

**Charitable organization  
“InterEcoCentre”**

**Independent Auditors’ Report**

**Financial Statements**  
Year Ended 31 December 2003

# CHARITABLE ORGANIZATION "INTERECOCENTRE"

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## INDEPENDENT AUDITORS' REPORT

To the Management of Charitable organization "InterEcoCentre"

We have audited the accompanying balance sheet of Charitable organization "InterEcoCentre" ("the Organization") as of 31 December 2003 and the related statements of financial performance, changes in net assets and the statement of sources and uses of funds for the year then ended. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2 the Organization records expenditures on work performed and services rendered by contractors based on acts of acceptance signed, the date of which is different from the date when services and works are consumed or performed. This practice is not in agreement with the accrual basis concept, which, in our opinion, is departure from International Financial Reporting Standards. We were unable to estimate the effect of such departure on the balances of accrued liabilities and prepayments to suppliers as of 31 December 2003, as well as related expenditures for the year then ended.

Management has omitted corresponding amounts for the year ended 31 December 2002 in respect to the statement of financial performance, changes in net assets and statement of sources and uses of funds. In our opinion, omission of such information is a departure from the requirements of International Financial Reporting Standards.

In our opinion, except for effect of adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the balances of accrued liabilities, prepayments to suppliers and related expenditures and except for the omission of the corresponding amounts for the year ended 31 December 2002, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of 31 December 2003, and the results of operations and cash flows for the year ended 31 December 2003 in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

12 January 2005

# CHARITABLE ORGANIZATION "INTERECOCENTRE"

## BALANCE SHEET AS OF 31 DECEMBER 2003 (in US dollars)

	Notes	2003	2002
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3	47,371	14,808
Prepayments to suppliers	4	29,262	5
Inventories		3,547	2,051
Total current assets		80,180	16,864
<b>NON-CURRENT ASSETS:</b>			
Property and equipment, net	5	3,054	1,608
Intangibles and other assets, net		-	73
Total non-current assets		3,054	1,681
<b>TOTAL ASSETS</b>		<b>83,234</b>	<b>18,545</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Payroll and related taxes	6	9,176	226
Other current liabilities		113	21
Total current liabilities		9,289	247
<b>UNRESTRICTED NET ASSETS</b>		<b>73,945</b>	<b>18,298</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>83,234</b>	<b>18,545</b>

On behalf of the Management

Leonid Prochenko, Director



Vadim Pavlov, Chief Accountant

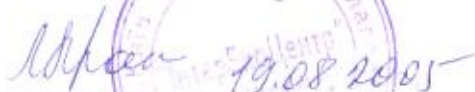
The notes on pages 6 to 10 are an integral part of these financial statements. The Independent Auditors' Report is on page 1.

# CHARITABLE ORGANIZATION "INTERECOCENTRE"

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2003 (in US dollars)

	Notes	2003
CONTRIBUTION INCOME		
Grant for Azov-Black Sea Corridor Biodiversity Conservation GEF Project (Corridor project)		32,514
Grant for Preparation of Biodiversity Phase II Enabling Activity GEF Project (Enabling Activity project)		31,153
Wetlands International Grants (Wetlands International projects)		<u>183,618</u>
		<u>247,285</u>
EXPENSES		
Project expenses (except for Corridor project)	7	136,398
Incremental project expenses	8	9,315
Consulting project expenses		39,374
Administrative expenses	9	<u>20,357</u>
	11	<u>205,444</u>
EXCESS OF CONTRIBUTION INCOME OVER EXPENSES		
		<u>41,841</u>
Foreign exchange gain		<u>13,790</u>
SURPLUS		
		<u>55,631</u>

On behalf of the Management

  
19.08.2005

Leonid Procenko, Director

  
19/08/2005

Vadim Pavlov, Chief Accountant

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**CHARITABLE ORGANIZATION "INTERECOCENTRE"**

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 31 DECEMBER 2003  
(in US dollars)**

Balances as of 31 December 2002	18,298
Surplus for the year	55,631
Translation difference	<u>16</u>
<b>Balances as of 31 December 2003</b>	<b><u>73,945</u></b>

On behalf of the Management



Leonid Procenko, Director



Vadim Pavlov, Chief Accountant


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# CHARITABLE ORGANIZATION "INTERECOCENTRE"

## STATEMENT OF SOURCES AND USES OF FUNDS FOR THE YEAR ENDED 31 DECEMBER 2003 (in US dollars)

	Notes	2003
OPENING BALANCE		
Current account (UAH)		4,432
Current account (EUR)		<u>10,376</u>
TOTAL		<u>14,808</u>
FUNDS RECEIVED BY SOURCES		
Corridor project		32,514
Enabling Activity project		31,153
Wetlands International projects		<u>183,618</u>
TOTAL		<u>247,285</u>
Foreign exchange gain		<u>13,790</u>
LESS FUNDS USED BY SOURCE OF FINANCE		
Corridor project	10	38,628
Enabling Activity project	10	30,832
Wetlands International projects	10	<u>159,052</u>
TOTAL	10, 11	<u>228,512</u>
CLOSING BALANCE		
Current account (UAH)		12,382
Current account (EUR)		<u>34,989</u>
TOTAL		<u>47,371</u>

On behalf of the Management

  
Leonid Procenko, Director

  
Vadim Pavlov, Chief Accountant

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# CHARITABLE ORGANIZATION "INTERECOCENTRE"

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003 (in US dollars)

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### 1. BACKGROUND

The Charitable organization "InterEcoCentre" (the "Organization") is a legal entity, which was formed according to the protocol of the general meeting as of 1 April 1998. The objectives of the Organization are to:

- provide charity assistance to organizations and citizens with the objective of the design and implementation of environmental protection measures;
- improve ecological condition of the environment through realization of the projects, ecological education, publishing activities, execution of scientific researches, etc.;
- assist the development of science, education, culture and natural reserves.

There are several projects the Organization has been involved in 2003 year - six water management projects funded by Wetlands International (Netherlands) grants, and two projects funded by the International Bank for Reconstruction and Development ("IBRD"), acting as an implementing agency of the Global Environment Facility:

- Azov-Black Sea Corridor Biodiversity Conservation Project (the "Corridor project");
- The Grant for Preparation of Biodiversity Phase II Enabling Activity (the "Enabling Activity project").

During the year 2003 the Grant for Preparation of Biodiversity Phase II Enabling Activity has been completed which confirmed by the correspondent letter from IBRD.

According to the Grant Agreement on Corridor Project (the "Agreement") between Ukraine and the International Bank for Reconstruction and Development as of 31 January 2002 ratified by the Ukrainian law #235-IV as of 22 November 2002, the IBRD agreed to provide Ukraine a grant in the amount of USD 6,900,000 for the purpose of implementation of Corridor project until 30 June 2006.

Expenses incurred by the Organization and funded in accordance with Agreement comprise two categories:

- incremental project expenses;
- consulting project expenses.

Incremental expenses are expenses directly attributable to implementing of Project including office supplies expenses, rental and maintenance cost, post expenses, business trips, communication expenses, etc.

Consulting expenses incurred by the Organization's in accordance with Agreement are represented by salaries and benefits paid to Organization staff.

In accordance with the Agreement incremental expenses are funded by IBRD at 95%. The remaining part is contributed by the Communities and the Government of Ukraine.

Ministry of the Environment and Natural Resources of Ukraine serviced by the Organization as its agent to transfer funds granted by IBRD to a third-party organizations. Payments are carried out from special purpose account which is opened on behalf of Ministry of the Environment and Natural Resources of Ukraine.

According to agreements with grant providers all funds obtained by the Organization have the nature of the unrestricted net assets.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied with those of the prior year.

**Basis for presentation** – The accompanied financial statements are prepared in accordance with the International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) except for accounting for expenses and accruals. Expenses are recognized in financial statements when corresponding acts of acceptance are signed, the date of which is different from the date, when services and works are consumed or performed. This policy is not in line with accrual basis of accounting specified in IAS 1 “Presentation of financial statements”.

The Organization maintains its accounting records in local currency Ukrainian Hryvnia (“UAH” or “Hryvnia”) and in accordance with Ukrainian accounting standards (“UAS”) and other local statutory accounting legislation. UAS differ from accounting principles generally accepted under IFRS. Accordingly, the accompanying financial statements, which have been prepared from the Organization’s Ukrainian statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

**Reporting and presentation currency** – The measurement currency of the Organization is the Ukrainian Hryvnia (“UAH”). Thus, transactions in currencies other than UAH are treated as transactions in foreign currencies.

*These financial statements are presented in US dollars, which is the presentation currency, taking into account that the main user of financial statement is the International Bank for Reconstruction and Development. Assets and liabilities are translated into US dollars at the year-end exchange rate, items of statement of financial performance and statement of sources and uses of funds are converted at the annual average exchange rate for the period.*

**Cash and cash equivalents** – cash and cash equivalents comprise unrestricted cash on hand and cash in banks.

**Prepayments to suppliers** – prepayments to suppliers are recognized when cash are paid according to terms of agreement. Prepayments to suppliers are written off to expenses when act of acceptance is signed. This date may be different from the date when services and works are consumed or performed.

**Property and equipment** – Property and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulated impairment losses (if any). The costs of an asset comprise its purchase price and any directly attributable costs of bringing the asset to working condition. Depreciation is calculated on straight line basis using the following rates which approximate the estimated useful lives of the assets:

Computers	50%
Fixtures and fittings	50%

**Payroll and related taxes** - Payroll and related taxes are recognized on accrual basis. The Organization is a not-for-profit organization and exempt from income taxation and VAT on grants received and other not-for-profit activities. The Organization is only liable to pay personal income tax and social security contributions on pay-as-your-earn basis.

**Expenses** – Expenses are recognized in the balance sheet when respective act of acceptance is signed. This date may be different from the date when services and works are consumed or performed.

### 3. CASH AND CASH EQUIVALENTS

As of 31 December 2003 and 2002 the Organization's cash and cash equivalents are represented by the following:

	2003	2002
Bank accounts held in Ukraine		
- Current account (UAH)	12,382	4,432
- Current account (EUR)	34,989	10,376
<b>Total</b>	<b>47,371</b>	<b>14,808</b>

### 4. PREPAYMENTS TO SUPPLIERS

As of 31 December 2003 and 2002 the Organization's prepayments are represented by prepayments to suppliers related to Wetlands International projects.

### 5. PROPERTY AND EQUIPMENT, NET

As of 31 December 2003 the Organization's property and equipment are represented by the following:

	Fixtures and fittings	Computers	Total
<b>Cost</b>			
As of 31 December 2002	3,585	4,511	8,096
Additions	480	2,974	3,454
As of 31 December 2003	4,065	7,485	11,550
<b>Accumulated depreciation</b>			
As of 31 December 2002	3,280	3,208	6,488
Depreciation charge for the year	235	1,773	2,008
As of 31 December 2003	3,515	4,981	8,496
<b>Net book value as of 31 December 2003</b>	<b>550</b>	<b>2,504</b>	<b>3,054</b>
<b>Net book value as of 31 December 2002</b>	<b>305</b>	<b>1,303</b>	<b>1,608</b>

### 6. PAYROLL AND RELATED TAXES

As of 31 December 2003 and 2002 the Organization's payroll and related taxes are represented by the following:

	2003	2002
Payroll liabilities	4,689	-
Personal Income Tax payable	2,410	-
Payables to Social Security Fund	1,520	5
Payables to State Pension Fund	152	-
Other taxes payable	405	221
<b>Total</b>	<b>9,176</b>	<b>226</b>

## 7. PROJECT EXPENSES (EXCEPT FOR CORRIDOR PROJECT)

For the year ended 31 December 2003 the Organization's project expenses are represented by the following:

Enabling Activity project	26,594
Wetlands International projects	<u>109,804</u>
<b>Total</b>	<b><u>136,398</u></b>

## 8. INCREMENTAL PROJECT EXPENSES

The following table summarizes the Organization's incremental project expenses, incurred according to Agreement on Corridor project, by the categories for the year ended 31 December 2003:

Office supplies	4,288
Rent	3,651
Payroll and related taxes	844
Bank fees	304
Communications	<u>228</u>
<b>Total</b>	<b><u>9,315</u></b>

## 9. ADMINISTRATIVE EXPENSES

Administrative expenses comprise expenses incurred on implementing Enabling Activity project and Wetlands International projects.

The following table summarizes the Organization's administrative expenses by the categories for the year ended 31 December 2003:

Office supplies	13,567
Payroll and related taxes	3,333
Depreciation expenses	2,008
Bank fees	783
Communications	<u>666</u>
<b>Total</b>	<b><u>20,357</u></b>

## 10. FUNDS USED BY SOURCE OF FINANCE

The following table summarizes the Organization's funds used by the source of finance for the year ended 31 December 2003:

Description	Corridor project	Enabling Activity project	Wetlands International projects	Total
Consulting fees	-	26,594	96,669	123,263
Administrative and technical support	-	-	54,929	54,929
Payroll and related taxes	30,412	2,284	6,203	38,899
Operating costs	5,665	1,954	-	7,619
Rent	2,551	-	1,251	3,802
<b>Total</b>	<b>38,628</b>	<b>30,832</b>	<b>159,052</b>	<b>228,512</b>

## 11. RECONCILIATION BETWEEN EXPENSES OF ORGANIZATION AND FUNDS USED BY SOURCES OF FINANCE

The following table reconciles the Organization's expenses with funds used by the source of finance for the year ended 31 December 2003:

<b>Expenses</b>	<b>205,444</b>
Increase in prepayments to suppliers	29,257
Increase in inventories	1,496
Increase in cost of fixed assets	3,454
Increase in current liabilities	(9,042)
Depreciation	(2,008)
Other	(89)
<b>Funds used by source of finance</b>	<b>228,512</b>

## 12. OPERATING ENVIRONMENT

The Organization's principal business activities are within Ukraine. Laws and regulations affecting businesses operating in Ukraine are subject to rapid changes and the Organization's assets and operations could be at risk due to negative changes in the political and business environment.

## 13. SUBSEQUENT EVENTS

Following the year ended 31 December 2003 the project under the Agreement # 1062 with Wetlands International has been completed which is confirmed by the Statement of Completion of Agreement dated 20 February 2004.