

**CHARITABLE ORGANIZATION  
“INTERECOCENTRE”**

**Azov- Black Sea Corridor Biodiversity  
Conservation Project**

**Independent Auditors’ Report**

**Project Financial Statements**  
Year ended 31 December 2004

## INDEPENDENT AUDITORS' REPORT

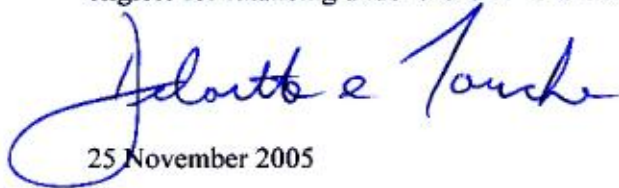
To Charitable organization "InterEcoCentre"  
Azov-Black Sea Corridor Biodiversity Conservation Project

We have audited the accompanying financial statements of the Azov-Black Sea Corridor Biodiversity Conservation Project (the "Project") financed under Global Environment Facility Trust Fund Agreement (GEF Grant No. TF 028267 UA) between Ukraine and International Bank of Reconstruction and Development (IBRD) as of 31 December 2004 and for the fiscal year then ending. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the Project special account as of 31 December 2004 and the sources and uses of funds of the Project for the year then ended, in accordance with the basis of accounting described in Note 2.

In addition, (a) with respect to statement of expenses, adequate supporting documentation has been maintained to support claims to the IBRD for reimbursements of expenses incurred, (b) such expenses are eligible for financing under the GEF Grant No. TF028267 UA.



25 November 2005

**CHARITABLE ORGANIZATION “INTERECOCENTRE”  
Azov- Black Sea Corridor Biodiversity Conservation Project**

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## **INDEPENDENT AUDITORS' REPORT**

To Charitable organization "InterEcoCentre"  
Azov-Black Sea Corridor Biodiversity Conservation Project

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25 November 2005

**CHARITABLE ORGANIZATION "INTERECOENTRE"  
Azov- Black Sea Corridor Biodiversity Conservation Project**

**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2004  
(in US Dollars)**

	Notes	Year to Date	Cumulative to Date
<b>OPENING BALANCE</b>			
Special account - Dresdner Bank AG (USD)		303,905	
Transit account Forum Bank (UAH)		-	
Transit account Forum Bank (USD)		-	
<b>TOTAL</b>		<b>303,905</b>	
<b>ADD: FUNDS RECEIVED BY SOURCES</b>			
Government of Ukraine		211	211
Global Environment Facility	4	339,824	689,824
Local Governments of Ukraine		4,344	4,344
Interest received		3,524	4,230
Other Sources of Ukraine		10,476	10,740
<b>TOTAL FUNDS RECEIVED</b>		<b>358,379</b>	<b>709,349</b>
<b>LESS: EXPENDITURES</b>			
Works	3	10,466	10,466
Goods	3	217,268	217,644
Consultant Services, Training and Workshops	3	221,521	262,881
Incremental Operating Costs	3	42,566	47,895
<b>TOTAL EXPENDITURES</b>	<b>3</b>	<b>491,821</b>	<b>538,886</b>
<b>CLOSING BALANCE</b>			
Special account Dresdner Bank (USD)		143,804	
Transit account Forum Bank (UAH)		26,606	
Transit Forum Bank (USD)		53	
<b>TOTAL</b>		<b>170,463</b>	

**CHARITABLE ORGANIZATION "INTERECOENTRE"**  
**Azov- Black Sea Corridor Biodiversity Conservation Project**

**STATEMENT OF EXPENSES WITHDRAWAL SCHEDULE**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**  
*(in US Dollars)*

<b>Withdrawal application number</b>	<b>Date of Application</b>	<b>Works</b>	<b>Goods</b>	<b>Consultant Services, Training and Workshops</b>	<b>Incremental Operating Costs</b>	<b>Total</b>
2	28 May 2004	-	377	88,151	11,485	100,013
3	6 October 2004	<u>3,583</u>	<u>158,066</u>	<u>71,975</u>	<u>6,187</u>	<u>239,811</u>
	<b>TOTAL:</b>	<b><u>3,583</u></b>	<b><u>158,443</u></b>	<b><u>160,126</u></b>	<b><u>17,672</u></b>	<b><u>339,824</u></b>

**CHARITABLE ORGANIZATION "INTERECOENTRE"  
Azov- Black Sea Corridor Biodiversity Conservation Project**

**SPECIAL ACCOUNT STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2004  
(in US Dollars)**

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**Account No:** 01 300 210 02  
**Depository Bank:** Dresdner Bank AG  
**Address:** Betreuung  
Unternehmenskunden  
Tempelhofer Damm 182-184  
10877  
Berlin Germany  
**GEF Trust Fund Grant No.:** TF028267 UA  
**Currency:** US dollar

	Note	Year ended 31 December 2004
<b>OPENING BALANCE</b>		<b>303,905</b>
<b>Add: Funds received</b>		
IBRD replenishments		339,824
Interest received		972
		<hr/>
<b>TOTAL FUNDS RECEIVED</b>		<b>340,796</b>
<b>Less: Disbursements</b>		
Transfer to current account in Ukrainian bank		375,000
SOE expenditures directly paid		124,705
Bank handling and postage fees		1,192
		<hr/>
<b>TOTAL DISBURSEMENTS</b>		<b>500,897</b>
<b>CLOSING BALANCE</b>		<b>143,804</b>
		<hr/>

# **CHARITABLE ORGANIZATION “INTERECOENTRE” Azov- Black Sea Corridor Biodiversity Conservation Project**

## **NOTES TO THE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004**

### **1. NATURE OF THE PROJECT**

*Nature of the Project* – Ukraine (the Recipient), represented by Ministry of the Environment and Natural Resources of Ukraine (the “Environment Ministry”) and the International Bank for Reconstruction and Development (the “IBRD”) entered into a Global Environment Facility Trust Fund Grand Agreement (Azov Black Sea Corridor Biodiversity Conservation Project – the “Project”) No. TF028267 UA dated 31 January 2002 (the “Agreement”).

The IBRD agrees to make available the GEF Trust Fund Grant in an amount of various currencies equivalent to Special Drawing Rights 5,600,000. Amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account.

The objective of the Project is to conserve biodiversity within the Azov-Black Sea coastal corridor by strengthening the protected area network, by mainstreaming biodiversity conservation into the agricultural landscapes which connect them, and by building support at the national and international levels for sustainable development of the region’s biological and cultural landscapes. It intends to procure vehicles, radio communication equipment, boats and outboard motors, information technology, field equipment, etc. Minor civil works are to renovate visitor/administration centers, construct warden stations, observation towers, etc. The services financed under the grant are: technical assistance for protected area management and monitoring, land use planning, and public awareness, regional and other studies, etc.

The Project consists of the following parts:

Part A: Protected Area and Corridor Planning

Part B: Biodiversity Conservation Capacity and Awareness Building

Part C: Protected Areas Management

Part D: Biodiversity-friendly Agriculture Practices Demonstration

Part E: Project Management

The closing date the Loan Agreement shall be December 31, 2006, or such later date as the IBRD shall establish.

In accordance with Agreement Charitable organization “InterEcoCentre” (the “Organization”) acts as Project Implementation Unit. Organization also concluded Agency agreement with Environment Ministry. Under the terms of Agency agreement Organization performs the procurement of goods, works and services, accounting, financial reporting and other activities according to IBRD guidelines.

The Organization is a legal entity established pursuant to legislation of the Recipient pertaining to citizens’ associations and charitable organizations, and operating pursuant to its statutes registered with the Department of Justice of the City of Kyiv, under Registration No. 0006-98, dated 11 May 1998. The objectives of the Organization are to (i) provide charity assistance to organizations and citizens with the objective of the design and implementation of environmental protection measures; (ii) improve ecological condition of the environment through realization of the projects, ecological education, publishing activities, execution of scientific researches, etc.; (iii) assist the development of science, education, culture and natural reserves.



**CHARITABLE ORGANIZATION "INTERECOCENTRE"**  
**Azov- Black Sea Corridor Biodiversity Conservation Project**

**2. ACCOUNTING POLICIES**

*Basis of Accounting* – These financial statements are prepared on the cash basis and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the Guidelines on Financial Reporting and Auditing of projects financed by the World Bank. Project financing is recognized as a source of project funds when the cash is received. Project expenditure is recognized as a use of project funds when payment is made.

*Transactions in foreign currency* – These financial statements are expressed in US Dollars. Transactions in other currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction.

**3. EXPENSES BY CATEGORIES AND SOURCES OF FINANCING**

The following table is the summary of expenses by categories and sources of financing for the year ended 31 December 2004:

Category	Special account	Transit accounts	Government	Local Government	Other sources	Total
Works	-	7,106	-	3,360	-	10,466
Goods	-	208,967	53	-	8,248	217,268
Consultant Services, Training and Workshops	107,913	110,908	-	-	2,700	221,521
Incremental Operating Costs	16,792	23,912	158	984	720	42,566
<b>Total</b>	<b>124,705</b>	<b>350,893</b>	<b>211</b>	<b>4,344</b>	<b>11,668</b>	<b>491,821</b>

**4. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM GLOBAL ENVIRONMENT FACILITY GRANT FUND TO ACTUAL EXPENSES OF THE PROJECT**

<b>Expenses incurred during the year 31 December 2004</b>	<b>491,821</b>
Replenishments from IBRD	339,824
Interest income	3,524
Expenses paid from non GEF Grant funds	16,223
<i>Special account</i>	
Balance at 31 December 2003	303,905
Balance at 31 December 2004	(143,804)
Less: Bank handling and postage fees	(1,192)
<i>Transit account Forum Bank (UAH)</i>	
Balance at 31 December 2003	-
Balance at 31 December 2004	(26,606)
<i>Transit Forum Bank (USD)</i>	
Balance at 31 December 2003	-
Balance at 31 December 2004	(53)
<b>Total expenses incurred during the year</b>	<b>491,821</b>

**CHARITABLE ORGANIZATION “INTERECOCENTRE”  
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**5. OPERATING ENVIRONMENT**

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

**6. SUBSEQUENT EVENTS**

Subsequent to 31 December 2004 the Recipient received Notice of Suspension of Disbursements for the Project. In accordance with this Notice, IBRD has suspended the Recipient’s right to make further withdrawals from the GEF Trust Fund Grant Account for the Project.

**CHARITABLE ORGANIZATION "INTERECOCENTRE"  
Azov- Black Sea Corridor Biodiversity Conservation Project**

**Audit Documentation Checklist**

<b>Name of Loan/Credit</b>	<b>GEF Trust Fund Grant</b>		
<b>Loan/Credit No.</b>	<b>TF028267 UA</b>	<b>Check if Included</b>	<b>Check if N/A</b>
<b>Audit Period:</b>	<b>Year ended 31 December 2004</b>		
<b>I. Audit Report (Opinion):</b>			
A. Applicable accounting standards noted		<input type="checkbox"/>	<input type="checkbox"/>
B. Applicable auditing standards noted		<input type="checkbox"/>	<input type="checkbox"/>
C. Opinion rendered on all forms of withdrawals			
1. Statement of Expenditures		<input type="checkbox"/>	<input type="checkbox"/>
2. Special Account		<input type="checkbox"/>	<input type="checkbox"/>
D. All sources of financing for the project are noted		<input type="checkbox"/>	<input type="checkbox"/>
<b>II. Financial Reports:</b>			
A. Revenue Earning Entity			
1. Balance Sheet		<input type="checkbox"/>	<input type="checkbox"/>
2. Cash Flow Statement		<input type="checkbox"/>	<input type="checkbox"/>
3. Income Statement		<input type="checkbox"/>	<input type="checkbox"/>
B. Non-Revenue Earning Entity			
1. Balance Sheet		<input type="checkbox"/>	<input type="checkbox"/>
2. Statement of Sources and Uses of Funds		<input type="checkbox"/>	<input type="checkbox"/>
C. If applicable			
1. Statement of Expenditure (SOE) Statement		<input type="checkbox"/>	<input type="checkbox"/>
2. Special Account Statement		<input type="checkbox"/>	<input type="checkbox"/>
<b>III. Notes to the Financial Statements</b>			
		<input type="checkbox"/>	<input type="checkbox"/>
<b>IV. Management Letter (issued separately)</b>			
		<input type="checkbox"/>	<input type="checkbox"/>