

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historic cost convention and in accordance with applicable International Standards of Accounting (IAS) except for IAS 16 relating to fixed assets as explained below.

IAS 16 requires fixed assets with useful lives of beyond the current accounting period be capitalized and depreciated over their useful lives. The management of the Science and Technology Center in Ukraine (STCU) 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 fixed assets acquired for use by the Center are charged in full upon acquisition to the statement of revenues and expenditure in accordance with the account policy for fixed assets set out below.

The financial statements have been prepared in United States Dollars, as required by the STCU's Financial Regulations.

Going Concern

In accordance with the agreement establishing the STCU, the Government of Ukraine is responsible for providing office space, utilities and security for the STCU. This support presently takes the form of monetary contributions, with payments being made from the Ukrainian State Budget, rather than in kind contributions.

The most significant item of expenditure financed from the Ukrainian contribution was in respect of the lease of the STCU's premises. The lease agreement for the premises was between the landlord and the STCU. Until September 1998, the funding provided by the Government of Ukraine was adequate to meet the STCU's obligations.

After September 1998, funding for the lease was inadequate, and the STCU Funding Parties were obligated to step in and pay for the unpaid lease commitment of 1998 and 1999 on behalf of the Ukrainian Government.

At the 9th Governing Board Meeting in December 1999, the Ukrainian Government, represented by the Ministry of Foreign Affairs, reiterated its commitment to providing the STCU's office space, utilities and security. Included in this commitment was the promise to resolve the status of the current lease between the STCU and the landlord of the premises, and to negotiate a new lease if possible.

As at the date of the publishing of these financial statements, the status of the STCU premises is still unresolved. The rent from January 1, 2000 to May 31, 2000 (\$53,000) remains unpaid and the lease has not been renewed.

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This unresolved issue threatens the ability of the STCU to operate as a going concern. However, the Management of the STCU are of the opinion that this matter will be resolved in the near future and accordingly the financial statements have been prepared on a going concern basis.

Project activity

The STCU authorizes and funds scientific projects which are performed at institutions within Ukraine, Georgia, and Uzbekistan. Projects are financed by the Funding Parties either individually or jointly. All project agreements include a maximum amount of funding to be provided by the Funding Parties.

The project activity is accounted in the financial statements as follows:

Project recognition

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

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 individual project expenditure accounts. Projects are performed on a cost reimbursable basis, with ceiling funds specified in the project agreements.

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

At project completion, any funds received in excess of actual costs are credited back to the contributing party.

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

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and written off during the year. These are transferred from the Funding Parties' designated capital accounts.

Administrative and Supplemental revenues and expenditure

Administrative Budget

Administrative revenues recognized in the Statement of Revenues and Expenditure during the year equate to the amounts approved by the Funding Parties for the administrative expenses operating budget for the year. The level of these funds was set and agreed at meetings of the Board of Governors during the year. These amounts are transferred from the funding parties designated capital accounts for administrative expenses.

Administrative expenses are charged to the Statement of Revenues and Expenditure when incurred and are matched against the administrative revenue for the year.

Surplus administrative revenues arising during the year in respect of the operating budget are re-allocated to the funding parties un-designated capital contributions accounts in the same ratio as the administrative revenues contributions.

Supplemental Budget

Supplemental budgets were approved by the Funding Parties to provide funding for activities that are outside the scope of the Annual Operating Budget and not directly related to the implementation of projects. Upon agreement of the Supplemental Budgets at the last Governing Board Meeting the total amount of the budgets approved was 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.

Fixed assets

Fixed assets are acquired for the Center's own use or for the projects and comprises the following:

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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 on equipment under each project is written off to the Statement of Revenues and Expenditure together with other project expenditure incurred during the year.

Foreign currency transactions

All foreign currency transactions are converted into United States Dollars 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 administrative operating budget in the period incurred. Activities in Uzbekistan and Georgia are transacted in US dollars and, therefore do not result in any gains or losses from currency exchanges.

Project agreements approved at each Governing Board by the European Union are written in U.S. Dollars. At the time of the Governing Board, an exchange rate for U.S. Dollars to Euros is fixed, and the funding table lists the number of U.S. Dollars and Euros approved for each European Union approved project. The European Union then provides funding in Euros, and the STCU immediately converts the Euros upon receipt into U.S. Dollars. The project agreements are then formally revised accordingly to match the amount of U.S. Dollars received.