

ACCOUNTING POLICIES

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**Accounting Convention**

The financial statements have been 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 in the policy for Fixed Assets.

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, at its own expense, a facility suitable for use by the Center, along with maintenance, utilities and security.

The most significant contribution to the STCU by the Government of Ukraine is in respect to providing a suitable facility. Prior to December 1999, this contribution took the form of monetary contributions, with rent payments made from the State Budget of Ukraine. At the 9<sup>th</sup> Governing Board Meeting in December 1999, the Government of Ukraine, represented by the Ministry of Foreign Affairs, reiterated its commitment to be responsible for providing a suitable facility, maintenance, utilities and security. Furthermore, at that time the Ministry of Foreign Affairs accredited the STCU as a diplomatic mission, thus changing the form of the contribution by the Government of Ukraine.

Because the ownership of the STCU's current facility (3 Laboratornyj Provulok, Kyiv, Ukraine, 01133) at the time of accreditation was unclear, the Ministry of Foreign Affairs stopped all rent payments until suitable ownership documents could be presented by the landlord. The remaining rent from January 1, 2000 to May 31, 2000 (\$53,000) was not paid, and a new lease between the Government of Ukraine and landlord was not negotiated. As per the diplomatic note #625/20-74 dated January 23, 2001, sent to all three Funding Party Ambassadors, the Ministry of Foreign Affairs stated that they had no objections to the STCU remaining in the current facility. Subsequent to these events, there were no further funds for rent expended by the Government of Ukraine, reflecting a change from a monetary to an in-kind facility contribution.

In late January 2002, the STCU experienced problems again with the facility, after the landlords apparently obtained an ownership document. Currently, the Government of Ukraine is working to resolve this issue with the landlords.

As at the date of the publishing of these financial statements, the status of the STCU facility is still unresolved.

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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 is 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 Account 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 financial statements.

**Project Expenditure**

Project costs consist of three main components: grants to scientists, equipment and overhead. The STCU, being a non-profit 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.

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.

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**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 funds 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 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 Revenues for the year.

Surplus Administrative Revenues arising during the year in respect of the Operating Budget are re-allocated to the Funding Parties Undesignated 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 Administrative 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.

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**Fixed Assets**

Fixed assets are acquired for the Center's own use or for the projects and comprises 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 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 and also the STCU funded projects are charged in full upon acquisition to the Statement of Revenues and Expenditure in accordance with the account policy for fixed assets set out above.

**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 Statement of Revenues and Expenditure under 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.

### **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 U.S. Dollars, all European Union funded projects have to be expressed in U.S. Dollars. The manner in which these commitments are expressed is set out below.

#### **Projects Signed Prior to the 10<sup>th</sup> Board of Governors Meeting**

Project agreements approved at all Governing Board Meetings prior to the 10<sup>th</sup> Board of Governors Meeting by the European Union were written in U.S. Dollars. At the time of these Governing Board Meetings, an exchange rate for U.S. Dollars to Euros was fixed, and the funding table listed the amount of U.S. Dollars and Euros approved for each European Union approved project. The European Union then provided funding at some later dates in Euros, and the STCU immediately converted the Euros upon receipt into U.S. Dollars. The project agreements were then formally amended accordingly to match the amount of U.S. Dollars received.

Due to exchange rate fluctuations between the Euro and U.S. Dollar, the project agreements for all projects approved by the 7<sup>th</sup> and 8<sup>th</sup> Governing Board Meetings were amended to reflect the amount of actual U.S. Dollars received. In all cases, the U.S. Dollar value of the project agreements were decreased. All the amendments were made during Fiscal Year 2000, and are reflected as part of the reduction in value of projects due to currency fluctuations as shown in Note 11 of the Financial Statements for the Year Ended 31 December 2000.

Projects approved by the 9<sup>th</sup> Governing Board received the full amount of U.S. Dollars from the European Union, and thus were not amended.

#### **Projects Signed at or Subsequent to the 10<sup>th</sup> Board of Governors Meeting**

Project agreements approved at all Governing Board Meetings including and subsequent to the 10<sup>th</sup> Board of Governors Meeting by the European Union are written in Euros if solely funded by the European Union, otherwise projects co-funded by the European Union are concluded in U.S. Dollars.

Implementation procedures for European Union projects approved at or subsequent to the 10<sup>th</sup> Board of Governors Meeting, concluded in U.S. Dollars, differ from the aforementioned procedures for projects financed by the European Union prior to the 10<sup>th</sup> STCU Board of Governors Meeting.

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 U.S. Dollars. 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 U.S. Dollars received, including the reserve if available.