	1 March 2007	1 May 2007
# of Active Projects	220	231	233	243	258
Avg # of Days from GBM Funding Approval to Project Agreement Signature	325	272	209	197	164

#### **Important Visitors/Meetings**

STCU ED Attends Nuclear Nonproliferation Conference (18-22 December 2006, London). ED Hood attended the international conference, *Nuclear Non-proliferation: Responding to Strategic Challenges*, sponsored by the Wilton Park Organization in cooperation with Lawrence Livermore National Laboratories, Sandia National Laboratories, and the U.K. Foreign and Commonwealth Office. Other organizations represented at the conference included the IAEA, the U.S.



Department of Energy, U.S. Department of State, U.K. Department of Trade and Industry, the U.K. Ministry of Defense, the Russian Atomic Agency, the Center for Strategic and International Studies, the International Institute for Strategic Studies, the Center for Nonproliferation Studies, and a variety of governmental agencies and think-tanks from China, ROK, Brazil, Israel, etc. The conference focused on the current issues and challenges facing the Nuclear Nonproliferation Treaty regime, the IAEA, and bilateral/multilateral nuclear energy cooperation and threat reduction.

DED (EU) Attends Conference at the European Space & Technology Center (5-7 December, Noordwijk, Netherlands).  
DED (EU) Zayet attended meetings and held consultations at this European Space Agency facility the Netherlands.

DED (CA) Visit to Georgia (19 – 29 January, Tbilisi). DED (CA) Henry with national science officials and institute directors, and scientists to consult on Targeted Initiative planning and STCU Workshop preparations. DED (CA) Henry also observed a routine STCU project monitoring event, performed by STCU project accountant and Senior Specialist team, to study ways for improving the information content gained from these on-site project monitoring trips.

DED (EU) Mission to Lviv (23 January, Lviv Ukraine). DED (EU) Zayet traveled to Lviv to meet with STCU Regional Officer and local Ukrainian scientists as part of overall preparations for the Moldovan science workshop planned in late May. The intent is to invite scientists from the western Ukraine region to travel to Chisinau to participate in the workshop.

DED (EU) Coordination Visit to ISTC (28-29 January, Moscow). STCU DED (EU) Michel Zayet took an STCU staff delegation to ISTC, at the invitation of the new ISTC DED (EU) to update ISTC staff on STCU activities and discuss further ISTC-STCU cooperation, especially in the area of processing joint ISTC-STCU project proposals.

DED (EU) Visit to Georgia and Azerbaijan (11- 18 February, Tbilisi and Baku). DED (EU) Zayet met with the STCU Regional Officers and Georgian and Azeri scientists for consultations and discussions in preparation for the planned November STCU commercialization workshop in Tbilisi.

U.S. Party-hosted ISTC/STCU Coordination Meeting (31 January – 1 February, Amsterdam). At the invitation of the U.S. Department of State, STCU ED Hood and DED (US) Korsun attended this 2-day round-table discussion on the future U.S. Department of State plans for ISTC and STCU activities. Representatives from the Canadian and EU Parties, U.S. Department of Energy's IPP program, as well as ISTC officials and the Russian Federation, attended this meeting led by the Department of State's Office of Cooperative Threat Reduction. Discussions centered on programmatic definitions, goals, impacts, and strategies concerning the State Department's need for more focus on institute self-sustainability and an accelerated effort to move institutes toward "graduation" from U.S. Party Regular Project funding.

DED (US) Visit to Conduct Local Commercialization Round-Table Discussions (14 Feb, Kharkiv). DED (US) Korsun met with local Ukrainian scientists and institute officials in a round-table discussion about commercialization of science and STCU sustainability promotion and support activities.

ED and DED (EU) Trip to Moldova (28 Feb – 2 March, Chisinau). As reported earlier, STCU ED Hood and DED (EU) Zayet traveled to Chisinau to meet and consult with a wide variety of government and program officials in Chisinau.

DED (EU) Meets with EU Party Representatives and EC Officials (6-9 March, Brussels). At the invitation of EC DG Research, DED (EU) Zayet met with various Commission offices and attended meetings involving the close-out of the INTAS program.



STCU ED Meeting with GUAM National Coordinators (16 March, Kyiv). ED Hood and SDED (UA) Atamanenko addressed a regular meeting of the National Coordinators of the Georgia-Ukraine-Azerbaijan-Moldova (GUAM) regional forum, at the request of the National Coordinator group chairman. The National Coordinators, meeting at the Diplomatic Academy of Ukraine, decided to recommend that its scientific and technical working group develop specific activities and proposals that would be put under the GUAM umbrella and submitted to STCU for further consideration.

Visit of Canadian Global Partnership Representative (13-22 March). Ms. Nicole Kim, from Foreign Affairs Canada's GPX Program Office, visited STCU and traveled to Kharkiv, Dnipropetrovsk, and Lviv to visit institutes and gain insight into the priorities and needs of STCU participating scientists and institutes. She was accompanied on her Ukrainian tour by DED (CA) Henry.

Hannover Messe 2007 Exhibition (16-20 April, Hannover Germany). A delegation of 46 participants was led by DED (US) Korsun and DED (EU) Zayet to this large technology and innovative research trade show. STCU brought Ukrainian and Georgian scientists to this event, and sponsored an exhibition booth where 8 STCU-related technology exhibitions were displayed. This was one of the largest Partnership Promotion "roadshows" ever conducted by STCU, with more than 7 months of active planning and preparation conducted by STCU staff. Besides the normal Partner Program promotion and commercial matchmaking goals, STCU management wanted to evaluate this approach toward roadshow preparation, as the planning and preparations were far more complex and intensive than in other STCU Partner Program "roadshows". The performance evaluation of this Hannover event (e.g., was the event more successful in commercial matchmaking than in previous STCU roadshows, etc) will determine whether STCU will repeat the project for 2008 or will design a different approach.

STCU ED Consultations with EU Party (Brussels, Belgium). On 3 May, ED Hood met with STCU Governing Board Chairman Zoran Stanić AC member Robert Burmanjer, Ms. Mary Minch (Director of International Cooperation, DG Research), and other EU Party staff to discuss current issues facing the STCU, EU Party plans, and preparatory issues for the 24<sup>th</sup> GBM.

Andrew A. Hood  
Executive Director



### Update on STCU Building Status

The current STCU Building Usage Agreement between STCU and the State Property Agency (GDIP) expires on 1<sup>st</sup> November 2007, as does the rental lease between GDIP and the owner of the 21 Kamenyariv St. premises.

STCU sent a letter to GDIP and to the Ministry of Education and Science (MES) in March 2007 to remind the Ukrainian authorities that this lease issue would be arising and the STCU's preference to remain at 21 Kamenyariv so as to avoid a major and disruptive relocation. A response r from MES First Deputy Minister Mr. Gurzhiy was received on 29 May 2006 indicating that MES would try to keep STCU at Kamenyariv, depending on the lease negotiations.

During the last year, several interactions occurred between the Landlord and MES (of which STCU gained some second-hand insight), including MES requests for the Landlord to provide information such as a comparison of similar property rental prices. From what STCU could discern, these exchanges were only preliminaries to the start of lease renewal negotiations.

Then, in February, 2007, some investors arrived at STCU stating that they had seen the STCU building advertised for sale and were interested in inspecting the property. Also in February, STCU learned from the local electrical provider, KievEnergo, that the STCU building electricity was about to be cut-off due to non-payment by the Landlord of outstanding electricity bills. STCU warned GDIP of this threat, and GDIP apparently addressed the issue with KievEnergo and was successful in defusing the threatened electricity cut-off.

STCU then obtained a copy of a letter sent by the Landlord to GDIP/MES dated 20 February 2007 threatening to evict the STCU from the Kamenyariv premises by 1 April unless the Ukrainian government made its rental payments due since the start of 2007. Apparently, the Landlord has not received any rental payments for 2007 despite receiving new annex agreements by GDIP/MES to make changes to the rental payment schedule (it should be noted that because of annual delays in the Ukrainian governmental agencies releasing their state funds at the beginning of each calendar year, it is unfortunate but expected that the Ukrainian government will be late on payments in the first quarter of each year).

STCU sent another letter on 13 March to GDIP/MES, noting the Landlord's eviction threat and the other incidents and urgently requesting GDIP/MES to advise STCU of the Ukrainian government actions so that the STCU Governing Parties could gain some confidence that STCU's building situation would not become a crisis. The STCU CAO attended a meeting of MES, GDIP, and the Landlord on 15 March, where MES and GDIP promised that all outstanding issues would be resolved and negotiations on a lease renewal would begin soon (with 1 May offered as a milestone date for reporting to STCU on the progress made).

Since the 22 March AC Meeting, the Landlord has told STCU that he, GDIP and MES have come to an agreement on prolonging the lease contract for the STCU building and that all had agreed on a new rental price. This agreement now was with the Ministry of Finance for an approval decision of the state budgetary committee. This description was confirmed by the GDIP representative via telephone, however no official notification has been forthcoming from the MES so far.

**SCIENCE AND TECHNOLOGY  
CENTER IN UKRAINE**

Financial Statements for the  
Year Ended 31 December 2006

**Lubbock Fine  
Chartered Accountants  
Registered Auditors**

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## TABLE OF CONTENTS

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	Page
Auditors' Report	1
Accounting Policies	2
Statement of Revenues and Expenditure	8
Balance Sheet	9
Statement of Cash Flows	10
Notes to the Accounts	11 to 19

## SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

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

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We have audited the financial statements, set out on pages 2 to 19, of the Science and Technology Center in Ukraine as at 31 December 2006 at the request of the Board of Governors. The financial statements comprise the Statement of Revenues and Expenditure, the Balance Sheet, the Statement of Cash Flows and the Notes to the financial statements. These financial statements are the responsibility of the management of the Science and Technology Center in Ukraine. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

As more fully explained in the Accounting Policies, fixed assets used for both the Center and the projects funded by the Science and Technology Center in Ukraine, which have useful lives extending beyond the current year were expensed immediately on acquisition to the Statement of Revenues and Expenditure. The management of the Science and Technology Center in Ukraine believe that because of the unusual nature and circumstances of its activities this treatment properly matches the revenues specifically contributed by the funding parties with the related expenditure. International Accounting Standard 16 requires Property, plant and equipment to be capitalized and depreciated over their expected useful lives. Capitalization and depreciation of fixed assets used for the Center and projects would have a consequential effect on the accompanying financial statements if it were applied.

In our opinion, except for adjustments that might be necessary as a result of the matters noted above, the financial statements give a true and fair view of the financial position of the Science and Technology Center in Ukraine as at 31 December 2006, 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

22-5-07



# 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

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### **Project Recognition**

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

### **Project Expenditure**

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

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

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

### **Project Revenues**

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

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

### **Administrative Operating Budget**

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

# 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.

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## ACCOUNTING POLICIES

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### **Foreign Currency Transactions**

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

### **European Union Funded Projects**

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

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

Project agreements approved by the European Union at all Governing Board Meetings prior to the 10<sup>th</sup> Board of Governors Meeting are concluded in USD.

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

In relation to project agreement procedures for European Union projects approved at or subsequent to the 10th 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.

# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

## ACCOUNTING POLICIES

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

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

The project agreement procedures for projects approved at or subsequent to the 17<sup>th</sup> Board of Governors Meeting, concluded in USD, differ from the aforementioned procedures for projects financed by the European Union at or subsequent to the 10<sup>th</sup> 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 2006

	Note	2006 USD	2005 USD
<b>REVENUES</b>			
Project Revenue		17,434,164	16,291,450
Administrative Revenue			
- Administrative Operating Budget		2,080,785	2,154,458
- Supplemental Budget		2,215,306	1,961,648
Partner Fees		196,728	102,502
Interest Income		1,622,134	1,073,272
		<u>23,549,117</u>	<u>21,583,330</u>
<b>EXPENDITURE</b>			
Project Expenditure	1	17,434,164	16,291,450
Administrative Expenditure	2		
- Administrative Operating Budget		1,946,290	1,994,093
- Supplemental Budget		2,215,306	1,961,648
		<u>21,595,760</u>	<u>20,247,191</u>
<b>NET SURPLUS</b>	3	<u>1,953,357</u>	<u>1,336,139</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 2006

	Note	2006 USD	2005 USD
<b>CURRENT ASSETS</b>			
Receivables			
Amounts due from funding parties	5	6,599,935	7,541,243
Other receivables	6	189,350	67,111
Prepayments and accrued income	7	171,413	143,325
Cash and cash equivalents		42,083,400	38,669,342
		<u>49,044,098</u>	<u>46,421,021</u>
<b>CURRENT LIABILITIES</b>			
Amounts payable – projects	8	(2,276,384)	(2,153,285)
Amounts payable – non-project		(566,276)	(284,428)
		<u>(2,842,660)</u>	<u>(2,437,713)</u>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>46,201,438</u>	<u>43,983,308</u>
<b>CAPITAL CONTRIBUTIONS</b>			
Designated capital – projects	9	24,866,780	18,754,380
Designated capital – administration	10	1,733,079	1,884,291
Designated capital – supplemental	11	5,148,329	4,815,237
Undesignated capital	12	14,453,250	18,529,400
		<u>46,201,438</u>	<u>43,983,308</u>

Signed on behalf of  
The Science and Technology Center in Ukraine May 18 2007

  
Andrew A. Hood – Executive Director

  
Curtis M. Bjelajac – Chief Financial Officer

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF CASH FLOWS AT 31 DECEMBER 2006

	Note	2006 USD	2005 USD
<b>Cash Flows from Operations</b>			
<b>Cash Inflows</b>			
Net Cash Received from Funding Parties	13	22,739,917	16,636,378
Interest Income and Partner Fees Received		1,783,466	1,104,944
Total Cash Inflows		<u>24,523,383</u>	<u>17,741,322</u>
<b>Cash Outflows</b>			
Project Expenditure		(17,311,065)	(16,456,145)
Administrative and Supplemental Expenditure		(3,798,260)	(3,759,594)
Total Cash Outflows		<u>21,109,325</u>	<u>(20,215,739)</u>
Net Cash Inflows From Operations		3,414,058	(2,474,417)
Cash and cash equivalents at 1 January		38,669,342	41,143,759
Cash and cash equivalents at 31 December		<u>42,083,400</u>	<u>38,669,342</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:	
2006	17,434,164
2005	16,291,450
2004	17,675,237
2003	17,937,532
2002	12,317,194
2001	10,100,633
2000	7,096,198
1999	7,904,566
1998	7,351,641
1997	4,987,540
1996	1,339,245
1995	-
Cumulative project costs incurred to 31 December 2006	<u>120,435,400</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>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
<b>a) Administrative Operating Budget</b>		
Business Operations	309,922	277,362
Public Affairs	61,925	49,628
Personnel	740,345	662,695
Personnel Support and Development	195,486	171,918
Sustainability Group Operations	-	50,975
Legal, Auditing, and Banking	280,519	406,719
Property, Plant and Equipment	57,943	114,269
Headquarters and Branch Offices	300,150	260,527
	<u>1,946,290</u>	<u>1,994,093</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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Included within 'Legal, auditing and banking' are exchange gains of (2,457) USD (2005 – included losses of 57,213 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.

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
<b>b) Supplemental Budget</b>		
Technical, Collaborator and Contractor Travel Support	83,983	58,599
Information Technology Support	-	17,738
Communication Support	-	-
Business Training/ Sustainability Group Support	149,985	60,176
Patent Support	30,976	19,075
Travel and Mobility Support	249,857	186,658
Expert Review and Advisors	27,477	7,583
Seminars/ Workshops Support	96,915	77,020
Service Contracts	1,500,289	1,458,393
Targeted Training	75,824	76,406
	<u>2,215,306</u>	<u>1,961,648</u>

### 3. Net Surplus Revenues Over Expenditure

The net surplus of 1,953,357 USD comprises the following;

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
Surplus Administrative Budget Revenues	134,118	169,093
Investment Income	1,622,134	1,073,272
Partner Fees	196,728	102,502
Other Revenue/(Expense)	377	(8,728)
	<u>1,953,357</u>	<u>1,336,139</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

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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there is no practical process in place for the recovery of VAT for project purchases within Ukraine, Georgia, Uzbekistan, and Azerbaijan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia, Uzbekistan, and Azerbaijan to investigate the possibility of establishing a procedure to recover project VAT for purchases made within these respective countries. However, the management of the STCU does not expect to recover the amounts incurred to date. Accordingly the VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs. Project items purchased abroad by the STCU and imported into Ukraine, Georgia, Uzbekistan, and Azerbaijan are exempt from VAT.

The VAT on administrative expenditures for 2006 has been credited back to the corresponding expense account to which it relates.

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

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
United States	1,117,962	1,766,541
Canada	972,156	214,556
European Union	1,386,930	2,004,692
Partners	2,291,433	2,545,613
	<u>5,768,481</u>	<u>6,531,402</u>

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

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
Partners	831,454	1,009,841
	<u>831,454</u>	<u>1,009,841</u>
<b>Total due from funding parties</b>	<u>6,599,935</u>	<u>7,541,243</u>

**6. Other receivables**

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
VAT Recoverable	20,932	16,396
Other Receivables	168,418	50,715
	<u>189,350</u>	<u>67,111</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**7. Prepayments and accrued income**

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
Prepayments	22,824	30,132
Accrued Interest	148,589	113,193
	<u>171,413</u>	<u>143,325</u>

**8. Amounts payable projects**

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
Grants Payable	1,608,224	1,321,581
Overhead Payable	230,352	216,382
Overhead Retainage	437,808	615,322
	<u>2,276,384</u>	<u>2,153,285</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
 NOTES TO THE FINANCIAL STATEMENTS

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**9. Designated Capital Contributions - Projects**

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

	<b>United States</b>	<b>Canada</b>	<b>Japan</b>	<b>European Union</b>	<b>Partners</b>	<b>Total</b>
	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>	<b>USD</b>
<b>Balance at January 1, 2006</b>	7,542,088	270,560	207,496	3,838,212	6,896,024	18,754,380
New Projects Signed During 2006	7,273,951	61,681	-	6,138,013	10,685,226	24,158,871
Revaluation of Project Agreements	-	-	-	355,167	54,147	409,314
Adjustment for Closed Projects	(243,539)	(1,394)	(14)	(38,045)	(738,629)	(1,021,621)
<b>Transfer to Statement of Revenues and Expenditure</b>						
Expenditure Incurred on Projects in 2006	(6,105,859)	(175,189)	(95,360)	(3,777,535)	(7,280,221)	(17,434,164)
<b>Balance at December 31, 2006</b>	<b>8,466,641</b>	<b>155,658</b>	<b>112,122</b>	<b>6,515,812</b>	<b>9,616,547</b>	<b>24,866,780</b>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

**10. Designated Capital Contributions - Administration**

	<b>United States USD</b>	<b>Sweden USD</b>	<b>Canada USD</b>	<b>European Union USD</b>	<b>Partners USD</b>	<b>Ukraine USD</b>	<b>Total USD</b>
<b>Balance at January 1, 2006</b>	1,163,860	-	173,753	546,678	-	-	1,884,291
Additional Contribution for 2006	-	-	-	-	-	196,494	196,494
Transfer to Statement of Revenues and Expenditure	(1,163,860)	-	(173,753)	(546,678)	-	(196,494)	(2,080,785)
Administrative Budget 2007	1,063,337	-	141,430	528,312	-	-	1,733,079
<b>Balance at December 31, 2006</b>	<b>1,063,337</b>	<b>-</b>	<b>141,430</b>	<b>528,312</b>	<b>-</b>	<b>-</b>	<b>1,733,079</b>

**11. Designated Capital Contributions - Supplemental**

	<b>United States USD</b>	<b>Sweden USD</b>	<b>Canada USD</b>	<b>European Union USD</b>	<b>Partners USD</b>	<b>Ukraine USD</b>	<b>Total USD</b>
<b>Balance at January 1, 2006</b>	3,109,316	100,972	115,377	1,157,660	331,912	-	4,815,237
Supplemental Budgets Approved	1,252,483	-	715,167	1,081,850	142,000	-	3,191,500
Transfer from/(to) Undes. Cap. Contributions	-	4,068	-	(316,359)	-	-	(312,291)
Other Adjustment	301	-	222	(600)	-	-	(77)
Adjustment for Revaluation	-	-	-	44,179	5,762	-	49,941
Transfer to A/P – Non-Project	-	-	-	-	(33,445)	-	(33,445)
Transfer to DCC – Projects for Signed Targeted Initiative Projects	(206,802)	-	(11,681)	(128,747)	-	-	(347,230)
Transfer to Statement of Rev. and Exp.	(1,290,994)	-	(214,436)	(580,102)	(129,774)	-	(2,215,306)
<b>Balance at December 31, 2006</b>	<b>2,864,304</b>	<b>105,040</b>	<b>604,649</b>	<b>1,257,881</b>	<b>316,455</b>	<b>-</b>	<b>5,148,329</b>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

**12. Undesignated Capital Contributions**

	United States	Sweden	Canada	Japan	European Union	Partners	Other	Total
	USD	USD	USD	USD	USD	USD	USD	USD
<b>Balance at January 1, 2006</b>	8,332,751	-	50,000	20,102	4,667,558	5,550,990	(92,001)	18,529,400
Advances Received from Funding Parties	5,650,000	-	-	-	7,132,209	2,802,744	-	15,584,953
Transfer to Designated Capital for Signed Projects	(7,067,149)	-	(50,000)	-	(6,009,266)	(2,656,123)	-	(15,767,129)
Adjustment for Closed Projects	243,539	-	1,394	14	38,045	650,637	-	933,629
Allocation of Surplus Income for 2006	1,198,096	4,068	84,015	6,949	660,231	-	-	1,953,359
Adjustment for 2006 Other Purposes	(238)	-	(30)	-	(109)	-	377	-
Adjustment for Revaluation	-	-	-	-	322,785	1,099	-	308,475
Returned to Funding Party	-	-	-	-	(1,564,372)	(950,000)	-	(2,514,372)
Transfer to Amounts Payable – Non-Project	-	-	-	-	(230,534)	-	-	(230,534)
Transfer from Designated Capital – Supplemental Budget	-	-	-	-	316,359	-	-	316,359
Transfer to Designated Capital – Supplemental Budget	(1,750,635)	(4,068)	-	-	(828,378)	(142,000)	-	(2,725,081)
Transfer to Designated Capital - Administrative Budget	(1,213,764)	-	(85,379)	-	(636,666)	-	-	(1,935,809)
<b>Balance at December 31, 2006</b>	<b>5,392,600</b>	<b>-</b>	<b>-</b>	<b>27,065</b>	<b>3,867,862</b>	<b>5,257,347</b>	<b>(91,624)</b>	<b>14,453,250</b>

Note : The amount of 377 USD under ‘Other’ relates to the performance of the 2005 and 2006 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 2006 audit cost is accrued as an expense in the 2006 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2007 AOB.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

---

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

	<b>2006</b>	<b>2005</b>
	<b>USD</b>	<b>USD</b>
Canada	13,618	509,315
Ukraine	-	-
Partners	10,253,985	6,957,637
United States	5,650,000	5,000,000
European Union	6,822,314	4,169,426
	<u>22,739,917</u>	<u>16,636,378</u>

**14. Financial commitments**

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

No material commitments existed at December 31, 2006.

b) **Funding parties**

At December 31, 2006 the funding parties had approved but not signed 31 projects with a total funding of 4,774,796 USD (2005– 8,516,033). The agreements for these projects are expected to be signed in 2007.

**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 until 30 June 2006. From 1 July 2006 all executive and senior staff salaries are borne by the STCU.

**16. Financial Instruments**

The STCU's financial instruments comprise:

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

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

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

a) **Liquidity Risk**

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



SCIENCE AND TECHNOLOGY CENTER IN UKRAINE  
NOTES TO THE FINANCIAL STATEMENTS

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**b) Foreign Currency Risk**

The STCU's income and expenditure and net assets could be affected by currency translation movement as some of the STCU's assets and revenues are denominated in currencies other than USD. The STCU manages foreign currency risk through keeping funds in the currency of commitment (USD or Euros) and minimizing funds held in local currency.

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

	<b>2006</b>		<b>2005</b>	
	<b>Amounts due from Funding Parties USD</b>	<b>Cash at Bank USD</b>	<b>Amounts due from Funding Parties USD</b>	<b>Cash at Bank USD</b>
Euros	1,435,922	10,738,522	1,607,032	6,247,412
Ukrainian Hryvna	-	119,039	-	26,445
Azeri Manat	-	101	-	557
	<u>1,435,922</u>	<u>10,857,662</u>	<u>1,607,032</u>	<u>6,274,414</u>

**LUBBOCK FINE**  
**CHARTERED ACCOUNTANTS**

**SCIENCE AND TECHNOLOGY**

**CENTER IN UKRAINE**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED 31 DECEMBER 2006**

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 2006  
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 2006.

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 2006 we have also reviewed the Management Letter which we prepared for the year ended 31 December 2005, to ascertain whether the weaknesses identified in 2005 still exist in 2006.

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 6 Observations noted last year, 2 have been addressed and are no longer considered to be issues. The remaining 4 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, Navision (a dedicated accounting package) and Access (a database package tailored for STCU's needs) to record financial transactions limits the availability of financial information (See Observation No.1).
2. 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.2).
3. It was noted that some 26 scientists had claimed grants for more than the permitted 220 days per year. (See Observation No.3).
4. In relation to the technical and financial audits carried out by the USDCAA, it was noted that a number of issues were raised such as the completion of time cards by participants. In addition issues were raised regarding the identification of project staff and a lack of communication between the STCU and the project staff. (See Observation No.4).
5. Accruals for certain project expenses had not been correctly posted for all Navision projects with a quarter ended 31 January 2007. (See Observation No 5).
6. During the course of our review we noted that the bank balance was not being correctly reconciled to the trial balance (See Observation No. 6).

You will appreciate that the inherent limitations in any accounting and internal control system mean that errors or irregularities may nevertheless occur and not be detected. Also, the projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

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*

**Lubbock Fine**

**TABLE OF CONTENTS**

		<b>Page</b>
<b>I</b>	<b>AUDIT FINDINGS SUMMARY</b>	<b>1</b>
<b>II</b>	<b>AUDITOR'S REVIEW</b>	<b>3</b>
	Observation 1    The use of two software packages for the maintenance of financial information.	4
	Observation 2    Contracts not dated.	5
	Observation 3    Monitoring of grant payments.	6
	Observation 4    Technical and financial monitoring of projects.	9
	Observation 5    Overhead accruals	15
	Observation 6    Bank reconciliations	16

## **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.	Contracts not dated.	<b>Partially Agree</b>
3.	Monitoring of grant payments.	<b>Partially Agree</b>
4.	Technical and financial monitoring of projects	<b>Partially Agree</b>
5.	Overhead accruals	<b>Agree</b>
6.	Bank reconciliations	<b>Agree</b>

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

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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.



**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

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**Observation No. 1**

- Title:** The use of two software packages for the maintenance of financial information.
- Description:** On 1 October 2005 the STCU implemented Navision, a comprehensive accounting system to replace the combined use of Access and ACCPAC. This is in line with the recommendation we made in the 2004 management letter, however, an effective dual system is still in operation.
- Whilst all new projects signed commencing after 1 October 2005 are only set-up and posted to Navision, approximately 60 projects are still maintained on Access (a database), with a monthly journal then posted to Navision to record the transactions recorded in Access.
- Therefore the limitations of using the Access database as an accounts package still exist, and the same difficulties in monitoring and examining transactions are still apparent.
- Recommendation:** We appreciate that the STCU have implemented a new accounts package which can handle both the monitoring requirements of Access and the accounting requirements of ACCPAC. However, it is noted that for the projects still in operation under Access a method should be devised for the transfer of these projects to Navision from Access (with the aim of phasing out Access for projects by 31 December 2007).
- It is our understanding that the STCU is working towards transferring all Access projects to Navision. We would therefore recommend that it continues to do so with the aim of running all transactions through Navision and moving completely away from using Access.
- Ideally the STCU will transfer over the history of transactions on active Access projects to Navision, however, we understand the cost of this may exceed the benefit of being able to run complete reports for a project under Navision. The STCU should assess whether a material benefit will be obtained in transferring over the history of a project's transactions.
- For closed projects we do not recommend the transfer of the history of projects.
- STCU Comment:** The STCU concurs with Lubbock Fine's recommendations and will work to transfer all active Access projects to Navision by December 31, 2007. During this process, a decision will be taken by STCU management as to the cost/benefit of transferring historical transactions for these projects to Navision. Finally, the STCU agrees with the recommendation of Lubbock Fine not to transfer the history of closed projects from Access to Navision.

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

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**Observation No. 2**

- Title:** Contracts not dated.
- Description:** In the management letters for the years ended 31 December 1999 to 2005 we noted that in the majority of cases, contracts concluded with project beneficiaries were not dated by all parties.
- 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.
- 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.
- 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.
- 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, although the STCU agrees that the dating of signatures is a very good practice, it will not return undated contracts to 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 2006**  
**Management Letter**

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**Observation No. 3**

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 does produce a monthly report showing scientists who have claimed over 220 days however this report does not appear to be followed up with any specific action.

The STCU generated a report from Access and Navision showing individuals who worked for more than 220 days in the year ended 31 December 2006 and also showing rolling 12 month totals for each month. This report indicated that some 26 (2005 – 44) scientists had claimed for more than the permitted 220 days, with a total of 380 (2005 – 830) days being potentially being claimed in excess of this limit.

Of particular concern in 2006 was Dr. O. Nazarenko who claimed to have worked 16 hours in one day (8 hours on two separate projects) and had also worked 91 days in the last 92 as at the end of December 2006.

We realise that the circumstances of the projects may have required long hours to have been worked however we would have expected the STCU to have noted the high level of time charged and obtained justification from the participants.

We note that many of the grantees who exceed the limit subsequently fall just below it in later months. This suggests that some communication must be taking place between the STCU and the grantees, however we were unable to find evidence of any such communications in most instances.

Furthermore it was apparent that the project accountants were unaware if permission had been granted to any grantees to extend working days to 242.

The project accountants do not appear to be aware of grantees who break the 220 day rule, and when a scientist works on two separate projects (particularly if they also have two different project accountants) there is no check carried out to investigate any possible mis-claiming of time worked. Indeed it is not clear who is responsible for pursuing a potential breach of the 220 day rule.

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).

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

---

**Observation No. 3**

Recommendation: We would make the following recommendations;

(i) In relation to the 26 scientists identified in 2006, and in particular Dr. O. Nazarenko, 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 to which the individuals were not entitled to.

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, we recommend the STCU extends their procedure to investigate any cases where scientists work more than 220 days on a monthly basis. This should be extended to include investigations of scientists who are claiming for time spent on two or more projects simultaneously.

Responsibility for these investigations should be clearly delegated and any evidence of such investigations and communications with scientists should be kept on the project files.

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.

STCU Comment:

The STCU partially concurs with Lubbock Fine's recommendations. The STCU concurs that the process of following up with those grantees that worked more than 220 days can be improved; however, the STCU disagrees with the specific points made about Dr. O. Nazarenko. In the case of Dr. O. Nazarenko, according to the model project agreement for Non-Governmental Partners (approved by the STCU 17<sup>th</sup> Governing Board), grantees working only on Non-Governmental Partner projects are not subject to the 220 days restriction. The 220 days restriction is only in effect for those grantees that work on at least one regular or Governmental Partner project. These rules are clearly discussed in STCU Standard Operating Procedure XXIV – Project Participant Participation in STCU projects. Although the STCU agrees that it may seem unlikely that Dr. O. Nazarenko worked 91 of 92 days at the end of 2006, in the end it is the Non-Governmental Partner who dictates the timeline and judges the quality of Dr. O. Nazarenko's work. The 220 day restriction was eliminated from the Non-Governmental Partner Model Project Agreement by the STCU Governing Board precisely to meet the demands of Non-Government Partners who found it difficult to work with the constraints (i.e. 220 day limit, daily rate limit, STCU purchasing policies, etc.) placed on STCU regular projects. Thus, the 220 day limit for Non-Governmental

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

---

**Observation No. 3**

Partner projects was removed in order to allow the grantees on these types of projects the freedom required to work the hours necessary to meet tighter deadlines placed on them by the private sector. Given the aforementioned discussion, in the case of Dr. O. Nazarenko or any other grantee that works only on Non-Governmental Partner Projects, the STCU disagrees that this matter requires follow-up by the STCU.

Furthermore, STCU would like to highlight that of the twenty-six (26) grantees that worked more than 220 days, two (2) of them worked on Non-Governmental Partner Projects only (Dr. O. Nazarenko and Dr. V. Nesterenkov), and of the remaining twenty-four (24) grantees that worked more than 220 days, none of them worked more than 242 days. Only Dr. O. Nazarenko and Dr. V. Nesterenkov worked more than 242 days.

The STCU will implement the recommendations presented in the following manner:

- (i) The STCU will conduct a thorough review of the time cards of those twenty-four (24) (excluding Dr. O. Nazarenko and Dr. V. Nesterenkov) 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 request that the responsible Senior Specialist provide permission for them to work more than 220 days, but less than 242 days, as per STCU policy. If the responsible Senior Specialist does not agree to the increase in days worked to 242, then the STCU will send a letter to the applicable grantees, 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.
- (ii) The STCU will run the 220 day report as part of its month-end closing procedure, and will follow up any exceptions noted with the grantee(s) involved. The STCU will identify who (project accountant, etc.) is responsible for identifying those grantees that work more than 220 days in order to ensure that each case is followed up in order to obtain documented permission from the responsible senior specialist which will then be placed in the appropriate project folder.
- (iii) The STCU Finance Department will increase their communication and coordination with Senior Specialists in order to better prevent scientists from claiming grants not due to them.

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

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**Observation No. 4**

Title: Financial and Technical monitoring of projects

Description: At the request of the U.S. Department of State, the STCU completed 27 U.S. sponsored technical and financial project audits in FY2006. The STCU worked closely with the U.S. D.O.S., Defence Contract Audit Agency (USDCAA), 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 P-119, AZ-02(j), 3515, 3486, and P-247 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 P-247 the USDCAA noted that there was insufficient documentary evidence to verify the work carried out by particular project participants.
- (c) In relation to Projects 3004, 1911, P-114, 1903, 1954, Uzb-47(J), Uzb-54, Uz-111j, 2208, Uzb-118, Uzb-42(j), Uzb-99(j), AZ-029(j), 3515, P-240, and P-247 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.

- (d) In relation to Projects 3515, P-240, and P-247, it was noted that a number of the participants were related. In one case, work performed by these participants could not be verified, in another these relationships had not been disclosed in the project agreements and were such as to call into question the organization's objectivity & legitimacy.
- (e) In relation to Project 3515, it was noted that the submanager had delegated his responsibilities to another person who was not being

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

---

**Observation No. 4**

compensated for the hours he was working on the project.

- (f) In relation to Project P-247, it was noted that two participants were paid the maximum rate of \$35 per day even though they had no scientific backgrounds.
- (g) In relation to Projects 3004 and 1954, it was noted that information per the quarterly financial reports did not agree to the timecards. This led to participants being underpaid.
- (h) In relation to Projects 3622, Gr-105, Ge-111, Ge-115 and Ge-130, it was noted that a lack of communication between the STCU, ISTC and CRDF meant that there was a possibility of over charging of time by project participants.
- (i) In relation to project 3515, it was noted that there was lack of communication between the Senior Specialist, project manager and sub-manager on the project.

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) In relation to the individual project participants the STCU should request the individual to present appropriate documentary evidence to the technical co-ordinator at the STCU to determine whether the work carried out was in agreement with the amount of time claimed.
- (c) 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.
- (d) With regard to family members' participation in projects, we would recommend that the STCU identify and justify family members' participation in projects as part of their proposal submission. We also recommend that the STCU include guidance that institutes must inform the STCU of all family relationships which exist between participants, sub-managers and project managers.
- (e) In relation to the delegation of sub-managers responsibilities to another person, we note this is a difficult area to identify but recommend that the STCU review the allocation of project hours to ensure that those receiving payment are the same people who are completing the work for the project.
- (f) In relation to the payment of the maximum daily rate to those with no scientific background, we recommend that the STCU reviews the

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

---

**Observation No. 4**

basis of pay for project participants where this appears to be unreasonable given the technical experience of the participant.

- (g) In relation to the discrepancies between the quarterly financial reports and the timecards, we recommend that the STCU review its system for verifying the reported information to ensure that it is adequate and that the reported incidents are isolated.
- (h) In relation to the possibility of over charging of time as a result of lack of communication between the STCU, ISTC and CRDF, we recommend that the STCU should review its procedures for assessing whether the time being charged to STCU projects is reasonable given the other activities of participants.
- (i) In relation to the lack of communication on Project 3515, the STCU should remind the senior specialist of the importance of good communication, and endeavour to improve the level of communication between those involved in the project.

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

- (a) The STCU will continue to require all senior specialists and project accountants to reinforce to all project participants (including the Institute Director) of all projects including P-119, AZ-02(j), 3515, 3486, and P-247, the requirements of Article 8.1.8. Annex II General Condition, Part C (Allowable Costs) of the Model Project Agreement, which states the following: "payments to individual participants will be based on properly completed time cards." In addition, Annex II, Article 8.1.7 states Individual participants must record the hours worked on STCU projects on time cards according to the following procedures: (a) Individual participants must complete a separate time card for each STCU project they work on. (b) Individual participants must personally complete their time cards each day and in ink. (e) Hours recorded on time cards must not be more than the actual hours worked. 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.
- (b) The STCU will not work with project P-247 in the future to address this issue, as this project was terminated because of a number of issues (including the issue outlined by Lubbock Fine above) by the partner as of December 1, 2006.
- (c) The STCU still views the recovery of STCU VAT as the ultimate



**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

---

**Observation No. 4**

resolution to this observation, and will continue its efforts to work with the recipient party governments to recover these funds. However, 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 at the December 2005 the STCU Governing Board approved a revised model project agreement which eliminates the payment of overhead based on a percentage of allowable costs. Of course, for those projects signed using the old model project agreement, this is still an issue.

- (d) In relation to family members working on STCU projects, the STCU incorporated the following guidelines into the instructions for proposal submissions as well as STCU Standard Operating Procedure #6 (Project Financing):

**1. STCU GUIDELINES FOR RELATIVES WORKING ON PROJECTS**

All persons listed on the payroll of Projects managed through STCU should be fully qualified for the job. At the time of submission of the proposal to STCU the Project Manger must disclose existing family and marital relations in writing. This is reviewed by STCU's Senior Specialists and the following aspects are considered:

- a) Is the person on the job because of his or her relationship with the project manager or someone else working on the project?
- b) Does the person have the necessary technical or administrative qualifications (appropriate education, skills, background or other experience) that indicate that he or she is fully qualified for performing the job on the project?

The Senior Specialist makes the determination. In the case where a Senior Specialist cannot decide, then his or her recommendation will be referred to the supervising DED for final decision. STCU's decision is placed into the record of the Project.

A relative is considered to be one or more of the following:

1. Husband
2. Wife
3. Brother
4. Sister
5. Mother
6. Father
7. Uncle
8. Aunt
9. Brother-in law
10. Sister-in-law
11. Mother-in law
12. Father-in-law
13. Son

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

---

**Observation No. 4**

- 14. Daughter
- 15. Niece
- 16. Nephew

- (e) The STCU will work with the sub-project manager of project 3515 to ensure that he indeed has the ability to perform the required work. If not, the STCU will make the suggestion to substitute the sub-project manager with someone capable of fulfilling the duties required of this position within the project.
- (f) The STCU will not work with project P-247 in the future to address this issue, as this project was terminated because of a number of issues (including the issue outlined by Lubbock Fine above) by the partner as of December 1, 2006.
- (g) The STCU will continue to reinforce to all project managers the necessity to complete the "check yourself" procedures included within the Quarterly Financial Reporting (QFR) workbook, specifically checkpoint number three, which states all project participants' time included in the Financial Report be checked against individual project time cards by at least two persons. The STCU created this QFR workbook in order to ensure better accuracy within the QFR process, and will work with the Project Managers to ensure that the workbook guidelines are followed. Furthermore, the STCU will continue the procedure of project accountants sampling hours/days reported on the QFR and comparing them to the participants' time cards.
- (h) The STCU disagrees with Lubbock Fine's recommendation related to the STCU reviewing its procedures to ensure that the project participants are charging reasonable time to the STCU given their other activities for the following reasons:
  - 1. There is no documentation that states an STCU project participant is not allowed to work more than 220 days on concurrent STCU and ISTC projects, let alone on these plus CRDF projects. The STCU Project Agreement and other STCU project documentation states that the project participant is not allowed to work more than 220 days on STCU projects. The STCU notes that its project-related documentation does state that project participants cannot get paid for the same work provided to the STCU by another organization. But "dual sources of funding for the same work" does not limit a project participant from working on other, separate projects financed by other organizations; STCU merely restricts participants from receiving funds for the exact same work financed by STCU projects.

The STCU understands that, because of the unique ISTC/STCU membership of the Republic of Georgia, a case could be made to limit Georgian participants to 220 days on

**Audit of the Science and Technology Center in Ukraine**  
**For the Year Ended 31 December 2006**  
**Management Letter**

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**Observation No. 4**

concurrent STCU and ISTC projects. However, to enforce this rule with Georgian participants, project-related documentation at both Centers would have to be changed and approved by the respective STCU and ISTC Governing Boards, as currently neither ISTC nor STCU requires common project participants to adhere to a combined 220 day limit for concurrent ISTC and STCU projects. Once the documentation is changed, the ISTC and STCU would then have to exchange information in order to track the 220 day limit for concurrent project participants. However, STCU wishes to point out that there are a limited number of STCU projects in Georgia, and recent analysis by ISTC of prior-year STCU and ISTC project data for Georgia in December 2006 revealed no instance of a participant exceeding 220 work days on concurrent ISTC and STCU projects. Therefore, STCU feels, the risk of Georgia scientists exceeding 220 days on concurrent STCU/STC projects is small.

2. Although the ISTC and STCU are both multilateral, inter-governmental organizations with a largely common set of funding shareholders (EU, US, and CA), CRDF is a private foundation of primarily bilateral (U.S. government only) or private sector financing sources. Thus, while ISTC and STCU are similar organizations, CRDF is a different class of organization. Further, there are several other programs, bilateral and multilateral, which are not related to STCU activities, but which also support science-based research grants in the same region and with similar goals as STCU: NATO, USAID, European programs, etc. Thus, the same reasoning for exchanging information with CRDF would likely apply to many other distinct programs, as well as any possible commercially or privately financed contract research activities that may also involve STCU participants. In short, all organizations or individuals that could possibly pay an STCU project participant for his time would have to be communicated to the STCU in order to ensure that the labor charged to the STCU was reasonable. The management of the STCU views such an undertaking as beyond the scope of the STCU's control function.
  - (i) The STCU will continue to work with all Senior Specialists of all projects including 3515 to ensure more effective communication with the project and sub-project managers of the projects for which they are responsible.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2006  
Management Letter**

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**Observation No. 5**

Title:	Overhead accruals
Description:	<p>Project expenses (grants, overheads, other direct costs, etc) should be accrued as at 31 December 2006 for all projects with a quarter end 31 January 2007 and 28 February 2007.</p> <p>It was noted that the overhead expense for all projects with a quarter ended 31 January 2007 had been posted as at 31 January 2007 for all 3 months. This meant that the overheads had not been included in the financial statements for the 2 months ended 31 December 2006, and therefore accruals and project expenses were understated by US\$34,463.</p> <p>The equivalent journals for projects with a quarter ended 28 February 2007 had been correctly posted at 31 December 2006. Therefore it is anticipated that this is an isolated administrative error.</p>
Recommendation:	A proportion (2 months / 1 month) of project invoices relating to the current year for projects with quarters ending 31 January and 28 February after the year end should be posted on 31 December each year so that they are included in the correct accounting period.
STCU Comment:	The STCU concurs with Lubbock Fine's recommendation and will ensure that this error does not occur again in the December 31, 2007 financial statements.

**Audit of the Science and Technology Center in Ukraine  
For the Year Ended 31 December 2006  
Management Letter**

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**Observation No. 6**

Title:	Bank reconciliations
Description:	<p>Each bank account has its own individual ledger or 'Card' in Navision, showing all transactions passing through that account and the closing cash book balance at any time.</p> <p>The STCU regularly reconciles the cash book position of each of these cards to the bank statements.</p> <p>It was discovered, however, that the reconciled position on the card did not always agree to the balance shown on the general ledger. At the 31 December 2006 it was noted one bank account balance was US\$13,871 less than the balance recorded in the Navision trial balance.</p> <p>This error was adjusted by the STCU for the year ended 31 December 2006 so that the financial statements showed the correct cash balance.</p>
Recommendation:	When reconciling the cash book balance to bank statements, this should then be reconciled to the general ledger to ensure that the correct cash balance is always shown in the financial statements.
STCU Comment:	The STCU concurs with Lubbock Fine's recommendation and will ensure that the reconciliation of banks is done both to the bank card balance and corresponding general ledger bank account balance shown in the trial balance.

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE - STCU**  
**STATEMENT OF ADMINISTRATIVE OPERATING BUDGET (AOB) as of March 31, 2007**

	Annual	Booked	Obligated	Remaining	Percentage
	Budget	Expenditures	Expenses	Budget	(Over)/Under
<b>Administrative Operating Expenses</b>					
<b>Non-Recurring Expenses</b>					
FACILITY IMPROVEMENTS	\$0.00	0	0.00	\$0.00	N/A
FURNITURE & FIXTURES	\$3,000.00	0	0.00	\$3,000.00	100.00%
TELECOMMUNICATIONS EQUIPMENT	\$0.00	0	0.00	\$0.00	N/A
OFFICE EQUIPMENT	\$3,000.00	0	0.00	\$3,000.00	100.00%
COMPUTER HARDWARE	\$12,520.00	4,308	0.00	\$8,211.63	65.59%
COMPUTER SOFTWARE	\$11,840.00	601	0.00	\$11,239.25	94.93%
<b>Subtotal Non-Recurring Expenses</b>	<b>30,360</b>	<b>4,909.12</b>	<b>0.00</b>	<b>\$25,450.88</b>	
<b>Contingency - Non-Recurring</b>	<b>25,000</b>	<b>0.00</b>	<b>0.00</b>	<b>\$25,000.00</b>	0.00%
<b>Recurring Expenses</b>					
LOCAL GRANT PAYMENTS	762,910	118,970	0.00	\$643,939.65	84.41%
REPRESENTATION	10,000	345	0.00	\$9,655.45	96.55%
STAFF EDUCATION & TRAINING	88,520	8,179	0.00	\$80,340.56	90.76%
INTERNATIONAL TRAVEL	38,600	5,576.58	0	33,023	85.55%
TRAVEL WITHIN THE CIS	128,840	28,132	0	100,708	78.16%
LOCAL TRAVEL	22,925	5,134	0.00	\$17,791.46	77.61%
POSTAGE AND DELIVERY	11,000	1,508	0.00	\$9,491.52	86.29%
CUSTOMS FACILITATION	500	677	0.00	(\$177.44)	-35.49%
GENERAL OFFICE SUPPLIES	28,000	626	0.00	\$27,374.32	97.77%
OFFICE EQUIPMENT REPAIR/MAINT	3,000	239	0.00	\$2,760.99	92.03%
VEHICLE OPERATIONS	25,000	3,802	0.00	\$21,198.18	84.79%
PRINTING AND REPRODUCTION	25,000	178	0.00	\$24,821.78	99.29%
TELECOMMUNICATIONS SERVICES	50,000	9,678	0.00	\$40,322.08	80.64%
BUSINESS MEETINGS	6,000	0	0.00	\$6,000.00	100.00%
SUBSCRIPTIONS AND PUBLICATIONS	4,000	347.81	0.00	\$3,652.19	91.30%
EMPLOYEE MORALE & WELFARE	20,000	3,389.56	0.00	\$16,610.44	83.05%
MEDICAL PLAN	90,000	5,133.33	0.00	\$84,866.67	94.30%
BUILDING SUPPLIES	12,000	2,622.78	0.00	\$9,377.22	78.14%
BRANCH OFFICES	73,800	4,114	0.00	\$69,686.38	94.43%
INSURANCE EXPENSE	11,000	20.00	0.00	\$10,980.00	99.82%
BANK FEES - OFFSHORE	80,000	7,627.13	0.00	\$72,372.87	90.47%
BANK FEES - ONSHORE	42,000	6,300.55	0.00	\$35,699.45	85.00%
LEGAL SERVICES	15,000	6,352.72	0.00	\$8,647.28	57.65%
ACCOUNTING AND AUDITING	91,624	7,005.22	0.00	\$84,618.78	92.35%
OTHER PROFESSIONAL SERVICES	28,000	2,336	0.00	\$25,664.00	91.66%
<b>Subtotal Recurring Expenses</b>	<b>1,667,719</b>	<b>228,294</b>	<b>0</b>	<b>1,439,425</b>	
<b>Contingency - Recurring</b>	<b>10,000</b>	<b>0.00</b>	<b>0.00</b>	<b>\$10,000.00</b>	100.00%
<b>Total Administrative Expenses</b>	<b>1,733,079</b>	<b>233,203.14</b>	<b>0.00</b>	<b>\$1,499,875.86</b>	86.54%

**SCIENCE AND TECHNOLOGY CENTER IN UKRAINE - STCU  
STATEMENT OF SUPPLEMENTAL BUDGET ACTIVITY  
as of March 31, 2007**

Activity	Sub-Activity	Supplemental Expense	Budget	Spent as of Mar. 31, '07	Projected Final 4 mo. Exp	Remaining Budget
01	TECHNIC., COLLABOR., CONT. TRAV. SUPP.		\$ 421684.26 + € 100000	\$ 345668.39 + € 0	\$ 0 + € 0	\$ 76015.87 + € 100000
	01.01	- U.S. DESIGNATED TRAVELERS	\$ 390,000.00	\$ 343,984.13	\$ -	\$ 46,015.87
	01.02	- E.U. DESIGNATED TRAVELERS	€ 100,000.00	€ -	€ -	€ 100,000.00
	01.03	- C.A. DESIGNATED TRAVELERS	\$ 31,684.26	\$ 1,684.26	\$ -	\$ 30,000.00
02	INFORMATION TECHNOLOGY SUPPORT (USA)		\$ 350,000.00	\$ 180,196.17	\$ -	\$ 169,803.83
	02.01	- U.S.DATABASE PROJECT	\$ 20,000.00	\$ 20,415.38	\$ -	\$ (415.38)
	02.02	- STCU SERVER UPGRADE	\$ 10,000.00	\$ 9,808.61	\$ -	\$ 191.39
	02.03	- Internet Initiative in Uzb., Geo., and Ukr Pilot	\$ 231,490.00	\$ 149,972.18	\$ -	\$ 81,517.82
	02.04	- UNIDENTIFIED	\$ 88,510.00	\$ -	\$ -	\$ 88,510.00
03	COMMUNICATIONS SUPPORT (USA)		\$ 332,785.00	\$ 7,698.80	\$ -	\$ 325,086.20
	03.01	- Government of Ukraine's Registration Communication	\$ 7,500.00	\$ 5,143.67	\$ -	\$ 2,356.33
	03.02	- CASRI	\$ -	\$ 2,555.13	\$ -	\$ (2,555.13)
	03.03	- UNIDENTIFIED	\$ 325,285.00	\$ -	\$ -	\$ 325,285.00
04	BUSINESS TRAINING/SUSTAIN. SUPP.		\$ 865772 + € 0	\$ 348826.82 + € 0	\$ 0 + € 0	\$ 516945.18 + € 0
	04.01	- SHARED	\$ 465,772.00	\$ 296,023.03	\$ -	\$ 169,748.97
	04.02	- US DESIGNATED	\$ 400,000.00	\$ 52,803.79	\$ -	\$ 347,196.21
	04.02.01	3 Pilot Trainings (IPR Prot., Present, Bus. Plan)	\$ 38,419.20	\$ 40,602.79	\$ -	\$ (2,183.59)
	04.02.02	Pilot Internship Project	\$ 25,000.00	\$ -	\$ -	\$ 25,000.00
	04.02.03	Unidentified	\$ 336,580.80	\$ 12,201.00	\$ -	\$ 324,379.80
	04.03	- EU DESIGNATED	€ -	€ -	€ -	€ -
05	PATENT SUPPORT		\$ 298400 + € 10000	\$ 131947.96 + € 0	\$ + € 0	\$ 166452.04 + € 10000
	05.01	- SHARED	\$ 198,400.00	\$ 130,947.96	\$ -	\$ 67,452.04
	05.02	- US DESIGNATED	\$ 100,000.00	\$ 1,000.00	\$ -	\$ 99,000.00
	05.03	- EU DESIGNATED	€ 10,000.00	€ -	€ -	€ 10,000.00
06	TRAVEL AND MOBILITY SUPPORT		\$ 1895813.99 + € 90000	\$ 1196352.88 + € 16476.03	\$ 0 + € 0	\$ 699461.11 + € 73523.97
	06.01	- TRAVEL GRANT FUND (SHARED)	\$ 510,000.00	\$ 414,015.71	\$ -	\$ 95,984.29
	06.02	- U.S. DESIGNATED TRAVELERS	\$ 378,000.00	\$ 278,381.13	\$ -	\$ 99,618.87
	06.03	- E.U. DESIGNATED TRAVELERS	€ 90,000.00	€ 16,476.03	€ -	€ 73,523.97
	06.04	- PARTNER DESIGNATED TRAVELERS	\$ 660,325.00	\$ 359,074.38	\$ -	\$ 301,250.62
	06.04.01	U.S. Department of Agriculture	\$ 337,000.00	\$ 153,335.70	\$ -	\$ 183,664.30
	06.04.02	U.S. National Cancer Institute	\$ 171,325.00	\$ 98,428.56	\$ -	\$ 72,896.44
	06.04.03	U.S. Department of Energy/IPP Program	\$ 70,000.00	\$ 23,556.50	\$ -	\$ 46,443.50
	06.04.04	U.S. Environmental Protection Agency	\$ -	\$ -	\$ -	\$ -
	06.04.05	U.S. BioIndustry Initiative	\$ 82,000.00	\$ 74,491.47	\$ -	\$ 7,508.53
	06.04.06	U.S. Bio Technology Engagement Program (BTEP)	\$ -	\$ 9,262.15	\$ -	\$ (9,262.15)
	06.05	- SW DESIGNATED TRAVELERS	\$ 109,695.44	\$ 4,655.59	\$ -	\$ 105,039.85
	06.06	- CA DESIGNATED TRAVELERS	\$ 237,793.55	\$ 140,226.07	\$ -	\$ 97,567.48
07	EXPERT CONTACT (PROGRAM RELATED)		\$ 50,000.00	\$ 81.90	\$ -	\$ 49,918.10
	07.01	- U.S. DESIGNATED TRAVELERS	\$ 50,000.00	\$ 81.90	\$ -	\$ 49,918.10
08	EXPERT REVIEW AND ADVISORS		€ 90,000.00	€ 75.00	€ -	€ 89,925.00
	08.01	- E.U. DESIGNATED REVIEWERS	€ 90,000.00	€ 75.00	€ -	€ 89,925.00
09	SEMINARS/WORKSHOPS SUPPORT		\$ 411800 + € 104668.69	\$ 288945.46 + € 24668.69	\$ 0 + € 0	\$ 122854.54 + € 80000
	09.01	- SHARED	\$ 361,800.00	\$ 245,107.74	\$ -	\$ 116,692.26
	09.01a	- NATO Conference (NATO)	€ 24,668.69	€ 24,668.69	€ -	€ -
	09.02	- E.U. DESIGNATED SEMINARS/WORKSHOPS	€ 80,000.00	€ -	€ -	€ 80,000.00
	09.03	- U.S. DESIGNATED SEMINARS/WORKSHOPS	\$ 50,000.00	\$ 43,837.72	\$ -	\$ 6,162.28
10	SERVICE CONTRACTS		\$ 6117740 + € 356084	\$ 5086915.62 + € 81279.37	\$ 0 + € 0	\$ 1030824.38 + € 274804.63
	10.01	- U.S. DESIGNATED CONTRACTS	\$ 5,657,340.00	\$ 4,920,129.53	\$ -	\$ 737,210.47
	10.02	- E.U. DESIGNATED CONTRACTS	€ 356,084.00	€ 81,279.37	€ -	€ 274,804.63
	10.03	- CA DESIGNATED CONTRACTS	\$ 460,400.00	\$ 166,786.09	\$ -	\$ 293,613.91
11	TARGETED R&D		\$ 1,350,000.00	\$ 994,855.00	\$ -	\$ 355,145.00
	11.01	- SHARED	\$ 1,350,000.00	\$ 994,855.00	\$ -	\$ 355,145.00
12	TARGETED TRAINING		\$ 243,000.00	\$ 163,144.12	\$ -	\$ 79,855.88
	12.01	- SHARED	\$ 243,000.00	\$ 163,144.12	\$ -	\$ 79,855.88
		<b>Total Supplemental Expenses</b>	\$ 12,336,995.25	\$ 8,744,633.12	\$ -	\$ 3,592,362.13
			€ 750,752.69	€ 122,499.09	€ -	€ 628,253.60



# GBM Strategic Planning Discussions - One Year After

Presentation to 24<sup>nd</sup> Meeting of STCU  
Governing Board

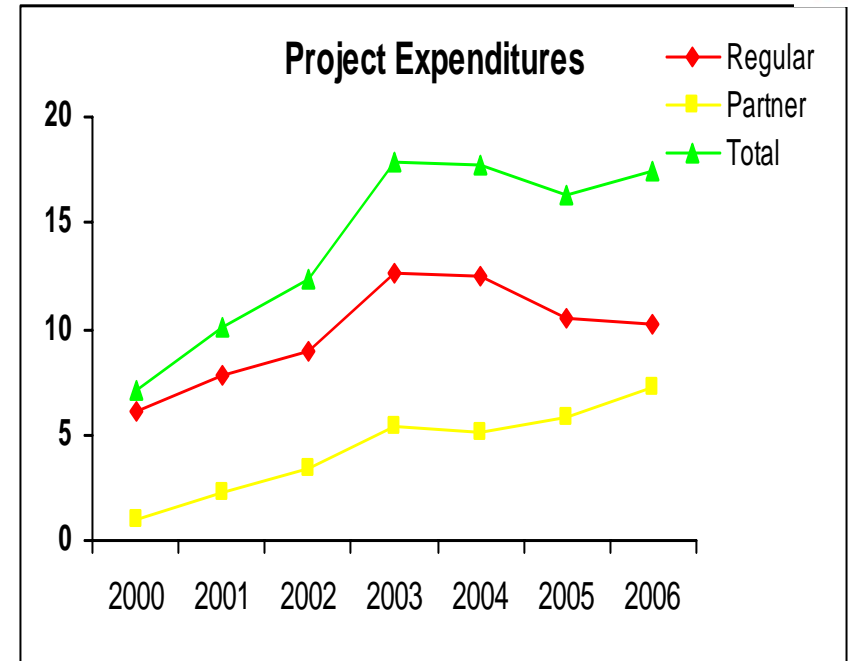
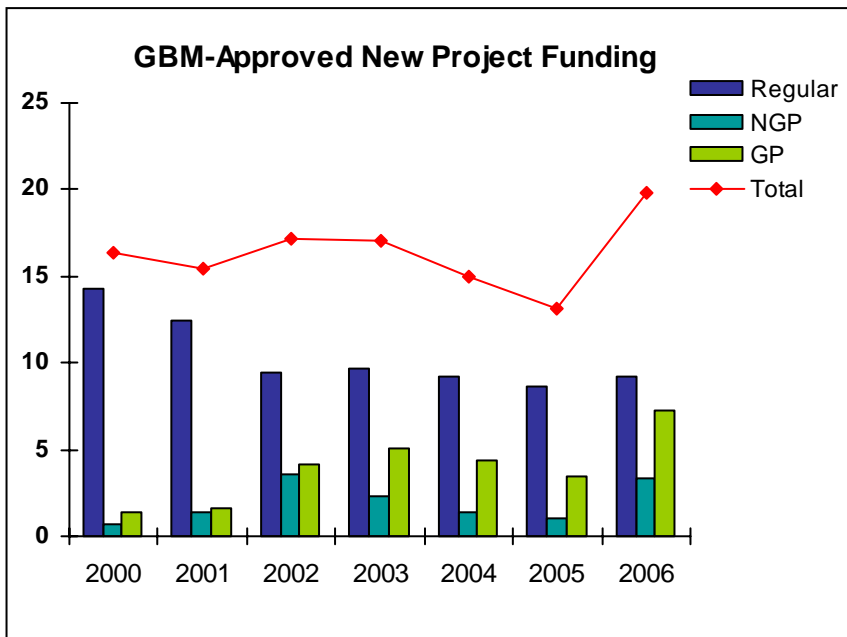




## **In 2006, GB Began STCU Strategic Planning Discussions Based on the Following Assumptions:**

- Total Project Activity (STCU's Past Administrative "Driver") Declining, Primarily Due to Falling Regular Project Financing since 2003...
  - *U.S. Announcement at Nov. 2006 GBM Suggested a More Precipitous Reduction in New Regular Project Funding Than Anticipated.*
- ...Means that STCU Administrative Operations Needs to Begin Changing Now – More Programs and Supplemental Budget Activities; Less Project-Volume Activity
  - *U.S. Announced Financing Shift from Regular Projects to Programmatic Approach on Institute Sustainability Supports This View*
- ...Means that STCU Administrative Operations Need to Change Over Next 4-5 Years, with Appropriate Adjustments to AOB Levels in the Near-Term and Governing Board Planning on Future STCU Strategic Directions

# What is Different Now Than In 2006....



- The Year 2006 Saw:
  - Abrupt Increase in New Project Funding, Led by Dramatic Increases in Partner Project Funding (Historic Highs in Total Project Funding)
  - Turn-Around in Project Expenditures Due to Project Increases & Improvement in Internal Productivity (Faster Project Agreement Processing)
  - Appears that 2007 is Starting the Same as 2006 in New Regular & Partner Project Financing => Project Activity May Stay Level for Next ~1.5-2 Years

**Conclusion: 2006 Project Assumptions Proved Wrong;  
Project Activity Will Continue Driving STCU Operations For Next 2 Years**

# What STCU Management Still Doesn't Know...



- ***#1: What Is the Near-Term (2-3 Years) Funding Profiles For the Partners Program?***
  - Increasing or Decreasing (What Is this Politically Acceptable to Governing Parties)?
  - Stay at Same Level (Not Likely, Given Historical Record)?
  - Cyclic (How Does STCU Management Cope with Such Variability)?
- ***#2: What is the Long-Term Outlook for the STCU Mandate?***
  - Continue Mandate As Is?
  - Exit Mandate?
  - Transition Mandate to Something Else (S&T Coop., Economic Development, etc.)?
- ***#3: What Steps Must Be Taken Now?***
  - Governing Board Guidance on Near-Term Program/Budget Planning for 2008-2009
  - Political Consensus on the Long-Term Mandate and Conceptual Organizational Frameworks?

# What STCU Management Proposes...



- **ASSUME: 2008 Operations Will Be Same as 2007 Levels**

- Rising Project Expenditures + 2006 “zero growth” AOB + 2007 AOB Cut => **Returned AOB to the “10%” Guideline for Admin Overhead**
- 2007 Project Activity Is Looking Like 2006 Level => **Status Quo for 2008 Project Expenditures**
- **Partner Projects in 2007 Could be a Wild Card (Again!)**

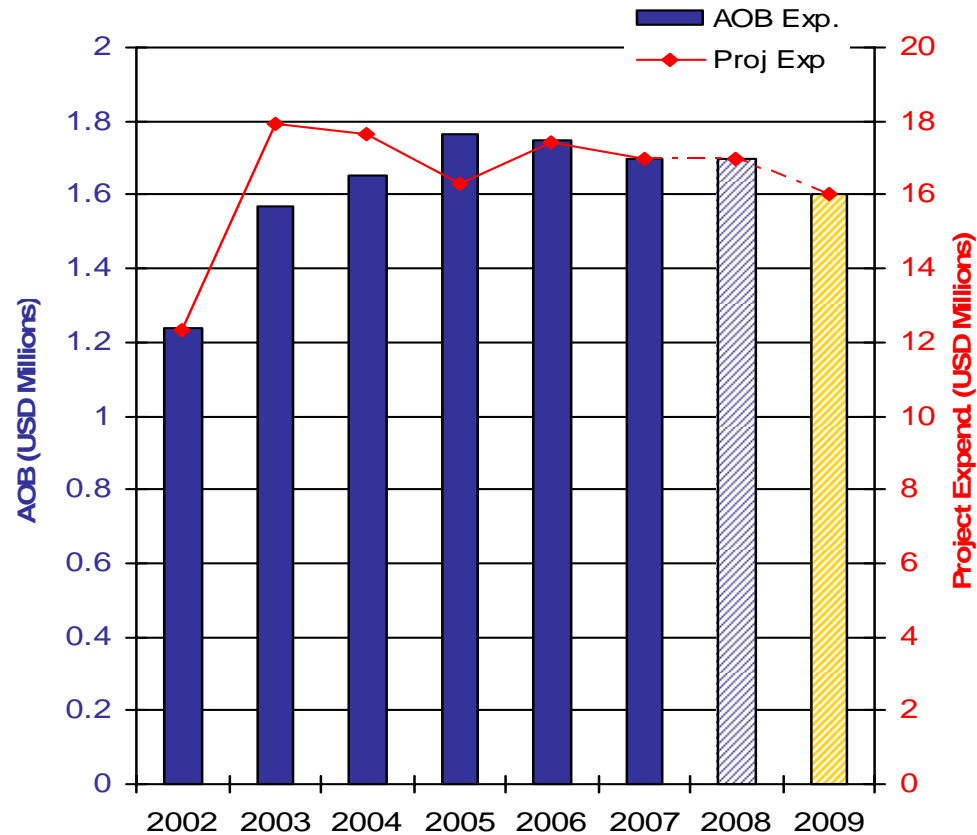
- **Propose A Zero-Growth 2008 AOB Request**

- Maintains STCU Administration of Projects While Attempting to Develop New Programs
- Allows One More Year for Longer-Term STCU Strategic Planning

- **ASSUME: Gradual Decline in Project Activity in 2009, with Gradual AOB Reduction**

- Need to be Prudent Due to Uncertainty in Future Partner Project Funding...and Regular Project Levels Could Change
- Continue to Analyze Activities and Staff Profile to Adjust to Admin “Drivers”

**AOB vs Proj. Expend.**



**Scale: AOB Bars and Project Expense Line Are Equal when AOB Expenses = 10% of Project Expenses**

**Governing Board Views on Partner Projects As the Near-Term Driving Factor Would Be Welcome**



## STCU Program Planning Document

### Program/Event Summary

Program/Event Name	<b>Institute Sustainability Program</b>
Lead DED and/or Staff Member	DED (US); Sustainability Promotion Department Staff
Supporting Departments	Performance/Public Outreach Dept., Science Excellence & Technology Advancement Department (primarily Senior Specialists)
GBM of Program Authorization	<i>The GBM where the budget for the program/event was approved</i>
Total Budget Approved for Program	Estimated US\$5.9 million over 3.5 years (TBC and then approved by GB)
AOB/SB Budget Line	SB - Business Training/Sustainability Development (Shared or U.S. Party Designated)

### Internal Review of Program/Event Plan

STCU MC Member	Date of Review
ED	
Supporting DEDs	
CFO	
CAO	
Primary DED	

**Program Description:** This program will combine several STCU activities into an integrated & holistic effort to improve the ability of former weapons institutes to achieve a higher level of successful self-reliance. The program arises from the 2007 U.S. Party request for STCU to assist the U.S. Department of State Science Centers Program (represented by the State Department's Officer of Cooperative Threat Reduction, Bureau of International Security and Nonproliferation) in directing its former weapon scientist redirection program financing toward specially designed, targeted actions on selected institutes of interest to the United States FWS redirection strategy. However, the program also will be designed such that other STCU Parties or Partners can make use of the programmatic framework for similar actions.

Because there is no full consensus among the STCU Governing Parties on the terms, definitions, or acceptance of an "institute-exclusive" STCU program or STCU participation in an institute "graduation" plan, the STCU Secretariat will attempt to design the program under these assumptions:

- Any programmatic focus on specific institutes or groups of former weapon scientists will be driven by individual Party financing decisions (the U.S. Party has approximately 33 STCU-related institutes on its 2007 institute priority list; other Parties could apply their own institute choices based on their own policy and financing decisions).
- The STCU Secretariat will work equally with institutes and governmental agencies of the Recipient Parties, focusing only on facilitating sustainability improvement. The Secretariat does not envision any direct participation in the process of deciding when (or if) an institute has achieved a sufficient threshold of self-sustainability to be "graduated". The Secretariat will strive to provide the Parties with enough data on the



institutes' Sustainability Elements so that individual Parties can make informed decisions on institute capabilities and subsequent funding decisions.

- The program will be constrained within existing & approved STCU programs and staff resource boundaries, so as to have little or no additional impact on the STCU Administrative Operating Budget or operational expenditures. The general program concept and framework will require STCU Governing Board review and approval; however the Parties shall satisfy their specific program goals through their individual funding decisions on specific program activities within the approved program framework. This will allow the necessary flexibility to accommodate both the programmatic needs of individual Governing Parties (e.g., the U.S. Party) and the substantial activity in Regular Projects, Partner Projects, and Supplemental Programs that remain a near-term focus of other STCU Parties and Partners.

### **Program Objectives/Goals:**

*Overall Program Objective: To improve the overall self-sustainability of former weapons institutes/technical units through the measured improvement in the targeted "sustainability elements" of those institutes/technical units.*

- Goal #1: Through engagement of groups of institutes and national-level stakeholders, agree on the applicability of the general Sustainability Elements to the institutes involved, and from these Elements, identify a set of tasks and objectives that STCU, the national agencies, and institutes can work towards in a cooperative effort. The tasks/objectives involving STCU could be, *inter alia*, long-term planning for institute development, institute capacity building (e.g., skills, expertise) in areas of both individual and mutual need, and leveraged activities with institute groups or national agencies in areas of mutual priority).
- Goal #2: Develop a modular program framework (managed by a single STCU authority) whereby targeted projects, training events, workshops, travel, IPR support, and sustainability plan implementation tasks are designed to address the Sustainability Element tasks/objectives at the institute level.
- Goal #3: Develop and implement any required cooperative arrangements with the institutes/TUs to allow STCU (alone or in partnership with other stakeholders) to implement the individual program plans with those institutes that agree to participate.
- Goal #4: Implement program plans and, through regular performance measurements of the targeted sustainability elements, increase the participating institute/TU measures in those Sustainability Elements.

**Program Strategy:** The STCU will seek to establish stakeholder support and cooperation of the Institute Sustainability Program by means of an informal "institute association"—a grouping of institutes with common R&D directions (e.g., biotechnology, nuclear science, etc)—using the U.S. priority institutes to identify the associations by R&D focus. National-level science agencies, ministries, and senior officials involved in those R&D directions will be invited to participate in the institute association activities. Through preparatory workshop discussions, the STCU, STCU consultants, and these "institute associations" will identify the general sustainability needs of the institutes in their association, along with objectives and actions required to pursue those needs (both generally for that specific R&D community and for individual institutes). The consensus set of institute sustainability goals, objectives, and tasks will be used to design a holistic, tailored set of activities and events, sponsored either by STCU alone or in partnership with national agencies and institutes. Through the cooperation (and partnership) of the institutes and national agencies, STCU will implement its modular Institute Sustainability Program with the institutes of each association so as to achieve the objectives identified through the "institute association"



workshops. Regular interaction with the “institute associations” will continue throughout the program to address implementation issues, adjustments, and evaluation of effectiveness.

To minimize the start-up time and impact on other STCU activities, the Institute Sustainability Program will be an integration of existing STCU programs:

- “Targeted Initiative-like” program to design and select collaborative projects that fulfill existing or newly created Sustainability Implementation Plans (SIPs) to reinforce progress in Sustainability Elements
- Travel Support Grants and Partnering missions designed to facilitate active, substantive interaction with foreign collaborators, potential Partners, and peer communities
- Targeted Training in skill areas and topics that create foundations for future growth and for developing responsible S&T practices, etc.

The Program will require Project-based financing, Supplemental Budget-based financing, and Administrative financing. Project- and Supplemental Budget financial support will come primarily from the STCU Financing Parties, either from a single Party (e.g., the U.S. Party) choosing which institutes and program elements it wants to support, or from multi-Party co-financing (including Recipient party financial support, *a la* Targeted R&D Initiatives).

Throughout the Program, milestones with specific outputs will be used to measure the time-progress toward the Goals, while specific measurements related to Sustainability Elements will be used to assess individual institute/TU progress toward the Program Objective.

**Program Resources:** Because not all the STCU Governing Parties have agreed to fully participate in this U.S. initiative, the additional administrative burden of this new program must be minimized and it will need STCU Governing Board review and approval. The STCU Secretariat will use, to the largest extent possible, existing GB-approved programs and current STCU staff to implement and manage this proposed program. One experienced Senior Specialist shall be assigned as the overall program manager, with other Senior Specialists assigned to coordinate and monitor the implementation at the institute level. Other STCU specialty staff (e.g., Events Coordinator, Travel Support Coordinator, Partnership Managers) will be called upon to as needed. Outside consultants will be contracted for providing specific, independent expertise and objective analysis on issues that cut across the whole program.



**Projected Program Plan:**

Progr. Task	Actions	Duration	Milestone(s)	STCU Resources	External Resources	Output
1	<p>Introduce Program to National Stakeholders &amp; Agree to Establish “Associations”</p> <ul style="list-style-type: none"> <li>• Meet with Leaders and Establish National-Level Champions</li> <li>• Work with “champions” to organize “associations” and invite institutes to participate</li> <li>• Establish a workshop schedule and goals for each “association”</li> </ul>	2 months	<p>Final Agreement on all necessary associations and membership.</p> <p>Approved schedule of events for each association regarding start-up of institute sustain. Program.</p>	<p>ED (3 meetings) 2 DEDs (5 meetings) 5 Staff (5 meetings)</p>	None	Written documents on approval of association concept and agreement of potential members to participate.
2	Hold Association “Workshops” to Define Institute Sustainability Needs, Objectives, Tasks, and Level of Cooperation/Support	3-4 months		1 DED (4 meetings) 4 Staff (or 1 per association WG meeting)	2-3 Consultants	Written Record of meetings with List of Objectives and Tasks for Program
3	Design Institute-Specific Modules within the Institute Sustainability Program framework	2 months	Program Plan w/modules for general institute participation and tailored participation for specific institutes	1 DED 5 Staff	2-3 Consultants	Written Program Plan with detailed schedule of module activities and budgets, for presentation to GB and Associations
4	Agree with Institutes and/or “Leveraging” Stakeholders on Implementation of	2 months	Presentation of Program Plan to Association	ED (1 meeting per association) 1 DED (2	None	Record of Discussions and/or signed letters of





	Program (incl. schedule, participants, etc.)		WGs, and statements of cooperation with participation institutes.	meetings per institute in each association) 4 Staff (1 per association meeting)		cooperation between institute directors and STCU
5	<p>Program Implementation, focusing on, <i>inter alia</i>,</p> <ul style="list-style-type: none"> <li>• Collaborative Projects that follow a Sustainability Implementation Plan</li> <li>• Travel Support to Facilitate Collaborator Exchanges and International S&amp;T Networking</li> <li>• Training to Improve skills in Technology Transfer (e.g., CTCO program), industry standards and “good practices”, export control practices, and intellectual property protection/exploitation</li> <li>• Partner Promotion, matchmaking, and presentation opportunities</li> </ul>	24-30 months	Completion of modules according to program plan	1 DED 4 Staff (depending on # of associations and institutes involved)	None	Progress Reports for AC/GB meetings and for Progress Review Meetings (Task 6)
6	Progress Review Meetings with Associations	Every 6 months during Task 6	Presentation of module progress and results, with feedback	1 DED 4 Staff (depending on # of associations)	2-3 Consultants, but participation is as needed	Record of Discussions, incl. recommendations for adjustments



			and discussion from meeting members	and institutes involved)		or changes to program
7	Completion of Program and Decisions about Next Steps w/Associations	2 months	Presentation of final outcomes, with feedback and discussion on the impact of the program and any unmet needs.	ED (3 meetings) 2 DEDs (5 meetings) 4 Staff	2-3 Consultants for final meeting and any final contract deliverables	Record of Discussions with recommendations for future steps or actions, if any
TOTAL		Appox. 42 Months		1120 total person-days (120 executive person-days; 1000 staff person-days)	400 person-days	



**Projected Program Budget:**

STCU Planned Budget (Lifetime of Program)

Executive Staff – Days: 3 officials, for approx. total of 115 work-days

Non-Executive Staff – Days: 4-5 staff, for approx. total of 1000 person-days

Staff Travel: For 5 staff, 6 trips within CIS (US\$1000) + 4 international trips (US\$2000) = US\$70,000 (SB expense)

Other Administrative Costs: ~10% of total non-executive Staff expenses = US\$10,000 (SB expense)

**Total STCU Budget = approx. US\$80,000 in supplemental activities**

Recipient Planned Budget (for targeted Institutes/TUs)

Project Expenses: est. 15 targeted Projects @ US\$300,000 each = US\$4,500,000 (Project expense)

Travel: 20 Recipients, 6 trips within CIS (US\$1000) + 4 International trips (US\$2000) = US\$280,000 (SB expense)

External Conference Expenses: Conference fees (US\$1000) for 4 Conferences (20 Recipients) = US\$80,000 (SB expense)

**Total Recipient Budget = approx. US\$4.5 M in projects and US\$360,000 in supplemental activities**

External Contracted Budget:

Consultants: Two Consultant Services Contracts (Commercial evaluations; Strategic Business Planning) – 24 work-months over life of program (approx. US\$250,000 each) = US\$500,000 total (SB expense)

Training Providers: 3-4 training companies (Approx. US\$35,000 each) = US\$150,000 total (SB expense)

Conference/Workshop: 10 STCU-hosted conferences/workshops over life of program @US\$30,000 each = US\$300,000 (SB expense)

**Total External Contracts Budget: US\$950,000 in supplemental activities**

**TOTAL ESTIMATED PROGRAM BUDGET = US\$5,890,000 over 42 months: US\$4,500,000 in projects + US\$1,390,000 in SB activities**



**Performance Measures:**

Proliferation Risk Element	Risk Reduction Element	Sustainability Element Connected to Risk	Performance Metric Connecting Sustainability Element to Program
Military R&D Basis	<ul style="list-style-type: none"> <li>• Convert to Civilian R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>• Projects Applying R&amp;D to National, Regional, Global Programs or Development Priorities</li> <li>• Commercialization of R&amp;D Results</li> <li>• Beneficial Tech. Transfer Capability</li> </ul>	<ul style="list-style-type: none"> <li>• Estimate of Budget from State Budget Funding, Non-State Budget Funding, &amp; Foreign Grants (% or general confirmation of budget diversity)</li> <li>• Existence of R&amp;D Projects/Programs Not Connected to Military R&amp;D</li> <li>• Existence of, and activity of, “technology transfer” or external relations promotion efforts (e.g., a tech transfer office, a designated institute official responsible for external or international promotion of the institute, etc.)</li> <li>• Number of STCU Regular, Gov, and Non-Gov. Partner Projects</li> </ul>
Isolated	<ul style="list-style-type: none"> <li>• Transparency &amp; /Integration</li> <li>• Credible Reputation Within International S&amp;T Community</li> </ul>	<ul style="list-style-type: none"> <li>• Active Connections to External Peer Groups</li> <li>• Strong, Professional, Collaborative Relationships with Foreign Experts</li> <li>• Commercial Strategic Partnerships</li> <li>• Large Mix of Active R&amp;D Projects</li> </ul>	<ul style="list-style-type: none"> <li>• Number &amp; Frequency of Collaborator Meetings/Exchanges</li> <li>• Number of STCU Regular, Gov, and Non-Gov. Partner Projects &amp; Number of non-STCU Donor Projects</li> <li>• Number of International Conferences Attended/Presented</li> </ul>



		(Science Center Regular, Partner, as well as other National/International Programs)	<ul style="list-style-type: none"> <li>• Number of Articles Published in Domestic Journals; in Foreign/International Journals</li> <li>• Existence of, and activity of, “technology transfer” or external relations promotion efforts (e.g., a tech transfer office, a designated institute official responsible for external or international promotion of the institute, etc.)</li> <li>• Scope of Interactions with Foreign Peers &amp; Collaborators</li> <li>• Number &amp; Frequency of Visiting Delegations to the Institute Grounds (including assessment of administrative procedures for visitors to enter the grounds)</li> </ul>
Weak Internal/External Barriers	<ul style="list-style-type: none"> <li>• Improved Export Control Implementation</li> <li>• Improved Awareness Training (science ethics, science standards, laboratory safety &amp; security practices)</li> </ul>	<ul style="list-style-type: none"> <li>• Demonstrated Unit-level System for Applying National Export Control Laws</li> <li>• Unit-Level Awareness of International Standards on Professional Interactions with Foreign Entities (including R&amp;D standards, science ethics, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Level of Export Control Policy Implementation by Unit</li> <li>• Number of STCU Targeted Training in International Standards, Science Ethics Issues, National and International Export Control Norms, etc.</li> </ul>



<p>Weak/Unsteady Support</p>	<ul style="list-style-type: none"> <li>• Stable, Diverse Support Sources</li> </ul>	<ul style="list-style-type: none"> <li>• Strong, individual R&amp;D-related income from State (with strong national-level champions, i.e., ministries) and non-State Sources (domestic private sector, foreign investment, foreign grants)</li> <li>• Competitive R&amp;D Capacity &amp; Modern Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Estimate of Budget from State Budget Funding, Non-State Budget Funding, &amp; Foreign Grants (% or general confirmation of budget diversity)</li> <li>• Number of International Conferences Attended/Presented</li> <li>• Existence of, and activity of, “technology transfer” or external relations promotion efforts (e.g., a tech transfer office, a designated institute official responsible for external or international promotion of the institute, etc.)</li> <li>• Number of Foreign/International Patents</li> <li>• Number of Commercial Licenses from Patents</li> <li>• Number of Non-Gov. Partner Projects</li> </ul>
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<p>Weak Nonproliferation “Culture” (aka, the “A. Q. Khan Factor”—Khan was quite self-sustaining in a material sense, but was still motivated to proliferate)</p>	<ul style="list-style-type: none"> <li>• Incentives/Penalties Mix</li> <li>• Training to improve institutional sense of science ethics, international standards, Training in Science Ethics</li> <li>• Regular Interaction w/International S&amp;T Community</li> </ul>	<ul style="list-style-type: none"> <li>• Development of Good x Practice Policies, Unit-wide Staff Policies (consistent with national labor laws, etc.)</li> <li>• Integrated Mix of Active Collaborative Projects (Science Center Regular, Partner, as well as other national/international R&amp;D programs)</li> <li>• Detailed, Realistic Strategic Planning, including actual implementation of such Plans (e.g., business planning ,long-term program planning &amp; budgeting, project planning)</li> <li>• Pro-active Policies to Increase Number &amp; Frequency of Contacts with Foreign Peers and Other External Entities.</li> </ul>	<ul style="list-style-type: none"> <li>• Number of Participants in Targeted Training Courses (Targeted toward Export Control, Industry Standards, Interaction Skills with Foreign Business Representatives, International Program Management/Financial Controls, etc)</li> <li>• Number of International Conferences Attended/Presented</li> <li>• Number of Meetings with Foreign Collaborators/Partners</li> </ul>
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# Targeted Initiatives 2007



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- Nov. 2006, \$1.5m approved by GB
- Priority for 2007
  - , Nat. Acad. Science Ukraine
  - Georgian Nat. Science Foundation
  - Azeri Acad. Science
  - Moldovan Acad. Science
  - Ukrainian Ministry of Environmental Protection





# NASU (Nov. 06 – May 07) Cycle #3

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- Budget up to \$1.2m, projects capped at \$100k
- 75 SF received by NASU in response to call for proposals
- 27 technical units asked to submit FF
- FFs posted on STCU website 5<sup>th</sup> March 2007
- Funding Parties complete reviews, 14<sup>th</sup> May '07
- Funding Parties convene 30<sup>th</sup> May '07
- Host Government Concurrence, positive developments
- -ve aspect / One Project / Two Contracts



# Georgian Nat. Science Foundation

## (Nov. 06 – May '07) Cycle #1

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- Budget up to \$300k, projects capped at \$50k
- 35 initial submissions to GNSF of which 18 sent to STCU
- FFs posted on STCU website 1<sup>st</sup> March 2007
- Reviews completed 14<sup>th</sup> May '07
- Funding Parties convene, 30<sup>th</sup> May '07
- GNSF to deposit its 50% project funding with STCU
- **Impact – one project / one contract**



# Azeri Academy of Sciences (AAS) (May '07 – Nov '07) Cycle #1

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- Dec. '06, STCU and AAS initiate discussions
- Jan. '07 Meeting with AAS (Baku) to develop provisions to Statement of Intent to Cooperate / Technical areas identified
- Feb' 06 AAS submit documents to Cabinet of Ministers
- April '07 Cabinet of Ministers grant approval and commit \$150k for first cycle. Funds will be transferred to STCU
- May '07 Call for Proposals issued – 6 month cycle
- One project / one contract



# Moldovan Academy of Science (MAS)

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- Dec. '06 STCU & MAS initiate dialogue
- Feb. '07 STCU meet with MAS to develop provisions of Statement to Intent to Cooperate (SIC) / Technical areas identified
- Mar. '07 MAS submit written request to STCU requesting changes to SIC.
- STCU consults with Funding Parties and responds to MAS (April '07) that the requested changes are unacceptable
- Awaiting response from MAS



# Ministry of Environmental Protection of Ukraine

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- April 2006, Draft Statement of Intent to Cooperate transmitted to Ministry
- Dec. '06, Ministry notify STCU of its intent to proceed with verbal pledge of \$250k for 2007 and request formal response from STCU
- February '07 written correspondence transmitted to Ministry, outlining the need for ratification of the “Statement of Intent to Cooperate” by May 2007 if the initiative is to be launched in calendar year 2007
- Awaiting response from Ministry



# Targeted Initiatives (TI) – the next generation

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- Current scientific areas as defined by NASU & GNSF too broad to be effective (e.g. biotechnology, IT)
- Link TI to S&T priorities within all Funding Parties
- Positive impact on sustainability (i.e research linked to market needs)
  - Link TI to European, Expert Contact Groups
  - Link TI to Canadian S&T priorities
  - Link TI to US efforts on Institute sustainability



# Targeted Initiatives – the next Generation

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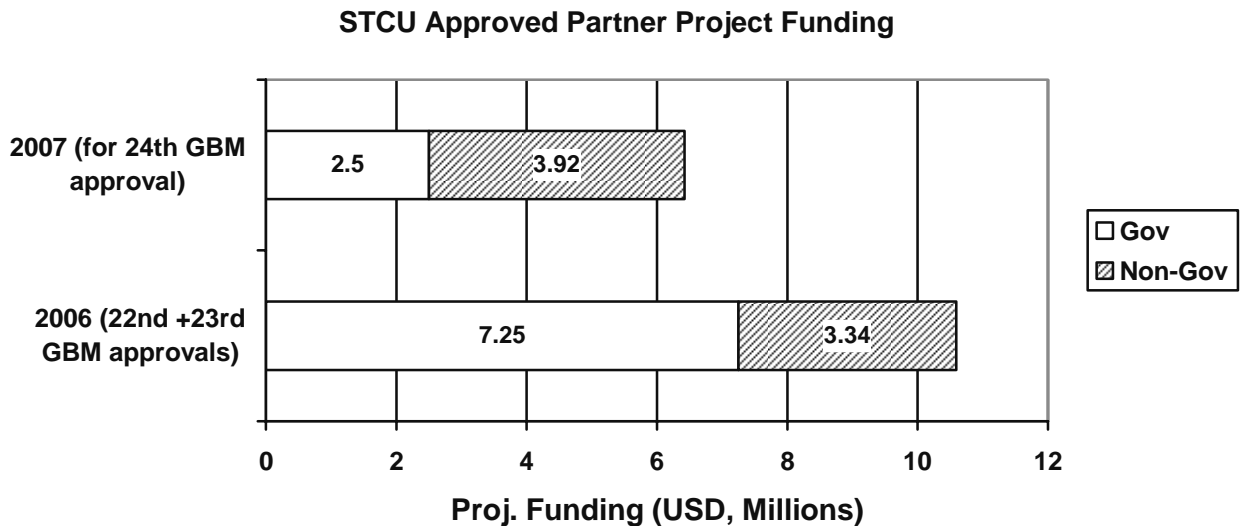
- Explore possibilities for bilateral Agreements between TI Partners and Western Funding organizations (e.g European Space Agency, DTRA) in the context of TI
- Identify, nurture and exploit commercial potential resulting from funded projects (e.g. follow-on project / prototype development, etc)
- Use feedback from Funding Parties to develop grant writing workshops



**Update on Sustainability and Partners Program Activities**

**Update on Partners Program Activity**

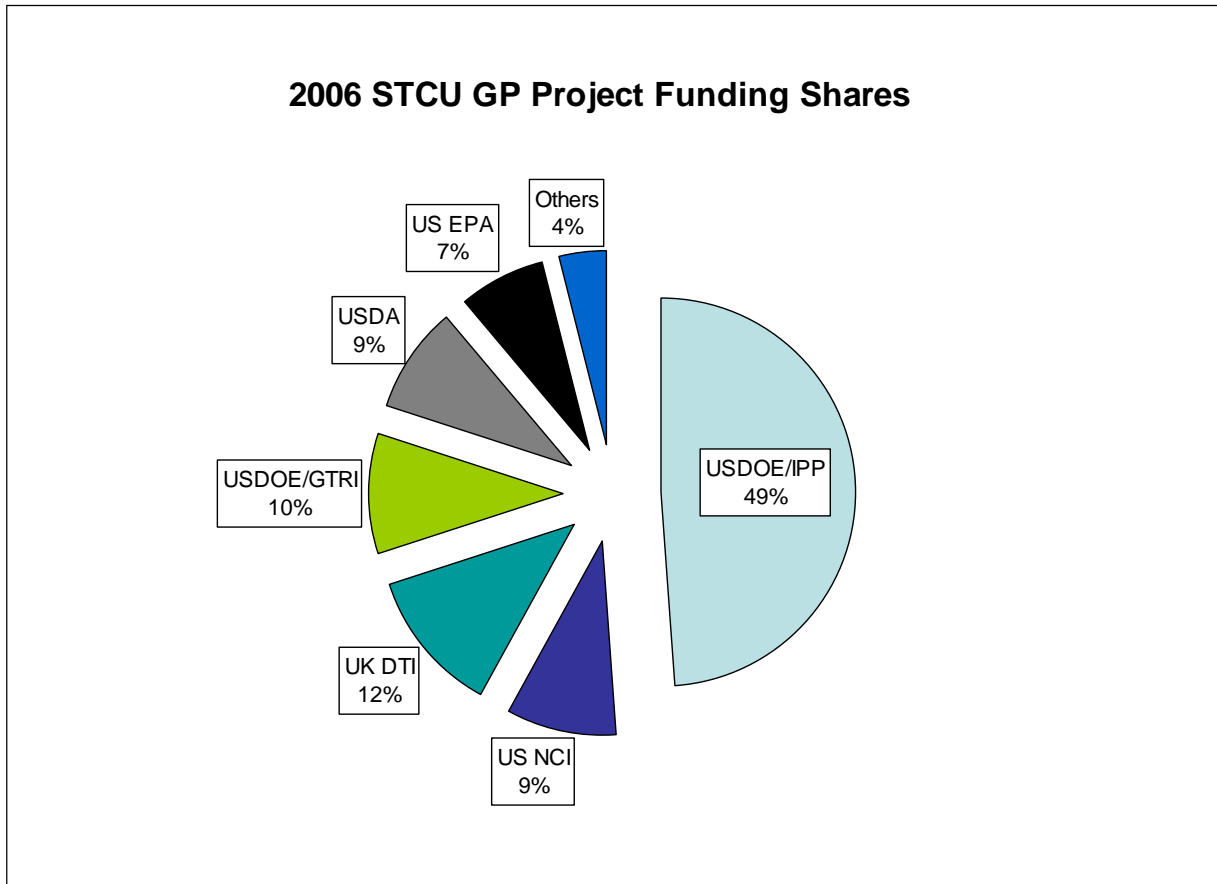
The STCU Partner activity in the first part of 2007 continues at the strong pace that was seen in 2006, when STCU saw all-time highs in approved Partner Project funding. If the current 2007 trends continue, STCU could see another record-setting year for approved Partner Project funding.



Of note, once approved at this 24<sup>th</sup> GBM, Non-Government Partner (NGP) Project funding will have already exceeded the amount of NGP project funding approved for all of 2006. For new Government Partner (GP) Project funding, the total for 24<sup>th</sup> GBM approval is about 34% of the all-time STCU high of US\$ 7.25 million approved in 2006. However, currently there are many more GP Projects in the proposal stage than NGP projects; therefore, the Government Partners likely will be the primary Partner activity once again in 2007.

One feature of the current STCU Partner activity is the dominance of a single Government Partner. In the Governmental Partner activity, the U.S. Department of Energy/Initiatives for Proliferation Prevention Program (USDOE/IPP) is the overwhelming leader in GP project funding: US DOE/IPP made up 49% of all the approved GP project funding in 2006, with the next two largest GP participants (UK DTI and US DOE/GTRI) having significantly smaller shares of project funding (10-12% each). Also, U.S. Government Partners made up 88% of all 2006 GP Project Funding. Taking into account that USDOE/IPP currently has six (6) projects in the Agreement Preparation stage (totaling over US\$ 2.18 million), USDOE/IPP (and US. Government Partners in general) likely will continue to dominate the Governmental Partner activity in foreseeable future.





Another feature is the introduction of new Governmental Partners connected with new avenues of global security assistance.

- The U.S. Department of Energy/Global Threat Reduction Office (NNSA NN-21), which is leading U.S. government a global effort to return radioactive material to its original supplier, is financing a US\$ 950,000 multi-year Partner Project in 2006 (and extended in 2007) with the Kharkiv Institute of Physics and Technology to develop laboratory equipment designs using lower enrichments of uranium. DOE/GTRI hopes this STCU project results will encourage KIPT to move away from using highly enriched uranium (HEU) and permit the return of the KIPT supply of HEU to the Russian Federation.
- The UK DTI Closed Nuclear Cities Program (originally a Russian-focused program responding to G8 nonproliferation goals) has financed 10 Partner Projects (totaling almost US\$ 1.3 million), including 5 Partner Projects begun in 2006 and 3 more Projects so far in 2007. UK DTI has plans for additional activities with Ukrainian nuclear-related institutes through STCU.
- A U.S.- based medical research consortium, using U.S. DOE financing under the Chorobyl Research and Service Project, started a US\$ 990,000 Partner Project, which will perform medical studies on workers involved in the replacing the deteriorating concrete shelter around the damaged Chorobyl nuclear power reactor. This is intended to be an annually renewable Partner activity with additional Partner Projects anticipated.



- A U.S. software group is working with STCU to solicit research projects for the Technical Support Working Group (TSWG) of the U.S. Government's Program for Combating Terrorism.
- The U.S. Department of Defense/Defense Threat Reduction Agency (DTRA) is preparing to finance targeted STCU Partner Projects (estimated to be as much as US\$ 1.5 Million over the next two years, and possibly extending to 2014) in support of DoD force protection/threat reduction cooperation against biological threats in Ukraine, and possible in Moldova and Azerbaijan.

Yet another feature of the STCU Partner Program is the variability of the Non-Governmental Partner funding. Non-Governmental Partner activity features a cast of entities that vary in the size and timing of their project commitments. Each year, it appears that one or a few Non-Governmental Partners will finance single, large projects, but each year sees a different NGP with a large Partner Project. This contributes to the variability one sees in new NGP Project funding each year since 2000—varying from US\$ 730,000 in 2000 to an all-time high of US\$ 3.56 million in 2002, back down to US\$ 1.0 million in 2005 and then back up to US\$ 3.34 million approved in 2006.

Because of these factors—the increasing share of Partner Projects versus Regular Projects; the singularity of Governmental Partner funding sources; the variability of Non-Governmental Partner funding sources — the Partners Program is becoming a driving factor in STCU activity and a complex planning issue for STCU management. To improve visibility into the Partner Project activity, STCU has implemented an on-line Partner Project processing system that is similar to the system created for managing Regular Project processing. Also, STCU management has tasked its Partnership Promotion staff to track the stages of Partner Project proposals and Project Agreement preparation, so that a “pipeline” of future Partner Projects is created that will aid STCU management in predicting future project workload and administrative needs.

For example, currently there are eleven (11) Governmental Partner Projects in the “pipeline” that have reached the stage of Project Agreement Preparation, totaling over US\$ 2.73 million; four (4) Non-Governmental Partner Projects have reached this same stage, totaling about US\$ 165,000. Assuming that all 15 Partner Projects are signed by the Executive Director prior to the Fall 2007 GBM, approximately US\$ 2.9 million in funding will be added to the US\$ 6.42 million being presented for approval at this 24<sup>th</sup> GBM, making a potential 2007 total of US\$ 9.32 million in approved Partner Project Funding (compared to the 2006 total of US\$ 10.59 million).

### Patent Support/IPR Activity

In 2007, 3 patent applications were approved for Patent Support Grants funding, amounting to US\$ 3,250. This brings the total number of grants allocated by the STCU in support of Patent Applications to **239**<sup>1</sup> (including **224** grants for Patent Applications in Ukraine, **3** grants for Patents Applications in Uzbekistan and **12** grants for Patent Applications in the STCU Donor Countries).

The new STCU Patenting Committee held 2 meetings during the period, considering the 3 patent applications noted here.

The new procedures for promoting inventions of CIS scientists were developed. This procedure was first presented to scientists in Kyiv, Dnipropetrovsk and Kharkov during a series of round-table discussions with scientists (approximately 40 in each group).

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<sup>1</sup> 236 till 23-d Board



In other related activities, Dr. S. F. Petrenko (Lilieya Small Business Enterprise) signed Intention Agreement with a U.K. investment company to create a start-up company based on Dr. Petrenko's inventions. This will become the first investor-financed start-up company based on research that has its roots in past STCU Regular Projects. In support of this future investor interest in Dr. Petrenko's work, STCU proposed to the Parties a draft standard waiver letter whereby Non-Financing Parties would agree to waive their claim to the IP developed under Dr. Petrenko's STCU Regular Projects. Such IPR waiver procedures are critical to the commercialization of STCU project results and the development of self-sustainability among STCU's participating former weapon scientists

### **Update on Chief Technology Commercialization Officer (CTCO) Initiative**

The Chief Technology Commercialization Officer (CTCO) Program was started in late 2006 to train individuals to become technology transfer experts responsible for international licensing and business development for their scientific institutes. With the aid of an external consultant analysis (performed by the University of Missouri – Columbia/International Technology Commercialization Institute, USA), a set of Ukrainian institutes was invited by STCU to participate in this inaugural sustainability development program. The candidate institutes were determined by STCU to have strong, viable technology or service offerings, but limited success in attracting commercial partners. The CTCO effort is designed to be a cooperative undertaking, with STCU providing the training, consultancy, and hands-on experience to the CTCO candidates in return for commitments from the institute's senior leadership to provide material and organizational support to their new CTCO.

With the support from the National Academy of Sciences of Ukraine (NASU), the CTCO program began with these invited NASU institutes:

1. G.V. Kurdyumov Institute for Metal Physics,
2. I.M. Frantsevich Institute of Problems of Materials Science,
3. O.Ya. Usikov Institute of Radiophysics and Electronics,
4. Institute of Organic Chemistry,
5. A.M. Pidhorny Institute of Mechanical Engineering Problems,
6. Institute of Molecular Biology and Genetics,
7. V.E. Lashkaryov Institute of Semiconductor Physics,
8. Institute of Physics,
9. Space Research Institute under NAS and National Space Agency,
10. Lviv Research Institute of Epidemiology and Hygiene.

### **CTCO Training Course**

The CTCO program started with a training course titled "Technological Management: Commercialization of R&D Results in Scientific Research Institutes". The course was conducted by Kharkiv Technologies Center and Kyiv Institute of Intellectual Property. This training course consisted of 3 modules over a period of 7 weeks. Each module was delivered in a group environment during one week's period, followed by 2 weeks of independent study and home assignments. At the conclusion of this CTCO training course on 13 April 2007, CTCO candidates were awarded certificates at a presentation ceremony led by, Academician B. Paton (President of NASU) and Andrew Hood (Executive Director, STCU).



### **CTCO Institute Summary Report**

As an adjunct to their initial CTCO assessment study, the ITCI consultants also prepared a summary report on all the institutes that were analyzed. These institute profiles give a comprehensive description and analysis and of each institute's commercial R&D strength, potential, and areas where improvement could increase the opportunities for the institute to increase their technology transfer benefits. STCU hopes that these institute profiles will be of value to STCU's Partners Program promotion and commercial matchmaking activities.

### **CTCO in Georgia and Azerbaijan**

With the initial success of the Ukrainian-focused CTCO pilot program, STCU extended the work of the ITCI consultants and initiated a CTCO assessment study for institutes in Georgia and Azerbaijan. STCU and the ITCI consultants have conducted field work for the study by visiting ten institutes in Tbilisi and six in Baku in April. The ITCI assessment for this Georgia and Azeri institutes is expected in the coming month, and STCU intends to follow the same path as with the Ukrainian in initiating a CTCO program for invited Georgian and Azeri institutes. STCU has received positive support from Georgia Ministry of Education and Science and National Academy of Science of Azerbaijan in this effort.



## Preliminary Update on Hannover Messe Roadshow

STCU conducted its most ambitious Partner Promotion Road Show so far, to the 2007 Hannover Messe technology exhibition in Hannover, Germany (16-20 April 2007). STCU had its own booth and also sponsored an Innovative Technology Symposium where the STCU-sponsored scientists made technical and business presentations.

The goals of STCU's participation were two-fold:

- Technology transfer/commercialization training for the STCU-sponsored scientists, and
- Commercial matchmaking with western companies.

STCU led a delegation of 46 participants: 36 scientists and 10 STCU staff. The scientists that went can be divided into 3 categories:

- a) Those selected and sponsored by STCU; the selected scientists had won competitive awards from the Ukrainian Ministry of Education and Science. This group of 8 scientists were co-exhibitors at the STCU booth;
- b) Those that were selected by the Deputy Executive Director (EU) and sponsored using funds from the EU Party-designated Supplemental Budget lines;
- c) Those who paid their own way using their travel budgets in Regular STCU Projects.

This ambitious event required many months of planning and preparation, in the hope that such extensive preparations would yield a more effective Partner recruitment and sustainability promotion than past STCU roadshows. STCU sponsored a 2-day training session for all of the participating scientists participating to prepare them for interacting with western technology company representatives, and to effectively promote the scientists' technology. Scientists also were asked to search the Hannover databases and obtain commitments from companies to meet during the exhibition.

STCU management continues to evaluate the cost-effectiveness of this labor-intensive outreach effort, but some preliminary results can be highlighted now:

- The scientists reported a total of 263 business contacts, along with approximately 100 business cards received by STCU at the booth.
- A 60,000 EUR STCU Partnership Agreement was reached between Uhde GmbH and E.O. Paton Welding Institute to deliver of 25,000 bimetal strips for evaluation, with further cooperation foreseen in annual contracts of approximately 1 million USD.
- Physico-Technological Institute of Metals and Alloys is discussing an STCU contract which will lead to manufacture of high durability bimetallic castings through an agency of Dutch Ministry of Foreign Affairs of the Netherlands.
- Dnipro-Moto company is discussing a contract for the creation of new labware with Duerr Technik, a German company.
- Institute of Metal Physics entered discussions with a U.S. company for high temperature superconducting materials.



- Lileya received a proposal to open a representative office of the company in Germany with the assistance of German company LILIA (a state enterprise of the Ministry of Economy of German).
- A Ukrainian wind-energy producer has been asked to meet with several companies in California in June.