# SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

Financial Statements for the
Year ended 31 December 2019

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

# TABLE OF CONTENTS

KPMG Baltics AS
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

# Independent Auditors' Report

# To the Governing Board of the Science and Technology Center in Ukraine

*Our Opinion on the Financial Statements*

We have audited the accompanying financial statements of the Science and Technology Center in Ukraine (hereinafter "STCU"), set out on pages 4 to 34 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2019,
- the statement of revenues and expenditure for the year then ended,
- the statement of movements in capital contributions for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the STCU as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the STCU in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the STCU's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the STCU or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the STCU's financial reporting process.

*Auditors' Responsibility for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the STCU's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the STCU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the STCU to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics AS
Licence No. 55

Armine Movsisjana
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 178
*Riga, Latvia*
23 July 2020

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

The Science and Technology Center in Ukraine (STCU or Center) is an intergovernmental organization dedicated to non-proliferation 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 25 October 1993 (referred to as "the STCU agreement"). The European Union acceded to the STCU agreement on 26 November, 1998 and in so doing, replaced Sweden as a party to the STCU agreement. Canada withdrew from the Agreement to Establish the STCU in 2013 and their unutilised funds were returned in 2014.

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 Governing Board.

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 7a Metalistiv Street Kyiv 03057. During the financial year STCU had international staff of 25 (2018 – 25) full time scientific, financial and administrative experts.

**Political and Economic Situation in Ukraine**

The major part of STCU's activities takes place in Ukraine where its headquarters are situated and the majority of its financial operations are conducted from Kyiv therefore the political and economic situation in Ukraine has a bearing on these activities. Similarly the political and economic within the other countries of the GUAM region have influence on the Center's operations. Slow economic growth from a low base, dependence on continued support from the international community, particularly the IMF, and structural constraints carried forward from the command economies of prior years continue to disrupt development and create an unpredictable and potentially unstable environment in which STCU operates. In the case of Ukraine this development continues to be further hindered by the ongoing conflict in the east of the country which shows no sign of being brought to a peaceful conclusion in the foreseeable future.

STCU has no operations in any of the currently disputed territories in any of its member countries. Those countries in which STCU operates are part of the European Union's Neighbourhood Region and therefore STCU's operations are intrinsically wrapped up with the need for and willingness to provide development aid to those countries. Further STCU's mission related to the non-proliferation of technologies and expertise related to weapons of mass destruction is dependent on the perceived risks and the continued need to mitigate those risks.

Whilst management believes it is taking appropriate measures to support the sustainability of the STCU's operations in the current circumstances, a continuation of the current unstable environment could negatively affect the STCU's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the economic and political environment in Ukraine and the wider region in which the Center operates, on the operations and the financial position of the STCU. The future economic and political environment may differ from management's assessment.

**Basis of Preparation**

The financial statements represent the results of the STCU as an individual entity and have been prepared under the historic cost convention and in accordance with applicable International Financial Reporting Standards (IFRS) taking into consideration the departure from International Accounting Standard (IAS) 16 relating to Property, plant and equipment as explained in the policy for Property and equipment.

These financial statements were approved by the management of the STCU on 23 July 2020. The Governing Board of the Science and Technology Center in Ukraine will approve the financial statements at the next Governing Board meeting and have the power to amend the financial statements after issue or request the preparation of new financial statements.

**Adoption of new and revised standards and interpretations**

The following new and amended IFRS and their interpretations have become effective in 2019:

- IFRIC 23 Uncertainty over Income Tax Treatments,
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation,
- Amendments to IAS 28 Associates and Joint Ventures - long-term interests in an associate or joint venture,
- Amendments to IAS 19 Employee Benefits - A plan amendment, curtailment or settlement, and

These standards are not applicable for the STCU. The adoption of IFRS 16 is described in the paragraph ‘Lease” on page 12.

**New Standards and Interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements.

- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (The European Commission decided to defer the endorsement indefinitely.)
- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU)

  The STCU does not plan to adopt these new standards, amendments to standards and interpretations early. Management has assessed the potential impact from new standards set out above and does not expect the new standards to have a material impact on the financial statements.

**Functional and Presentation Currency, Foreign Currency Transactions**

The U.S. dollar is the functional currency for the STCU. Accordingly, these financial statements have been prepared using U.S. dollars as the presentation currency. Use of the U.S. dollar best reflects the economic substance of the transactions and circumstances of the STCU.

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 or Euros and, therefore do not result in any gains or losses from currency exchanges except those arising from USD to Euro exchange differences.

Assets, liabilities and capital denominated in foreign currencies are translated into USD at the rates of exchange ruling at the balance sheet date.

The net revaluation (losses)/gains principally relate to amounts contributed or receivable from Funding Parties in currencies other than USD which are held in the source currency of the original contribution. These notional cash (losses)/gains are fully offset by revaluations of Funding Parties capital accounts held in a source currency other than USD. Revaluation (losses)/gains are not actual cash movements but a reflection of the changing value of the source currency. Revaluation gains or losses are recognized in Administrative operating budget expenditure. Effect of revaluation of Funding Parties capital accounts held in a source currency other than USD is reflected through other comprehensive income.

Foreign currency risk is managed as set out in the Note 15.

**European Union Funded Projects**

Project agreements are concluded in Euros if solely funded by the European Union and in USD if projects are jointly funded.

For project agreements concluded in USD (jointly funded), the European Union provides funding in Euros, before the projects are signed by the STCU Executive Director. 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 amounts of USD received.

**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:

**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, which is subsequently covered by either transfers from Undesignated Capital Contributions Accounts or direct disbursement by the Funding Parties.

**Project Expenditure**

Project costs consist of four main components: grants to scientists, technical services, 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.

Based on the project agreement the STCU temporarily retains the payment of 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. The overhead retainage is recognized as part of amounts payable – projects.

When a project has been completed or terminated, any funds committed in excess of actual costs are credited back to the relevant Funding Parties' Undesignated Capital Contributions Account in the same proportion as the initial contributions from the Funding Parties.

**Revenues**

IFRS 15, which was adopted by the STCU in 2018, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. An entity applies a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

A performance obligation is a promise to deliver a good or provide a service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer). Additionally, it is provided that an asset will be recognised for the incremental costs of obtaining a contract with a customer if they are expected to be recovered. The current practices applied by the STCU imply that there are no contract costs to be capitalized.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The specific accounting policies for the STCU's main types of revenue are explained below.

*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 expensed during the year. These revenues are transferred from the Funding Parties Designated Capital Accounts for Projects to the Statement of Revenues and Expenditure.

Project Revenues do not arise from contracts with customers where a 'customer' is a party that has contracted with an entity to obtain goods or services that are an output of the entitiy's ordinary activity. Therefore, revenue recognition model under IFRS 15 is not applicable for the project revenues recognised by the STCU.

*Partner Fees*

Partner projects may be charged a fee of between 5% and 15% of the total project cost for the services provided by the STCU to administer the project. Revenues from partner fees meet the defition of the contracts with customers as stipulated under IFRS 15. Revenues from partner fees derived from contracts with customers are recognised based on compliance with performance obligations with customers. Partner fees reflect the transfer of services to funding parties at an amount that reflects the consideration to which the STCU expects to be entitled in exchange for such services. Predominatly, the STCU administers the project over two or more financial periods; therefore, partner fees are recognized in the Statement of Revenues and Expenditure proportionally to the recognised expenses incurred during the reporting period. Any excess partner fees received are deferred on the balance sheet until corresponding costs are incurred and recognized as contract liabilities.

The surplus partner fees are allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as their Administrative Revenues contributions.

*Interest income*

Interest earned on Funding Party bank accounts is recognized in the Statement of Revenues and Expenditure as finance income in line with effective interest rate method. 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 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 and the European Union in the same ratio as their Administrative Revenues contributions.

*Agent vs. Principal*

The STCU has performed assessment over principal vs agent presentation under IFRS 15. The Center has concluded that it acts as a principal. The STCU obtains control of a service performed by recipient institutes and directs this service by administering the projects and holds primary responsibility for fulfilling the specified service to the Funding parties. During the project administration the STCU has discretion in selecting suppliers and agreing on the prices paid.

## 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 Governing Board for the Administrative Operating Budget for the year. The budget is set and agreed at meetings of the Governing Board in the previous financial year. The agreed budgeted amounts are transferred from the Designated Capital Accounts for Administrative Expenses of the United States and the European Union. Such income does not meet the defition of revenue from contracts with customers as per IFRS 15.

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

Any surplus/(deficit) Administrative Revenues arising during the year are re-allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as the Administrative Revenues contributions.

### Supplemental Budget

Supplemental Budgets are approved by the Governing Board 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 to the Statement of Revenues and Expenditure from the Funding Parties' Designated Capital Accounts for

Supplemental Budgets. Such income does not meet the defition of revenue from contracts with customers as per IFRS 15.

**Prepayments**

Prepayments include prepaid expense related to projects and to administrative and supplemental activities. STCU recognises prepayments upon cash transfer for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged to expense.

**Recognition of accruals**

Accruals are established when it is certain that a past event has given rise to a present obligation (accrued liabilities) or present right (contract assets), but there is uncertainty about the amount payable or receivable. The estimate of the amount of a liability or asset requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

As of 31 December 2019 STCU recognized accrued liabilities of USD 609,097 as part of current liabilities (2018: USD 116,334) with respect to services and goods received, but not yet invoiced.

Furthermore, project advances paid to the institutes for project execution have been reduced by the amount of accrued expenses incurred but not yet reported by institutes as of 31 December 2019 of USD 19,620 (2018: USD 19,620).

**Property and Equipment**

Property and equipment are acquired either for the STCU's own use or for the projects and comprises of the following:

**Center**

Property and equipment acquired by the STCU for administrative operations consist of 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 STCU equipment is charged to the Statement of Revenues and Expenditure when acquired.

**Project Equipment**

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 STCU 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 STCU informs the project of its intention to retain title.

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 "Property, Plant and Equipment" requires non-current assets to be capitalized and depreciated over their useful economic lives. Due to the project-based nature of STCU's operations, management believes the application of these requirements would result in improper matching between the revenues contributed by the Funding Parties with the related expenses, and, accordingly conflict with the fair presentation objective of these financial statements. As a result, non-current assets acquired for use by participating institutes as part of the projects are charged to the Statement of Revenues and Expenditure upon acquisition.

Based on the management assessment, the average useful life of such non-current assets is 5 years. Total purchases of non-current assets over the last years were as follows:

| | **2019 USD** |
|---|---|
| 2015 | 2,207,502 |
| 2016 | 1,535,583 |
| 2017 | 1,386,205 |
| 2018 | 1,230,720 |
| 2019 | 1,485,402 |
| | 7,845,412 |

**Grantee Benefits**

All individuals providing services to the STCU as part of their employment agreements are considered grantees. Short term grantees benefits, including staff grants, bonuses, vacations and other benefits are included in expenses on an accrual basis. The STCU has no obligations to pay further contributions relating to grantee services in respect to payroll taxes and any pensions on the retirement of grantees.

**Taxation**

Under the terms of the agreement establishing the STCU and also the Statute approved by the Governing Board, 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 only on administrative expenditures.

The VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs because, for the time being there is no practical process in place for the recovery of VAT for project purchases within Ukraine, Georgia, Uzbekistan, Moldova, and Azerbaijan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia, Moldova, 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. Project items purchased abroad by the STCU and imported into Ukraine, Georgia, Uzbekistan, Moldova, and Azerbaijan are exempt from VAT and import duties. Certain projects have been registered with the respective Ministry of Economy as development aid projects and are exempt from VAT on purchases within Ukraine and Moldova.

**Financial Assets**

The STCU uses only non-derivative financial instruments as part of its normal operations. These financial assets include bank accounts, certificates of deposit, and receivables. All financial assets are accounted for at amortized cost.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

*Initial recognition and measurement*

Financial assets include trade and other receivables and cash and cash equivalents. Similarly to the past practice all financial assets held by the STCU are classified as instuments at amortized cost under IFRS 9. The Center determines the classification of its financial assets at initial recognition. All financial assets held by the Center are recognised initially at fair value plus directly attributable transaction costs.

*Subsequent measurement*

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset. When calculating the effective interest rate, STCU estimates future cash flows considering all contractual terms of the financial instruments.

*Derecognition*

STCU derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by STCU is recognized as a separate asset or liability.

*Impairment of financial assets*

The STCU assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Trade and other receivables are recognised as balance sheet assets against capital contribution. Thus, loss given default (LGD) for trade and other receivables is equal to zero. Subsequently, expected credit loss (ECL) (ECL = PD * LGD * EAD where PD the probability of default and EAD the exposure at default) is also equal to zero. The STCU recognises doubtful debt impairment allowances based on an individual management assessment of the recoverability of each receivable. Given the nature of the STCU funding providers, at the reporting date there was no direct exposure to potential impairment to be recognized in the Statement of Financial Position.

Given the short term nature the impact on cash and cash equivalents is assessed as not significant. Therefore, no significant additional disclosures included in financial statements as allowed under IAS 1.31.

Credit risk exposures are summarized in Note 15 and Fair values are calculated as set out in Note 16.

**Financial liabilities**

For financial liabilities, IFRS 9 brings no changes to classification and measurement except for liabilities designated at fair value through profit or loss whereby the changes in own credit risks are recognised in other comprehensive income.

*Initial recognition and measurement*

The STCU’s financial liabilities include trade and other payables.

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortised cost. The STCU determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

*Subsequent measurement*

After initial recognition, trade and other payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of Revenues and Expenditure when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Revenues and Expenditure.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Cash and Cash Equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

**Lease**

IFRS 16, which was adopted by the STCU in 2019, supersedes IAS 17 Leases and related interpretations. The Standard eliminates the dual accounting model for lessees and instead requires entities to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value (‘small-ticket’ leases).

Under the STCU Agreement, the Government of Ukraine is required to provide at its own expense a facility for use by the Center. The arrangement for the current facility has been authorized by the Government of Ukraine until December 31, 2030. Under IFRS 16 Leases, the Center should recognise in its balance sheet assets and liabilities relating to use of the premises at the fair value of the rent, utility and security benefits.

At the same time, under IAS 20 ‘Government grants’, granted use of the facility meets the definition of the government grant which should be recognised in the Statement of Revenues and Expenditure on a systematic basis throughout the arrangment period, and implies the need to recognise in STCU’s balance sheet assets and liabilities at the fair value of the grant.

IAS 20 ‘Government grants’ permits net presentation of the government grants related to assets. Therefore, balance sheet assets and liabilities arising from IFRS 16 implementation and from IAS 20 ‘Government grants’ is equal, having zero effect in the Statement of Financial Position.

**Capital Management**

The capital of the STCU is represented by the net assets attributable to Funding Parties. The STCU’s objectives in managing capital are to safeguard the assets of the Funding Parties to enable the STCU to continue as a going concern and enable the future funding of project expenditure.

All significant capital decisions such as project funding, transfers of capital, investment of capital and returns of capital to Funding Parties, require approval by the Funding Parties at six-monthly meetings of the governing board or otherwise. As such, the management of the STCU does not actively manage its capital on a day-to-day basis.

*Designated capital contribution*

Projects represent amounts committed on signed projects net of project expenses incurred to date.

*Undesignated capital contributions*

Undesignated capital contributions are amounts paid or committed by the funding parties which have not yet been designated for the operating budget or project purposes, or are funding party revenues in excess any surplus/(deficit) of Administrative Revenues.

When projects are signed and annual budgets are approved, an appropriation is made between the designated and undesignated capital contributions account.

**Use of Estimates and Judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key management judgements:**

**Accounting policy applied to Property and equipment:** Please refer to accounting policy applied to Property and equipment, as described above.

**Key sources of estimation uncertainty:**

**Valuation of account receivables:** There are a number of significant risks and uncertainties inherent in the process of monitoring financial assets and determining if impairment exists. These risks and uncertainties include the risk that STCU's assessment of funding party's or borrower's ability to meet all of its contractual obligations will change based on changes in the credit characteristics or that the risk that the economic outlook will be worse than expected or have more of an impact on the counterparty than anticipated.

Receivables are valued according to the principle of prudence and recognized at amount due less allowances for doubtful loans and receivables considering expected credit losses.

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable. Given the nature of the STCU funding providers, at the reporting date there was no direct exposure to potential impairment to be recognized in the Statement of Revenues and Expenditure. Credit risk exposures are summarized in Note 15 and Fair values are calculated as set out in Note 16.

**Recognition of accruals** as noted above.

# STATEMENT OF REVENUES AND EXPENDITURE
# FOR THE YEAR ENDED 31 DECEMBER 2019

| | Note | 2019 USD | 2018 USD |
|---|---|---|---|
| **Revenues** | | | |
| Project Revenue | | 12,353,894 | 10,014,785 |
| Administrative Revenue | | | |
| - Administrative Operating Budget | | 835,000 | 837,000 |
| - Supplemental Budget | | 1,143,980 | 1,238,525 |
| Partner Fees | | 273,435 | 149,415 |
| Finance Income | | 2,394 | 1,615 |
| | | 14,608,703 | 12,241,340 |
| **Expenditure** | | | |
| Project Expenditure | **1** | 12,353,894 | 10,014,785 |
| Administrative Expenditure | | | |
| - Administrative Operating Budget | **2** | 790,476 | 823,364 |
| - Supplemental Budget | **2** | 1,143,980 | 1,238,525 |
| | | 14,288,350 | 12,076,674 |
| **Net Surplus** | **3** | 320,353 | 164,666 |
| **Other Comprehensive Result** | | | |
| Revaluation result of capital contributions | | (373,694) | (779,780) |
| **Net Surplus and Other Comprehensive Result** | | (53,341) | (615,114) |

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

Accompanying summary of accounting policies, as set out on pages 4 – 14 and notes, as set out on pages 20 – 34, form an integral part of these financial statements.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

| | Note | 2019 USD | 2018 USD |
|---|---|---|---|
| **Non – Current Assets** | | | |
| Receivables | | | |
| Amounts due from Funding Parties | **4** | 3,439,495 | 3,756,738 |
| | | 3,439,495 | 3,756,738 |
| **Current Assets** | | | |
| Receivables | | | |
| Amounts due from Funding Parties | **4** | 7,708,642 | 6,609,811 |
| Other Receivables | **5** | 1,789 | 24,313 |
| Prepayments | **6** | 608,669 | 1,600,151 |
| Cash and Cash Equivalents | **7** | 24,830,921 | 29,618,224 |
| | | 33,150,021 | 37,852,499 |
| **Non – Current Liabilities** | | | |
| Amounts Payable – Projects | **8** | (240,485) | (117,577) |
| Contract Liabilities | | (91,542) | (69,513) |
| | | (332,027) | (187,090) |
| **Current Liabilities** | | | |
| Amounts Payable – Projects | **8** | (1,828,397) | (1,650,286) |
| Amounts Payable – Non-project | | (123,766) | (103,277) |
| Contract Liabilies | | (388,853) | (232,876) |
| | | (2,341,016) | (1,986,439) |
| **Total Assets less Liabilities** | | 33,916,473 | 39,435,708 |
| **Capital Contributions** | | | |
| Designated Capital – Projects | **9** | 20,468,808 | 23,068,980 |
| Designated Capital – Administration | **10** | 864,000 | 835,000 |
| Designated Capital – Supplemental | **11** | 1,480,637 | 1,261,522 |
| Undesignated Capital | **12** | 11,103,028 | 14,270,206 |
| | | 33,916,473 | 39,435,708 |

Accompanying summary of accounting policies, as set out on pages 4 – 14 and notes, as set out on pages 20 – 34, form an integral part of these financial statements.

**Signed on behalf of The Science and Technology Center in Ukraine 23 July 2020**

Curtis M. Bjelajac
Executive Director

Anthony Nichol
Chief Financial Officer

# STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2019

| | Note | 2019 USD | 2018 USD |
|---|---|---|---|
| **Cash Flows from Operations** | | | |
| **Cash Inflows** | | | |
| Net Cash Received from Funding Parties | **13** | 7,949,695 | 11,056,389 |
| Partner Fees Received | | 463,853 | 268,417 |
| Interest Received | | 2,394 | 14,796 |
| Total Cash Inflows | | 8,415,942 | 11,339,602 |
| **Cash Outflows** | | | |
| Project Expenditure | | (11,057,556) | (11,354,615) |
| Administrative and Supplemental Expenditure | | (1,895,280) | (1,980,847) |
| Total Cash Outflows | | (12,952,836) | (13,335,462) |
| Net Cash (Outflows) / Inflows from Operations | | (4,536,894) | (1,995,860) |
| Net Revaluation (losses) / gains | | (250,409) | (724,356) |
| Cash and Cash Equivalents at 1 January | | 29,618,224 | 32,338,440 |
| Cash and Cash Equivalents at 31 December | **7** | 24,830,921 | 29,618,224 |

Accompanying summary of accounting policies, as set out on pages 4 – 14 and notes, as set out on pages 20 – 34, form an integral part of these financial statements.

# STATEMENT OF MOVEMENTS IN CAPITAL CONTRIBUTIONS FOR THE YEAR ENDED 31 DECEMBER 2019

| | Designated Capital Contributions – Projects (Note 9) | Designated Capital Contributions – Administrative (Note 10) | Designated Capital Contributions – Supplemental (Note 11) | Undesignated Capital Contributions (Note 12) | Total |
|---|---|---|---|---|---|
| | **USD** | **USD** | **USD** | **USD** | **USD** |
| **Balance at 1 January 2019** | **23,068,980** | **835,000** | **1,261,522** | **14,270,206** | **39,435,708** |
| Advances Received from Funding Parties | - | - | - | 1,735,971 | 1,735,971 |
| Budgets Approved | 10,580,608 | 864,000 | 1,628,126 | - | 13,072,734 |
| Surplus of supplemental budget transferred to Undesignated Capital Contributions | - | - | (48,747) | 48,747 | - |
| Adjustments for Closed Projects | (447,414) | - | - | 447,414 | - |
| Transfers from Advances Received to offset the amounts due & Designated Capital Contributions | - | - | - | (4,506,779) | (4,506,779) |
| Adjustments for Closed Projects to offset the amounts due | (268,398) | - | - | - | (268,398) |
| Funds Repaid to Funding Parties | - | - | - | (1,166,548) | (1,166,548) |
| Transfers to Statement of Revenues and Expenditure | (12,353,894) | (835,000) | (1,143,980) | - | (14,332,874) |
| Projects developed from supplemental budget | 198,529 | - | (198,529) | - | - |
| Allocation of Net Surplus | - | - | - | 320,353 | 320,353 |
| Revaluation Result of Capital Contributions | (309,603) | - | (17,755) | (46,336) | (373,694) |
| **Balance at 31 December 2019** | **20,468,808** | **864,000** | **1,480,637** | **11,103,028** | **33,916,473** |

Accompanying summary of accounting policies, as set out on pages 4 – 14 and notes, as set out on pages 20 – 34, form an integral part of these financial statements.

# STATEMENT OF MOVEMENTS IN CAPITAL CONTRIBUTIONS FOR THE YEAR ENDED 31 DECEMBER 2019

| | Designated Capital Contributions – Projects (Note 9) | Designated Capital Contributions – Administrative (Note 10) | Designated Capital Contributions – Supplemental (Note 11) | Undesignated Capital Contributions (Note 12) | Total |
|---|---|---|---|---|---|
| | USD | USD | USD | USD | USD |
| **Balance at 1 January 2018** | **17,413,787** | **837,000** | **1,510,090** | **17,423,872** | **37,184,749** |
| Advances Received from Funding Parties | - | - | - | 2,578,154 | 2,578,154 |
| Budgets Approved | 16,051,097 | 835,000 | 1,504,395 | - | 18,390,492 |
| Surplus of supplemental budget transferred to Undesignated Capital Contributions | - | - | (184,919) | 184,919 | - |
| Adjustments for Closed Projects | (23,094) | - | - | 23,094 | - |
| Transfers from Advances Received to offset the amounts due & Designated Capital Contributions | - | - | - | (5,765,095) | (5,765,095) |
| Adjustments for Closed Projects to offset the amounts due | (27,168) | - | - | - | (27,168) |
| Funds Repaid to Funding Parties | - | - | - | (220,000) | (220,000) |
| Transfers to Statement of Revenues and Expenditure | (10,014,785) | (837,000) | (1,238,525) | - | (12,090,310) |
| Projects developed from supplemental budget | 303,015 | - | (303,015) | - | - |
| Allocation of Net Surplus | - | - | - | 164,666 | 164,666 |
| Revaluation Result of Capital Contributions | (633,872) | - | (26,504) | (119,404) | (779,780) |
| **Balance at 31 December 2018** | **23,068,980** | **835,000** | **1,261,522** | **14,270,206** | **39,435,708** |

Accompanying summary of accounting policies, as set out on pages 4 – 14 and notes, as set out on pages 20 – 34, form an integral part of these financial statements.

## 1. Project Expenditure

| Amounts charged to the Statement of Revenues and Expenditure: | USD |
|---|---|
| 2019 | 12,353,894 |
| 2018 | 10,014,785 |
| 2017 | 8,068,637 |
| 2016 | 12,579,870 |
| 2015 | 9,383,840 |
| 2014 | 11,723,405 |
| 2013 | 12,969,568 |
| 2012 | 14,919,329 |
| 2011 | 13,256,863 |
| 2010 | 14,938,320 |
| 2009 | 15,902,171 |
| 2008 | 18,657,918 |
| 2007 | 19,305,482 |
| 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 2019 | 294,509,482 |

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

## 2. Administrative Expenditure

| | 2019 USD | 2018 USD |
|---|---|---|
| **a) Administrative Operating Budget** | | |
| Business Operations | 84,803 | 72,423 |
| Public Affairs | 7,457 | 3,714 |
| Personnel | 399,317 | 416,489 |
| Personnel Support and Development | 78,265 | 88,568 |
| Legal, Auditing and Banking | 99,759 | 141,448 |
| Property and Equipment | 14,325 | 17,002 |
| Net Foreign Exchange Losses | 77,591 | 65,998 |
| Headquarters and Branch Offices | 28,959 | 17,722 |
| | 790,476 | 823,364 |

Personnel costs comprise grants made to the grantees in the STCU headquarters and four regional offices located in Kharkiv, Baku, Chisinau, and Tbilisi.

2. **Administrative Expenditure*(continued)***

From March 2009, the STCU have occupied offices provided by the Ukrainian government for which the STCU does not pay rental or utility charges. In 2019 the estimated fair value of the annual rent, utility and security benefit is USD 62,310 (2018 – USD 87,727). Annual rent expense is estimated to be USD 51,929 which is equal to annual depreciation charge of right-of-use assets and interest expense on lease liabilities.

| | **2019 USD** | **2018 USD** |
|---|---|---|
| **b) Supplemental Budget** | | |
| Patent Support | 20,219 | 10,777 |
| Travel and Mobility Support | 387,694 | 390,552 |
| Expert Review and Advisors | - | 9,848 |
| Seminars/Workshops Support | 320,197 | 464,058 |
| Service Contracts (Key management remuneration) | 364,332 | 363,290 |
| Partner Promotion and Support | 51,538 | - |
| | 1,143,980 | 1,238,525 |

### 3. Net Surplus Revenues over Expenditure

The net surplus comprises the following:

| | **2019 USD** | **2018 USD** |
|---|---|---|
| Surplus Administrative Budget Revenues | 44,524 | 13,636 |
| Finance Income | 2,394 | 1,615 |
| Partner Fees | 273,435 | 149,415 |
| | 320,353 | 164,666 |

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

## 4. Amounts Due from Funding Parties – Due within One Year

| | 2019 USD | 2018 USD |
|---|---|---|
| European Union | 1,499,512 | 158,049 |
| Partners | 6,209,130 | 6,451,762 |
| | 7,708,642 | 6,609,811 |

### Amounts Due from Funding Parties – Due after One Year

| | 2019 USD | 2018 USD |
|---|---|---|
| European Union | 196,000 | 1,564,115 |
| Partners | 3,243,495 | 2,192,623 |
| | 3,439,495 | 3,756,738 |
| **Total due from Funding Parties** | 11,148,137 | 10,366,549 |

## 5. Other Receivables

| | 2019 USD | 2018 USD |
|---|---|---|
| VAT Recoverable | 1,790 | 3,973 |
| Other Receivables | (1) | 20,340 |
| | 1,789 | 24,313 |

## 6. Prepayments

| | 2019 USD | 2018 USD |
|---|---|---|
| Prepayments - Projects | 600,693 | 1,596,012 |
| Prepayments - Administrative Budget and Supplemental Budget | 7,976 | 4,139 |
| | 608,669 | 1,600,151 |

## 7. Cash and Cash Equivalents

| | 2019 USD | 2018 USD |
|---|---|---|
| Cash on Hand | 652 | 1,506 |
| Non-interest Bearing Accounts | 355,237 | 141,886 |
| Short-term Deposits | 24,475,032 | 29,474,832 |
| | 24,830,921 | 29,618,224 |

Interest bearing cash and cash equivalents are placed in foreign banks. Currently the Center receives no interest on its US dollar and Euro bank balances. Interest received is on Ukrainian Hryvnia balances held in a Ukrainian bank.

## 8. Amounts Payable – Projects

**Non-current Liabilities**

| | 2019 USD | 2018 USD |
|---|---|---|
| Vendor Payable and accruals | 85,201 | 98,043 |
| Overhead Retainage | 155,284 | 19,534 |
| | 240,485 | 117,577 |

**Current Liabilities**

| | 2019 USD | 2018 USD |
|---|---|---|
| Grants Payable | 945,028 | 844,795 |
| Vendor Payable and accruals | 649,492 | 482,355 |
| Overhead Payable | 32,228 | 65,437 |
| Overhead Retainage | 201,649 | 257,699 |
| | 1,828,397 | 1,650.286 |
| **Total Accounts Payable - Projects** | 2,068,882 | 1,767,863 |

Overhead Retainage includes amounts which may be due for payment after one year depending on when the financial and technical reports are prepared and submitted by the project recipients and accepted by the STCU.

Vendor Payable and accruals includes incurred project expenses in amount USD 609,097 for which invoices are not received as of 31 December 2019 (2018: USD 116,334).

## 9. Designated Capital Contributions – Projects

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

| | United States | European Union | Partners | Total |
|---|---|---|---|---|
| | USD | USD | USD | USD |
| **Balance at 1 January 2018** | **450,401** | **8,484,325** | **8,479,061** | **17,413,787** |
| New Projects Signed During 2018 | - | 5,868,505 | 10,485,607 | 16,354,112 |
| Adjustment for Closed Projects | (273) | (26,594) | (23,395) | (50,262) |
| **Transfer to Statement of Revenues and Expenditure** | | | | |
| Expenditure Incurred on Projects in 2018 | (354,653) | (3,334,001) | (6,326,131) | (10,014,785) |
| Revaluation of Project Agreements | - | (516,108) | (117,764) | (633,872) |
| **Balance at 1 January 2019** | **95,475** | **10,476,127** | **12,497,378** | **23,068,980** |
| New Projects Signed During 2019 | - | 1,319,479 | 9,459,658 | 10,779,137 |
| Adjustment for Closed Projects | (277) | (29,851) | (685,684) | (715,812) |
| **Transfer to Statement of Revenues and Expenditure** | | | | |
| Expenditure Incurred on Projects in 2019 | (95,198) | (4,113,985) | (8,144,711) | (12,353,894) |
| Revaluation of Project Agreements | - | (192,845) | (116,758) | (309,603) |
| **Balance at 31 December 2019** | **-** | **7,458,925** | **13,009,883** | **20,468,808** |

## 10. Designated Capital Contributions – Administration

| | United States USD | European Union USD | Total USD |
|---|---|---|---|
| **Balance at 1 January 2018** | **293,452** | **543,548** | **837,000** |
| Transfer to Statement of Revenues and Expenditure | (293,452) | (543,548) | (837,000) |
| Administrative Budget 2019 | 164,647 | 670,353 | 835,000 |
| **Balance at 1 January 2019** | **164,647** | **670,353** | **835,000** |
| Transfer to Statement of Revenues and Expenditure | (164,647) | (670,353) | (835,000) |
| Administrative Budget 2020 | 154,653 | 709,347 | 864,000 |
| **Balance at 31 December 2019** | **154,653** | **709,347** | **864,000** |

## 11. Designated Capital Contributions – Supplemental

| | United States | European Union | Partners | Total |
|---|---|---|---|---|
| | USD | USD | USD | USD |
| **Balance at 1 January 2018** | **225,000** | **1,103,395** | **181,695** | **1,510,090** |
| Supplemental Budgets Approved | 225,000 | 901,090 | 378,305 | 1,504,395 |
| Transfer to Undesignated Capital Contributions | (9,665) | (175,254) | - | (184,919) |
| Transfer to Statement of Revenues and Expenditure | (215,335) | (598,825) | (424,365) | (1,238,525) |
| Projects developed from supplemental budget activities | - | (303,015) | - | (303,015) |
| Adjustment for Revaluation | - | (26,301) | (203) | (26,504) |
| **Balance at 1 January 2019** | **225,000** | **901,090** | **135,432** | **1,261,522** |
| Supplemental Budgets Approved | 225,000 | 1,066,794 | 336,332 | 1,628,126 |
| Transfer to Undesignated Capital Contributions | (8,700) | (40,047) | - | (48,747) |
| Transfer to Statement of Revenues and Expenditure | (216,300) | (583,239) | (344,441) | (1,143,980) |
| Projects developed from supplemental budget activities | - | (198,529) | - | (198,529) |
| Adjustment for Revaluation | - | (17,672) | (83) | (17,755) |
| **Balance at 31 December 2019** | **225,000** | **1,128,397** | **127,240** | **1,480,637** |

## 12. Undesignated Capital Contributions

| | United States USD | European Union USD | Partners USD | Total USD |
|---|---|---|---|---|
| **Balance at 1 January 2019** | **430,978** | **2,007,540** | **11,831,688** | **14,270,206** |
| Advances Received from Funding Parties | - | 756,452 | 979,519 | 1,735,971 |
| Transfer of result of Closed Projects | 277 | 29,851 | 417,286 | 447,414 |
| Transfer from Designated Capital – Supplemental Budget | 8,700 | 40,047 | - | 48,747 |
| Transfer to Designated Capital for Signed Projects | - | - | (2,137,938) | (2,137,938) |
| Transfer to Designated Capital – Supplemental Budget | (225,000) | (1,066,794) | (213,047) | (1,504,841) |
| Transfer to Designated Capital - Administrative Budget | (154,653) | (709,347) | - | (864,000) |
| Returned to Funding Parties | - | - | (1,166,548) | (1,166,548) |
| Allocation of Surplus Income for 2019 | 47,164 | 273,189 | - | 320,353 |
| Adjustment for Revaluation | - | (39,795) | (6,541) | (46,336) |
| **Balance at 31 December 2019** | **107,466** | **1,291,143** | **9,704,419** | **11,103,028** |

Although the funding parties have not indicated their commitments to provide future financing beyond the balances included in Undesignated Capital Contributions, STCU's management is of the opinion that the Center has sufficient funding for its current operations in the foreseeable future.

## 12. Undesignated Capital Contributions *(continued)*

| | United States USD | European Union USD | Partners USD | Total USD |
|---|---|---|---|---|
| **Balance at 1 January 2018** | **609,290** | **4,387,233** | **12,427,349** | **17,423,872** |
| Advances Received from Funding Parties | - | 1,140,050 | 1,438,104 | 2,578,154 |
| Transfer of result of Closed Projects | 273 | 726 | 22,095 | 23,094 |
| Transfer from Designated Capital – Supplemental Budget | 9,665 | 175,254 | - | 184,919 |
| Transfer to Designated Capital for Signed Projects | - | (2,432,239) | (1,296,476) | (3,728,715) |
| Transfer to Designated Capital – Supplemental Budget | (225,000) | (598,075) | (378,305) | (1,201,380) |
| Transfer to Designated Capital - Administrative Budget | (164,647) | (670,353) | - | (835,000) |
| Returned to Funding Parties | - | - | (220,000) | (220,000) |
| Transferred Between Funding Parties | 155,861 | - | (155,861) | - |
| Allocation of Surplus Income for 2018 | 45,536 | 119,130 | - | 164,666 |
| Adjustment for Revaluation | - | (114,186) | (5,218) | (119,404) |
| **Balance at 31 December 2018** | **430,978** | **2,007,540** | **11,831,688** | **14,270,206** |

## 13. Net Cash Received from Funding Parties

| | 2019<br>USD | 2018<br>USD |
|---|---|---|
| Partners | 6,045,641 | 6,834,224 |
| European Union | 1,904,054 | 4,222,165 |
| | 7,949,695 | 11,056,389 |

## 14. Financial Commitments

### a) Science and Technology Center in Ukraine

No material commitments existed at 31 December 2019 or 2018.

### b) Funding Parties

At 31 December 2019 no projects had been approved and not signed by the Funding Parties. (2018 - no projects had been approved and not signed by the Funding Parties).

While the program and funding expansion continues from the European Union and from the United States Government Partners, the United States Department of State announced in June 2017 that they would be unable to provide new funding through their ISN/CTR program in order to fund the STCU's administrative, supplemental and project budgets. However, the United States Party reiterated its unwavering commitment and support of the STCU as an important conduit and mechanism to implement CBRN threats.

The STCU is working with the Governing Board to map out a strategy to deal with this situation, should this continue. Discussions were held by all parties at the 49$^{th}$Governing Board Meeting in December 2019 to try and seek out ways to deal with this challenge. Currently, the United States Department of State Party has adequate funds on hand to support the STCU for the immediate future; therefore, going concern assumption is applicable in the preparation of these financial statements. The overall level of capital at the STCU is stable.

## 15. Financial Risks

The STCU's financial instruments comprise:

Cash, liquid resources and receivables and payables that arise directly from the STCU's operations:

| | 2019<br>USD | 2018<br>USD |
|---|---|---|
| Financial Assets | | |
| Amounts due from Funding Parties | 11,148,137 | 10,366,549 |
| Prepayments | 608,669 | 1,600,151 |
| Cash and Cash Equivalents | 24,830,921 | 29,618,224 |
| | | |
| Financial Liabilities | | |
| Amounts Payable | 2,192,648 | 1,871,140 |

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

## 15. Financial Risks *(continued)*

a) Liquidity Risk

Liquidity risk is the risk that the STCU will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. STCU's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses, and maintain net working capital surplus.The STCU's assets comprise mainly of cash and bank deposits which are readily realisable to meet funding commitments.

b) Credit Risk

The STCU manage credit risk by only paying project expenses up to the amount of cash received from the relevant Funding Party. The credit risk is therefore limited to project expenses incurred in excess of cash received from the relevant Funding Party. At 31 December 2019 the maximum credit risk represented by the net amount of receivables due from Funding Parties and the related Designated Capital Contributions received was USD 720,374 (2018 – USD 845,306).

The ageing of accounts receivable due from Funding Parties at the reporting date is as follows:

| | **2019 USD** | **2018 USD** |
|---|---|---|
| Not past due | 7,986,821 | 7,684,524 |
| Past due < 1 year | 3,140,361 | 2,678,125 |
| Past due > 1 year | 20,955 | 3,900 |
| | 11,148,137 | 10,366,549 |

Amounts past due include funds receivable under contracts without set payment dates before the project completion but not fully settled in the reporting year. The STCU expects to receive all amounts due in due course and as such has made no impairment allowance against these receivables. As of 31 December 2019 there is no evidence of past lossess and any subsequent write off through Undesignated Capital Contributions.

Additionally, under the terms of project agreements concluded between the STCU and the respective recipient institutes, project costs for a given period of time may not be claimed by a recipient institute if it has received project reimbursements from other funding sources for the same period of time. In case the project condition is breached, the STCU may ultimately terminate the project and demand the return of all payments and goods previously provided. An institute's potential failure to return the funds and goods creates additional credit risk exposure to the STCU. Recipient institutes' compliance with the above contractual condition cannot be readily verified as no related effective controls or supporting records can be implemented at the STCU as relevant accounting records of the recipient institutes are not readily available. Nevertheless, such risk of potential reimbursed cost claims is considered remote by the STCU.

**15. Financial Risks *(continued)***

c) 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 and liabilities held by the STCU in currencies other than USD were as follows:

| | 2019 | | |
|---|---|---|---|
| | **Amounts receivable, prepayments USD** | **Cash and cash equivalents USD** | **Amounts payable USD** |
| Euros | 6,446,702 | 8,380,264 | 1,234,741 |
| Ukrainian Hryvnia | 51,628 | 246,831 | 13,500 |
| Other | 32,195 | 2,486 | 102 |
| | 6,530,525 | 8,629,581 | 1,248,343 |

| | 2018 | | |
|---|---|---|---|
| | **Amounts receivable USD** | **Cash and cash equivalents USD** | **Amounts payable USD** |
| Euros | 7,018,326 | 12,324,098 | 1,028,647 |
| Ukrainian Hryvnia | - | 112,033 | 71,989 |
| Other | - | 339 | 55 |
| | 7,018,326 | 12,436,470 | 1,100,691 |

The following table details the effect on the Net Surplus and Other Comprehensive Result at 31 December 2019 from a 10% change in US dollar exchange rates against the exposed currencies listed above, with all other variables held constant.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Effect on Net Surplus USD** | **Effect on Other Comprehensive Result USD** | **Effect on Net Surplus USD** | **Effect on Other Comprehensive Result USD** |
| USD strengthening by 10% against: | | | | |
| Euros | 74,944 | (1,310,601) | (12,421) | (1,652,467) |
| Ukrainian Hryvnia | (25,905) | - | (3,640) | - |
| Other | (3,144) | - | (26) | - |
| | 45,895 | (1,310,601) | (16,087) | (1,652,467) |
| USD weakening by 10% against | | | | |
| Euros | (91,598) | 1,601,845 | 15,182 | 2,019,682 |
| Ukrainian Hryvnia | 31,662 | - | 4,449 | - |
| Other | 3,842 | - | 32 | - |
| | (56,094) | 1,601,845 | 19,663 | 2,019,682 |

## 15. Financial Risks *(continued)*

**c)** Foreign Currency Risk *(continued)*

The method used to arrive at the possible risk of 10% was based on both statistical and non-statistical analyses. The statistical analysis has been based on currency movement for the last five years. This information is then revised and adjusted for reasonableness under the current economic circumstances. A standard rate of 10% is considered possible given past volatility trends.

During 2019 there has been a gradual strengthening of the Dollar against the Euro by approximately 2.2% from $1.14474 : €1 to $1.12 : €1. This has required a corresponding revaluation of the capital contributions. These notional losses are reflected through Other Comprehensive Income (see Accounting Policies on pages 4 and 5).

**d)** Concentrations of Risk

Management has determined that the only significant concentration of risk arises in respect of the holding of the majority of cash and cash equivalents at a small number of financial institutions at the balance sheet date as follows:

| | **Location** | **Credit rating** | **2019 USD** | **2018 USD** |
|---|---|---|---|---|
| Deutsche Bank | USA | A-2* | - | 17,174,350 |
| BNP Paribas | Belgium | A-1* | 24,363,877 | 12,300,482 |
| OTP Bank | Ukraine | A-2* | 358,262 | 111,749 |
| Other | Various | B to BB+** | 108,782 | 31,643 |
| | | | 24,830,921 | 29,618,224 |

* Standard & Poor's Short term Counterparty Credit Rating

** Fitch Long-Term Foreign and Local Currency Issuer Default Rating

Management does not consider the risk exposure suffered as a result of this concentration of assets to be significant. The cash funds placed with credit institutions in Ukraine are current accounts in nature and are used for everyday operations only.

## 16. Fair Values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence, the most advantageous market to which STCU has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, STCU uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

STCU recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The STCU has performed an assessment of its financial instruments, as required by IFRS 7 Financial Instruments: Disclosures, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability. The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instrument at the reporting date and are classified in Level 3 of fair value hierarchy.

Due to the mostly short-term nature of the STCU financial assets and liabilities and minimal prevailing funds placement interest rates, the estimated fair values of all financial instruments of the STCU do not differ materially from their carrying amounts as at 31 December 2019 and 2018.

## 17. Related Parties

Other than the parties to the agreement (The United States, Ukraine and the European Union), there are no related parties (2018 - None). All transactions with related parties have been undertaken on arm’s length terms and are disclosed within capital contributions movements.

## 18. Contingent Liabilities

There are no contingent liabilities to report in 2019 (2018 – None).

## 19. Post Balance Sheet Event

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic following this governments around the world have introduced quarantine and lockdown measures in response to the pandemic. During this time the government authorities in the countries that STCU operates in and in STCU’s funding parties have taken measures to contain the outbreak, including suspension of international passenger transport through airports, by bus and rail and the ‘lock-down’ of certain industries, pending further developments. In particular, airlines, railways, schools, universities, shops, restaurants, cinemas, theatres, museums and sports facilities were closed or restricted their activities. Organisations have also instructed employees to remain at home and some have curtailed or temporarily suspended operations.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity, with a cascading impact on both upstream and downstream supply chains;
- Disruption to government activities and a shift in immediate priorities to meet new challenges;
- A slow down in some of the activities of STCU’s projects and supplementary programmes due to the effects of the government measures described above;
- An increase in economic uncertainty, reflected in more volatile asset prices and

currency exchange rates.

In order to safeguard uninterrupted operating activities and STCU has implemented a number of measures, which notably include:

- implementation of work from home program for all employees and limitation of number of spaces available in the office;
- constant communication to employees to adhere to very strict precautionary standards including social distancing;
- conducting STCU operations such as seminars, training courses, meetings and other cooperation between funding parties, partners and recipient institutes using online resources.

The slow down in STCU activities has resulted in the following significant project changes. During the second quater of 2020 two projects have been suspended these represent 2% of projects by number, 4.4% by budget and 6.3% of Designated Capital Contributions Projects at 31 December 2019. No projects have been terminated. During the same period STCU has signed 2 new projects and 11 amendments to existing projects with approximately 2,400,000 in budget equivalent to 11.5% of Designated Capital Contributions Projects at 31 December 2019. STCU's Administrative and Supplementary budgets have been approved for 2020 and the cash received from the funding parties.

In view of the slow down of activities and the actions initiated by management, we do not anticipate a direct immediate and significant adverse impact of the COVID-19 outbreak on STCU, its operations, financial position and operating results. Management cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment STCU operates in will not have an adverse effect on STCU, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.