

SCIENCE AND TECHNOLOGY
CENTER IN UKRAINE

Financial Statements for the
Year Ended 31 December 2002

Lubbock Fine
Chartered Accountants
Registered Auditors

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

TABLE OF CONTENTS

| | 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 21 |

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
INDEPENDENT AUDITORS' REPORT TO
THE BOARD OF GOVERNORS

We have audited the financial statements, set out on pages 3 to 21, of the Science and Technology Center in Ukraine as at 31 December 2002 at the request of the Board of Governors. The financial statements comprise the Statement of Revenues and Expenditure, the Balance Sheet, the Statement of Cash Flows and the Notes to the financial statements. These financial statements are the responsibility of the management of the Science and Technology Center in Ukraine. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

As more fully explained in the Accounting Policies, fixed assets used for both the Center and the projects funded by the Science and Technology Center in Ukraine, which have useful lives extending beyond the current year were expensed immediately on acquisition to the Statement of Revenues and Expenditure. The management of the Science and Technology Center in Ukraine believe that because of the unusual nature and circumstances of its activities this treatment properly matches the revenues specifically contributed by the funding parties with the related expenditure. International Accounting Standards require fixed assets 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 2002, and of the results of its operations and its cash flows for the year then ended and have been prepared in accordance with International Accounting Standards.



Lubbock Fine
London

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

Overview of the Science and Technology Center in Ukraine (STCU)

The Science and Technology Center in Ukraine (STCU) is an intergovernmental organization dedicated to nonproliferation of technologies and expertise related to weapons of mass destruction, including nuclear, biological and chemical weapons, and their delivery systems.

The United States, Canada, Sweden and Ukraine signed the agreement establishing the Science and Technology Center in Ukraine on October 25, 1993 (referred to as "the STCU agreement"). The European Communities acceded to the STCU agreement on November 26, 1998, and in so doing, replaced Sweden as a party to the STCU agreement.

The STCU helps develop, finance, and monitor science and technology projects that engage the former Soviet weapons community in Ukraine, Azerbaijan, Uzbekistan, and Georgia 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 59 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 Accounting Standards (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.

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 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.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

Project Expenditure

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

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

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

Project Revenues

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

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 during the year. The agreed budgeted amounts are transferred from the Designated Capital Accounts for Administrative Expenses of the United States, Canada, the European Union, and Ukraine.

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

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 were 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.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

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. These 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 are 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 the European Union in the same ratio as their Administrative Revenues contributions.

Fixed Assets

Fixed assets 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 fixed assets 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 fixed assets 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 fixed assets set out above.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

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 10th Board of Governors Meeting Conducted on June 1, 2000

Project agreements approved by the European Union at all Governing Board Meetings prior to the 10th Board of Governors Meeting were concluded 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 significant exchange rate fluctuations between the Euro and U.S. Dollar, the project agreements for all projects approved by the 7th and 8th 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 December 31, 2000.

Projects approved at the 9th 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 10th Board of Governors Meeting Conducted on June 1, 2000

Project agreements approved by the European Union at all Governing Board Meetings including and subsequent to the 10th Board of Governors Meeting are concluded in Euros if solely funded by the European Union. European Union projects jointly funded are concluded in U.S. Dollars.

Project agreement procedures for European Union projects approved at or subsequent to the 10th Board of Governors Meeting, concluded in U.S. Dollars, differ from the aforementioned

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

procedures for projects financed by the European Union prior to the 10th 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.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF REVENUES AND EXPENDITURE
FOR THE YEAR ENDED 31 DECEMBER 2002

| | Note | 2002 USD | 2001 USD As Restated |
|-----------------------------------|------|-------------------|----------------------------|
| REVENUES | | | |
| Project Revenue | | 12,317,194 | 10,100,633 |
| Administrative Revenue | | | |
| - Administrative Operating Budget | | 1,460,046 | 1,493,935 |
| - Supplemental Budget | | 1,036,751 | 783,456 |
| Partner Fees | | 191,826 | 138,919 |
| Interest Income | | 502,412 | 1,262,219 |
| | | <u>15,508,229</u> | <u>13,779,162</u> |
| EXPENDITURE | | | |
| Project Expenditure | 1 | 12,317,194 | 10,100,633 |
| Administrative Expenditure | 2 | | |
| - Administrative Operating Budget | | 1,365,193 | 1,150,415 |
| - Supplemental Budget | | 1,036,751 | 783,456 |
| Exceptional Gain – Bankers House | 3 | - | (139,851) |
| | | <u>14,719,138</u> | <u>11,894,653</u> |
| NET SURPLUS | 4 | <u>789,091</u> | <u>1,884,509</u> |

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

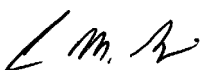
SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
BALANCE SHEET AT 31 DECEMBER 2002

| | Note | 2002 USD | 2001 USD |
|--------------------------------------|------|--------------------|--------------------|
| CURRENT ASSETS | | | |
| Receivables | | | |
| Amounts due from funding parties | 6 | 7,364,537 | 3,276,195 |
| Other receivables | 7 | 71,048 | 39,832 |
| Prepayments and accrued income | 8 | 46,470 | 59,343 |
| Cash at bank and in hand | | 37,098,141 | 35,209,972 |
| | | <u>44,580,196</u> | <u>38,585,342</u> |
| CURRENT LIABILITIES | | | |
| Amounts payable – projects | 9 | (1,219,155) | (1,576,239) |
| Amounts payable – non-project | | (182,234) | (184,745) |
| Other creditors | 10 | - | (181,432) |
| | | <u>(1,401,389)</u> | <u>(1,942,416)</u> |
| TOTAL ASSETS LESS LIABILITIES | | <u>43,178,807</u> | <u>36,642,926</u> |
| CAPITAL CONTRIBUTIONS | | | |
| Designated capital – projects | 11 | 20,039,222 | 15,345,360 |
| Designated capital – administration | 12 | 1,595,532 | 1,330,640 |
| Designated capital – supplemental | 13 | 4,088,441 | 3,443,276 |
| Designated capital – building fund | 14 | 94,853 | - |
| Undesignated capital | 15 | 17,360,759 | 16,523,650 |
| | | <u>43,178,807</u> | <u>36,642,926</u> |

Signed on behalf of
The Science and Technology Center in Ukraine *April 14,* 2003



Yves Carmel – Executive Director



Curtis Bjelajac – Chief Financial Officer

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
STATEMENT OF CASH FLOWS AT 31 DECEMBER 2002

| | Note | 2002 USD | 2001 USD |
|---------------------------------------------|------|---------------------|---------------------|
| Cash Flows from Operations | | | |
| Cash Inflows | | | |
| Cash Received from Funding Parties | 16 | 16,291,007 | 11,184,310 |
| Interest Income and Partner Fees Received | | 710,019 | 1,522,036 |
| Total Cash Inflows | | <u>17,001,026</u> | <u>12,706,346</u> |
| Cash Outflows | | | |
| Project Expenditure | | (12,674,278) | (9,557,567) |
| Administrative and Supplemental Expenditure | | (2,438,579) | (1,928,700) |
| Total Cash Outflows | | <u>(15,112,857)</u> | <u>(11,486,267)</u> |
| Net Cash Inflows From Operations | | 1,888,169 | 1,220,079 |
| Cash at 1 January | | 35,209,972 | 33,989,893 |
| Cash at 31 December | | <u>37,098,141</u> | <u>35,209,972</u> |

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

1. Project Expenditure

| | USD |
|---------------------------------------------------------------|-------------------|
| Amounts charged to the Statement of Revenues and Expenditure: | |
| 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 2002 | <u>51,097,017</u> |

Project expenditure comprises of grants to scientists, equipment costs, travel costs and overhead costs.

- (a) Under the terms of the individual project agreements signed, title to equipment costing less than USD 2,500 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.
- (b) The Record of Decisions approved by the 14th STCU Governing Board states "In the event that the availability of facility services of the STCU is interrupted, the Board of Governors considers that this constitutes a case of "force majeure" and hence instructs the Executive Director to suspend or terminate funding of regular Ukrainian (non-partner) projects and activities until the Government of Ukraine satisfactorily resolves this issue."

On October 10th, 2002, the electricity of the STCU headquarters (located at 3 Laboratornyj Provulok) was discontinued, and as a result, the Executive Director declared "force majeure" on October 14th, 2002. On this date, the contracts for 180 regular (non-partner) Ukrainian projects were suspended until the STCU premises issue was resolved in an appropriate manner. On January 20th, 2003, having satisfied themselves that the premises issue had been resolved, the STCU Board of Governors cancelled the "force majeure" suspension and restarted the affected projects. As a result of the aforementioned suspension, the project expenditure for 2002 was significantly lower than if the suspension had not occurred.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

2. Administrative Expenditure

| | 2002 USD | 2001 USD |
|-------------------------------------------|------------------|------------------|
| a) Administrative Operating Budget | | |
| Business Operations | 224,706 | 240,825 |
| Public Affairs | 38,086 | 29,024 |
| Personnel | 528,831 | 506,426 |
| Personnel Support and Development | 134,209 | 129,795 |
| Sustainability Group Operations | 15,864 | 9,928 |
| Legal, Auditing, and Banking | 201,851 | 170,832 |
| Fixed Assets | 28,608 | 27,897 |
| Headquarters and Branch Offices | 159,887 | 35,688 |
| Contingency | 33,151 | - |
| | <u>1,365,193</u> | <u>1,150,415</u> |

Included within 'Legal, auditing and banking' are exchange losses of \$1,278 (2001 - \$1,026).

'Personnel' costs comprises grants made to the grantees in the STCU headquarters and three branch offices located in Lviv, Kharkiv, and Dnipropetrovsk and two information offices located in Tashkent and Tbilisi.

| | 2002 USD | 2001 USD |
|-------------------------------------------------------|------------------|----------------|
| b) Supplemental Budget | | |
| Technical, Collaborator and Contractor Travel Support | 41,915 | 25,175 |
| Information Technology Support | 47,719 | 18,096 |
| Communication Support | 5,144 | - |
| Business Training/ Sustainability Group Support | 34,191 | 52,009 |
| Patent Support | 11,562 | 32,815 |
| Travel and Mobility Support | 201,338 | 86,741 |
| Expert Contact | - | 82 |
| Expert Review and Advisors | 7,845 | 12,810 |
| Seminars/ Workshops Support | 24,667 | - |
| Service Contracts | 662,370 | 555,728 |
| | <u>1,036,751</u> | <u>783,456</u> |

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

NOTES TO THE FINANCIAL STATEMENTS

3. Exceptional Gain – Bankers House

Upon the recommendation of the management of the STCU, the Board of Governors decided at its 9th Board Meeting to completely write off the debt of the STCU's former bank – Bankers House, which amounted to \$319,535. In the financial statements of December 31, 1999 this amount was presented as an Exceptional Loss.

Although the STCU recovered net of attorney's fees \$139,851 and \$81,557, in 2001 and 2000 respectively, no additional amounts were received in 2002 and it is uncertain as to whether any further funds will be recovered. Accordingly, no adjustments have been made in respect of the amounts previously written off, other than the amounts received above. In the financial statements of December 31, 2001 and December 31, 2000 the aforementioned funds recovered were presented as Exceptional Gains.

4. Net Surplus Revenues Over Expenditure

The net surplus of \$789,091 comprises the following;

| | 2002 USD | 2001 USD |
|----------------------------------------|----------------|------------------|
| Surplus Administrative Budget Revenues | 97,047 | 336,600 |
| Investment Income | 502,412 | 1,262,219 |
| Partner Fees | 191,826 | 138,919 |
| Bankers House Gain | - | 139,851 |
| Other Revenue/(Expense) | (2,194) | 6,920 |
| | <u>789,091</u> | <u>1,884,509</u> |

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

From January 1, 2002, the STCU changed the method by which it accounts for Partner Fee Income by introducing the accounting policy set out on page 6, to bring its treatment in line with that of Interest Income. In previous years the Partner Fee Income was allocated directly to the Undesignated Capital Contributions Accounts of the United States, Canada and the European Union in the same ratio as their Administrative Revenues contributions, and it did not appear in the Statement of Revenues and Expenditure. Comparative information for 2001 has been restated to conform to the new policy. The effect of this is to increase the Net Surplus from \$1,745,590 to \$1,884,509, as follows:

| | 2001 USD |
|-------------------------------------------------------|------------------|
| Net Surplus at December 31, 2001 as previously stated | 1,745,590 |
| Adjustment for Partner Fees as set out above | 138,919 |
| Net Surplus at December 31, 2001 as re-stated | <u>1,884,509</u> |

There is no effect on Capital Contributions balances.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

NOTES TO THE FINANCIAL STATEMENTS

5. Taxation

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

The VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs because, for the time being there is no process in place for the recovery of VAT for project purchases within Ukraine, Georgia and Uzbekistan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia and Uzbekistan to investigate the possibility of establishing a procedure to recover project VAT for purchases made within Ukraine, Georgia and Uzbekistan, 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 and Uzbekistan are exempt from VAT.

The VAT on administrative expenditures for 2002 has been credited back to the corresponding expense account to which it relates.

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

| | 2002 USD | 2001 USD |
|----------------|------------------|------------------|
| United States | 1,227,555 | - |
| Canada | 149,333 | 31,122 |
| European Union | 2,484,192 | 1,524,480 |
| Partners | 2,816,913 | 1,174,509 |
| | <u>6,677,993</u> | <u>2,730,111</u> |

Amounts Due From Funding Parties – Due After One Year

| | 2002 USD | 2001 USD |
|---------------------------------------|-------------------------|-------------------------|
| European Union | 412,333 | 397,184 |
| Partners | 274,211 | 148,900 |
| | <u>686,544</u> | <u>546,084</u> |
| Total due from funding parties | <u><u>7,364,537</u></u> | <u><u>3,276,195</u></u> |

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

7. Other receivables

| | 2002 USD | 2001 USD |
|-------------------|---------------|---------------|
| VAT Recoverable | 21,561 | 20,735 |
| Other Receivables | 49,487 | 19,097 |
| | <u>71,048</u> | <u>39,832</u> |

8. Prepayments and accrued income

| | 2002 USD | 2001 USD |
|------------------|---------------|---------------|
| Prepayments | 17,111 | 14,203 |
| Accrued Interest | 29,359 | 45,140 |
| | <u>46,470</u> | <u>59,343</u> |

9. Amounts payable projects

| | 2002 USD | 2001 USD |
|--------------------|------------------|------------------|
| Grants Payable | 660,312 | 1,205,392 |
| Overhead Payable | 153,203 | 111,643 |
| Overhead Retainage | 405,640 | 259,204 |
| | <u>1,219,155</u> | <u>1,576,239</u> |

10. Other creditors

| | 2002 USD | 2001 USD |
|-----------------------|-------------|----------------|
| Amounts due to Sweden | - | 102,822 |
| Amounts due to Canada | - | 78,610 |
| | <u>-</u> | <u>181,432</u> |

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

11. Designated Capital Contributions - Projects

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

| | United States | Sweden | Canada | Japan | European Union | Partners | Total |
|----------------------------------------------------------|---------------|---------|-----------|----------|----------------|-------------|--------------|
| | USD | USD | USD | USD | USD | USD | USD |
| Balance at January 1, 2002 | 9,251,296 | 2,913 | 261,577 | 109,686 | 2,650,006 | 3,069,882 | 15,345,360 |
| New Projects Signed During 2002 | 7,859,151 | - | 217,977 | - | 1,864,783 | 6,707,084 | 16,648,995 |
| 2002 Adjustment | 11,248 | - | 2,103 | - | (3,314) | (9,576) | 461 |
| Revaluation of Project Agreements | - | - | - | - | 302,168 | 79,980 | 382,148 |
| Adjustment for Closed Projects | (9,493) | - | (43) | (860) | (708) | (9,444) | (20,548) |
| Transfer to Statement of Revenues and Expenditure | | | | | | | |
| Expenditure Incurred on Projects in 2002 | (6,829,142) | (2,913) | (179,622) | (77,472) | (1,829,878) | (3,398,167) | (12,317,194) |
| Balance at December 31, 2002 | 10,283,060 | - | 301,992 | 31,354 | 2,983,057 | 6,439,759 | 20,039,222 |

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

12. Designated Capital Contributions - Administration

| | United States | Sweden | Canada | Japan | European Union | Partners | Ukraine | Total |
|---------------------------------------------------|---------------|--------|-----------|-------|----------------|----------|-----------|-------------|
| | USD | USD | USD | USD | USD | USD | USD | USD |
| Balance at January 1, 2002 | 896,207 | - | 130,027 | - | 304,406 | - | - | 1,330,640 |
| Additional Contribution for 2002 | - | - | - | - | - | - | 129,406 | 129,406 |
| Transfer to Statement of Revenues and Expenditure | (896,207) | - | (130,027) | - | (304,406) | - | (129,406) | (1,460,046) |
| Administrative Budget 2003 | 1,043,419 | - | 161,624 | - | 390,489 | - | - | 1,595,532 |
| Balance at December 31, 2002 | 1,043,419 | - | 161,624 | - | 390,489 | - | - | 1,595,532 |

13. Designated Capital Contributions - Supplemental

| | United States | Sweden | Canada | Japan | European Union | Partners | Ukraine | Total |
|---------------------------------------------------|---------------|---------|---------|-------|----------------|----------|---------|-------------|
| | USD | USD | USD | USD | USD | USD | USD | USD |
| Balance at January 1, 2002 | 2,522,267 | - | 14,002 | - | 907,007 | - | - | 3,443,276 |
| Supplemental Budgets Approved | 774,882 | 102,822 | 16,024 | - | 314,490 | 372,500 | - | 1,580,718 |
| Transfer from Undesignated Capital Contributions | - | 546 | - | - | - | - | - | 546 |
| Adjustment for Revaluation | - | - | - | - | 100,651 | - | - | 100,651 |
| Transfer to Statement of Revenues and Expenditure | (630,117) | - | (9,773) | - | (314,279) | (82,581) | - | (1,036,750) |
| Balance at December 31, 2002 | 2,667,032 | 103,368 | 20,253 | - | 1,007,869 | 289,919 | - | 4,088,441 |

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

14. Designated Capital Contributions – Building Fund

| | United States | Sweden | Canada | Japan | European Union | Partners | Ukraine | Total |
|----------------------------------------|---------------|----------|--------------|----------|----------------|----------|----------|---------------|
| | USD | USD | USD | USD | USD | USD | USD | USD |
| Balance at January 1, 2002 | - | - | - | - | - | - | - | - |
| Surplus Administrative Budget Revenues | 65,536 | - | 8,125 | - | 21,192 | - | - | 94,853 |
| Balance at December 31, 2002 | 65,536 | - | 8,125 | - | 21,192 | - | - | 94,853 |

Note : At the 15th Board of Governors Meeting (December 2002) of the STCU, it was decided not to offset the surplus, set out above, of the 2002 Administrative Operating Budget against the contributions required of the Funding Parties for the 2003 Administrative Operating Budget as mandated in the Financial Regulations of the STCU. The Governing Board instructed the STCU to establish a Building Fund with this surplus, with the intention of utilizing this fund to continue to renovate to Western standards the new headquarters facility located at 21 Kameniariv, Kyiv, provided by the Government of Ukraine at the end of 2002.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

15. Undesignated Capital Contributions

| | United States | Sweden | Canada | Japan | European Union | Partners | Other | Total |
|--------------------------------------------------------|-------------------|----------|----------|----------------|----------------|------------------|-----------------|-------------------|
| | USD | USD | USD | USD | USD | USD | USD | USD |
| Balance at January 1, 2002 | 15,202,415 | - | - | 365,892 | 502,041 | 538,642 | (85,340) | 16,523,650 |
| Advances Received from Funding Parties | 6,593,000 | - | - | - | 202,405 | 3,415,000 | - | 10,210,405 |
| Reserves Received from Funding Parties | - | - | - | - | 36,107 | - | - | 36,107 |
| Transfer to Designated Capital for Signed Projects | (7,859,151) | - | - | - | (41,554) | (1,135,229) | - | (9,035,934) |
| Adjustment for Closed Projects | 9,493 | - | 43 | 860 | 708 | - | - | 11,104 |
| Allocation of Surplus Income for 2002 | 654,768 | 546 | 36,208 | 4,550 | 93,020 | - | - | 789,092 |
| Adjustment for 2002 Other Purposes | 1,645 | - | 189 | - | 59,831 | - | (2,194) | 59,471 |
| Transfer to A/P Non-Projects | - | - | - | - | 241 | (435) | - | (194) |
| Transfer to Building Fund | (65,536) | - | (8,125) | - | (21,192) | - | - | (94,853) |
| Transfer to Designated Capital – Supplemental Budget | - | (546) | - | - | - | (272,500) | - | (273,046) |
| Transfer to Designated Capital - Administrative Budget | (590,746) | - | (28,315) | - | (245,982) | - | - | (865,043) |
| Balance at December 31, 2002 | 13,945,888 | - | - | 371,302 | 585,625 | 2,545,478 | (87,534) | 17,360,759 |

Note : The amount of (\$2,194) under 'Other' relates to the performance of the 2001 and 2002 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 2002 audit cost is accrued as an expense in the 2002 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2003 AOB.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
 NOTES TO THE FINANCIAL STATEMENTS

16. Cash received from funding parties

| | 2002 USD | 2001 USD |
|----------------|-------------------|-------------------|
| Canada | 172,593 | 354,492 |
| Sweden | - | (3,832) |
| Ukraine | 129,406 | 13,063 |
| Partners | 7,379,665 | 1,806,897 |
| United States | 6,604,380 | 7,153,147 |
| European Union | 2,004,963 | 1,861,168 |
| Japan | - | (625) |
| | <u>16,291,007</u> | <u>11,184,310</u> |

17. Financial commitments

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

No material commitments existed at December 31, 2002.

b) **Funding parties**

At December 31, 2002 the funding parties had approved but not signed 104 projects with a total funding of \$12,979,983 (2001 - \$13,354,945). The agreements for these projects are expected to be signed in 2003.

18. 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.

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

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

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

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

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

In early October 2002, with no agreement reached between the former landlord and the Government of Ukraine on either of the aforementioned issues, the former landlord interrupted the electricity to the STCU's former facility. As per the decision of the STCU Board of Governors

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

NOTES TO THE FINANCIAL STATEMENTS

related to any interruption in STCU utilities, the Executive Director of the STCU declared "force majeure" (as described in Note 1) and the STCU moved into a temporary facility in mid-October 2002. The STCU returned the keys and the control of the former facility to the former landlord at the end of November 2002 and moved into its new premises at 21 Kameniariv, Kyiv in late December 2002.

At the date of the publishing of these financial statements, the former landlord had not contacted the STCU in connection with any financial claims related to the former premises. The management of the STCU is of the opinion that in accordance with the agreement to establish the STCU, any liability for unpaid rent from January 1, 2000 to the end of November 2002 for the STCU's former facility is the responsibility of the Government of Ukraine. Accordingly, the financial statements do not include any provision for the unpaid rent of the STCU's former facility.