

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

Accounting convention

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

IAS 16 requires fixed assets with useful lives of beyond the current accounting period be capitalized and depreciated over their useful lives. The management of the Science and Technology Center in Ukraine believe that because of the unusual nature and circumstances of its activities, strict interpretation and application of this standard would not properly match the revenues specifically contributed by the funding parties with the related expenditure. Accordingly, the fixed assets acquired for use by the Center are charged in full upon acquisition to the statement of revenues and expenditure in accordance with the account policy for fixed assets set out below.

The financial statements have been prepared in United States Dollars, as required by the Science and Technology Center in Ukraine's Charter.

Going Concern

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

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

During the course of 1998 the value of the Ukrainian Hryvnia fell significantly against the U.S. Dollar. The lease agreement is denominated in U.S. Dollars, thus the significant devaluation of the Hryvnia impacted on the Ukrainian Government's ability to pay. The funding problem was further compounded by the fact that the Ukrainian Government did not provide all of the budget commitment pledged for 1998.

As a result, at the end of 1998 the Government of Ukraine had unpaid debts amounting to \$47,288 in respect of the premises. In order to ensure the uninterrupted operations of the STCU, the funding parties agreed to increase the amount of the contingency budget for the 1999 administrative budget by \$200,000. In 1999 the Ukrainian Government again failed to pay in full all of its obligations related to the premises, and the STCU was forced to pay further funds from the contingency budget in order to satisfy the terms of the lease agreement. As of December 31, 1999, the

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Ukrainian government still owed the other funding parties a total of \$139,199 for its unfulfilled commitments.

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

Effective from 1 January 2000, the Government of Ukraine was due to take over the responsibility for the lease. The landlord is unhappy with this arrangement and has informed the STCU that it wanted the premises vacated by 31 May 2000.

As of the publishing of these financial statements, the status of the STCU premises is still unresolved. The rent from January 1, 2000 to May 31, 2000 (\$53,000) remains unpaid.

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

Project activity

The Science and Technology Center in Ukraine 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 Science and Technology Center in Ukraine and the recipient institutes. Upon signature, the total amount of the project is credited to the relevant funding parties designated capital accounts in proportion to the level of funding agreed by each party. To the extent that the signed projects are not covered by the advance payments from the respective funding parties, a receivable is set up in the accounting records.

Project expenditure

Project costs consist of three main components: grants to scientists, equipment and overhead. The Science and Technology Center in Ukraine, being a non-

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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 including project equipment incurred are charged immediately to the project expenditure account. Projects are performed on a cost reimbursable basis, with ceiling funds specified in the project agreements. At project completion, any funds received in excess of actual costs are credited back to the contributing party. The STCU temporarily retains 50 percent of the allowable overhead for the individual projects, in accordance with the project agreements, until the submission of the final and technical reports are made by the project recipients.

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 are transferred from the funding parties' designated capital accounts.

Administrative revenues and expenditure

Administrative revenues recognized in the Statement of Revenues and Expenditure during the year are amounts approved by the funding parties for the administrative expenses operating budget for the year as agreed at meetings of the Board of Governors during the year. These amounts are transferred from the funding parties designated capital accounts for administrative expenses.

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

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

Fixed assets

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

Center

Property and equipment acquired by the Center for administrative operations consist of vehicles, office furniture and equipment, including computer hardware and software and communications devices. All commitments and expenditures for administrative equipment are made in accordance with the Board's approved annual budget.

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The cost of the Center's equipment is charged to the Statement of Revenues and Expenditure when acquired.

Project equipment

Since the Science and Technology Center in Ukraine does not expect to derive any foreseeable economic benefits from the ownership of project equipment, the expenditure incurred on equipment under each project is written off to the statement of revenues and expenditure together with other project expenditure incurred during the year.

Foreign currency transactions

All foreign currency transactions are converted into United States Dollars at the exchange rates prevailing at the date of the transaction. Foreign currency gains and losses resulting from movements in the exchange rates between the date of the transactions and the date of settlement are charged to the administrative operating budget in the period incurred. Transactions in Uzbekistan and Georgia are accomplished in US dollars and, therefore do not result in any gains or losses from currency exchanges.