

*Financial Statements of*

**INTERNATIONAL SCIENCE AND  
TECHNOLOGY CENTER**

*For the year ended December 31, 2017*



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## Independent Auditors' Report

### To the Governing Board of the International Science and Technological Center

#### *Our Qualified Opinion on the Financial Statements*

We have audited the accompanying financial statements of the International Science and Technological Center (hereinafter "ISTC"), set out on pages 1 to 29 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2017,
- 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the ISTC as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for Qualified Opinion*

Under the terms of the project agreement concluded between the ISTC 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 ISTC may ultimately terminate the project and demand the prompt return of all payments and goods previously provided. Institute's potential failure to return the funds and goods creates additional credit risk exposure to the ISTC. We were unable to obtain sufficient appropriate audit evidence about the recipient institutes' compliance with the above contractual condition as no related effective controls or supporting records existed at the ISTC, and we were also denied access to the relevant accounting records of the recipient institutes. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for project revenue, project expenditure, designated capital contributions and account receivable. Our audit opinion on the ISTC's financial statements for the year ended 31 December 2016 was also modified accordingly.

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 ISTC 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 qualified 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 ISTC'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 ISTC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ISTC'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 ISTC'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 ISTC'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 ISTC 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 SIA  
Licence No. 55

A handwritten signature in black ink, appearing to be 'Armine Movsisjana', written in a cursive style.

Armine Movsisjana  
Chairperson of the Board  
Latvian Certified Auditor  
Certificate No. 178  
*Riga, Latvia*  
25 May 2018

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Statement of Movements in Capital Contributions**  
For the year ended December 31, 2017

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**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Statement of Movements in Capital Contributions**  
For the year ended December 31, 2017

**Statement of Financial Position**

December 31, 2017 and 2016

(Thousands of U.S. Dollars)

	2017	2016
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 4)	37,718	41,520
Receivables		
Amounts due from funding parties (Note 5)	6,038	5,399
Project advances	58	60
Other receivables	5,777	286
Prepaid expenses	22	32
Accrued income receivable	30	14
	49,643	47,311
<b>NON-CURRENT RECEIVABLES FROM FUNDING PARTIES (Note 5)</b>		
	1,367	3,072
<b>TOTAL ASSETS</b>	<b>51,010</b>	<b>50,383</b>
<b>LIABILITIES AND CAPITAL CONTRIBUTIONS</b>		
<b>CURRENT</b>		
Accounts payable		
Projects	\$ 307	\$ 138
Administration and project vendors	158	105
Administrative commitments (Note 7)	66	91
Grants payable to institutes	591	522
	1,122	856
<b>CAPITAL CONTRIBUTIONS</b>		
<b>DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - PROJECTS</b>		
	20,311	18,839
<b>DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - OPERATING</b>		
Administrative budget	403	198
Supplemental budget	10,079	2,759
<b>UNDESIGNATED CAPITAL CONTRIBUTIONS ("UCC")</b>		
	19,095	27,731
	49,888	49,527
<b>TOTAL LIABILITIES AND CAPITAL CONTRIBUTION</b>	<b>\$ 51,010</b>	<b>\$ 50,383</b>

Accompanying notes, as set out on pages 9 - 29, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on May 25, 2018

  
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David Cleave  
Executive Director

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Statement of Movements in Capital Contributions**  
For the year ended December 31, 2017

**Statements of Revenues and Expenses**  
Years ended December 31, 2017 and 2016  
(Thousands of U.S. Dollars)

	2017	2016
<b>REVENUES</b>		
Project revenues (Capital movement note (a))	\$ 4,938	\$ 4,358
Supplemental budget (Capital movement note (b))	3,121	2,754
Operating revenues		
Administrative revenue (Note 7)	1,397	1,806
<i>Administrative budget (Capital movement note (b))</i>	1,463	1,897
<i>Changes in deferred revenue</i>	(66)	(91)
Investment income (Capital movement note (c))	237	61
Other income (Note 8)	1,372	-
	<b>11,065</b>	<b>8,979</b>
<b>EXPENSES</b>		
Project expenses (Note 10)	4,938	4,358
<i>Regular unfinished projects</i>	2,992	3,861
<i>Sustainability Support Programs</i>	1,824	347
<i>Regular completed projects</i>	122	150
Supplemental budget (Note 11)	3,121	2,754
Operating expenses		
Administrative costs	1,166	1,527
<i>Administrative expenses (Note 11)</i>	1,232	1,618
<i>Changes in administrative commitments</i>	(66)	(91)
Other expenses (Note 9)	-	148
	<b>9,225</b>	<b>8,787</b>
<b>EXCESS OF REVENUES OVER EXPENSES (Note 12)</b>	<b>\$ 1,840</b>	<b>\$ 192</b>

Accompanying notes, as set out on pages 9 - 29, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on May 25, 2018



David Cleave  
Executive Director

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Movements in Capital Contributions

For the year ended December 31, 2017

### Statements of Cash Flows

Years ended December 31, 2017 and 2016

(Thousands of U.S. Dollars)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Cash received from funding parties (Note 13)	\$ 9,193	\$ 15,326
Cash out	<u>(9,521)</u>	<u>(9,227)</u>
Cash generated from operation	<u>(328)</u>	<u>6,099</u>
<i>Net cash from operating activities</i>	(328)	6,099
<b>Cash flows from investing activities</b>		
Investment Income	<u>221</u>	<u>47</u>
<i>Net cash used in investing activities</i>	221	47
<b>Cash flows from financing activities</b>		
Effects of exchange rate changes on cash and cash equivalents	<u>1,329</u>	<u>(156)</u>
<i>Net increase/(decrease) in cash and cash equivalents</i>	1,222	5,990
Cash and cash equivalents at beginning of period (Note 4)	41,520	35,530
Cash and cash equivalents at end of period (Note 4)	<u><u>42,742</u></u>	<u><u>41,520</u></u>

Accompanying notes, as set out on pages 9 - 29, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 25 May 2018



David Cleave  
Executive Director



**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Statement of Movements in Capital Contributions**

For the year ended December 31, 2017

Movements in capital accounts during fiscal years 2017 and 2016 are as follow:

a. *Designated Capital Contributions ("DCC") – Projects are presented at the country level which summarizes Funding Parties and Partners associated with that country.*

Designated capital contribution – Projects represent amounts committed on signed projects net of project expenses incurred to date

	EU	U.S.	Japan	South Korea	Total
DCC projects - December 31, 2015 and January 1, 2016	\$ 1,298	\$ 1,963	\$ 634	\$ 257	\$ 4,152
Transfers to statement of revenues and expenses	(1,799)	(1,799)	(296)	(117)	(4,011)
New projects signed during 2016	2,823	1,273	-	-	4,096
Funding received in excess of close proj. expenses transfer to UCC	(36)	(52)	(1)	-	(89)
Reclassification *	(347)	-	-	-	(347)
Reclassification *	15,038	-	-	-	15,038
DCC projects - December 31, 2016 and January 1, 2017	16,977	1,385	337	140	18,839
Transfers to statement of revenues and expenses	(3,163)	(1,180)	(456)	(139)	(4,938)
New projects signed during 2017	3,551	2,447	510	-	6,508
Funding received in excess of closed proj. expenses transfer to UCC	(36)	(62)	-	-	(98)
DCC projects - December 31, 2017	\$ 17,329	\$ 2,590	\$ 391	\$ 1	\$ 20,311

Accompanying notes, as set out on pages 9 – 29, form an integral part of these financial statements.

\*Reclassification transfer was done in Fiscal Year 2016 to achieve a more accurate presentation of the ISTC projects and programs. DEVCO (EU) funded Sustainability Support multimillion and multiyear programs have been moved from the Supplemental Budget Program accounts to Project accounts. The reclassification is noted in several tables of these Financial Statements.

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Statement of Movements in Capital Contributions**

For the year ended December 31, 2017

b. *Designated Capital Contributions ("DCC") - Operating*

Administrative operating budget represents amount committed for the administration budget for the next fiscal year.

	EU	U.S.	Japan	Norway	South Korea	Kazakhstan	Partners fees	Total
Administrative operating budget								
- December 31, 2015	-	-	-	-	-	-	136	136
and January 1, 2016	802	732	246	50	67	-	-	1,897
New budget approved 2015	-	-	-	-	-	-	-	-
Transfer to statement of revenues	-	-	-	-	-	-	-	-
and expenses	(802)	(732)	(246)	(50)	(67)	-	-	(1,897)
Additional contribution (net of	-	-	-	-	-	-	62	62
adjustments)	-	-	-	-	-	-	-	-
Revenues in excess of expenses	118	108	36	7	10	-	-	279
for the year	-	-	-	-	-	-	-	-
Transfer to UCC for revenues	-	-	-	-	-	-	-	-
in excess of expenses	(118)	(108)	(36)	(7)	(10)	-	-	(279)
Administrative operating budget								
- December 31, 2016	-	-	-	-	-	-	198	198
and January 1, 2017	772	329	162	50	60	40	-	1,413
New budget approved 2017	-	-	-	-	-	-	-	-
Transfer to statement of revenues	-	-	-	-	-	-	-	-
and expenses	(772)	(329)	(162)	(50)	(60)	(40)	(50)	(1,463)
Additional contribution (net of	-	-	-	-	-	-	255	255
adjustments)	-	-	-	-	-	-	-	-
Revenues in excess of expenses	130	56	27	8	10	-	-	231
for the year	-	-	-	-	-	-	-	-
Transfer to UCC for revenues	-	-	-	-	-	-	-	-
in excess of expenses	(130)	(56)	(27)	(8)	(10)	-	-	(231)
Administrative budget								
- December 31, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 403	\$ 403

Accompanying notes, as set out on pages 9-29, form an integral part of these financial statements.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Movements in Capital Contributions

For the year ended December 31, 2017

b. *Designated Capital Contributions ("DCC") – SB programs are presented at the country level which summarizes Funding Parties and Partners associated with that country.*

SOB represents amounts committed to programs and program activities net of related expenses incurred to date.

	EU	U.S.	Japan	Russian	Total
Supplemental budget - December 31, 2015 and January 1, 2016	559	1,563	369	6	2,497
Transfer to statement of revenues and expenses	(1,245)	(1,639)	(217)	-	(3,101)
Additional contribution	16,096	2,147	360	-	18,603
Transfer to DCC - admin	-	-	-	(2)	(2)
Transfer to UCC for unused funds	(261)	(181)	(105)	-	(547)
Transfer other	-	4	-	(4)	-
Reclassification *	347	-	-	-	347
Reclassification *	\$ (15,038)	\$ -	\$ -	\$ -	\$ (15,038)
Supplemental budget - December 31, 2016 and January 1, 2017	458	1,894	407	-	2,759
Transfer to statement of revenues and expenses	(1,399)	(1,422)	(300)	-	(3,121)
Additional contribution	2,232	9,754	426	-	12,412
Transfer to DCC - projects	-	(72)	-	-	(72)
Transfer to DCC - admin	(2)	-	-	-	(2)
Transfer to UCC for unused funds	(744)	(985)	(168)	-	(1,897)
Supplemental operating budget - December 31, 2017	\$ 545	\$ 9,169	\$ 365	\$ -	\$ 10,079

Accompanying notes, as set out on pages 9–29, form an integral part of these financial statements.

\*Reclassification transfer was done in Fiscal Year 2016 to achieve a more accurate presentation of the ISTC projects and programs. DEVCO (EU) funded Sustainability Support multimillion and multiyear programs have been moved from the Supplemental Budget Program accounts to Project accounts. The reclassification is noted in several tables of these Financial Statements.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Movements in Capital Contributions

For the year ended December 31, 2017

*c. Undesignated Capital Contributions ("UCC")*

Undesignated capital contributions are the amounts paid or committed by the funding parties and partners which have not yet been designated for the operating budget or project purposes (see also Note 2d for additional explanations).

UCC - December 31, 2015	\$ 5,822	\$ 18,964	\$ 3,376	\$ 22	\$ 670	\$ 28,854
Increase of capital						
Contributions from parties	4,324	1,788	680	-	-	6,792
Investment income allocation	18	35	7	-	1	61
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	118	108	36	7	10	279
Transfer from DCC for unused funds on programs under operating - supplemental budget	261	181	105	-	-	547
Transfer from DCC - projects for approved funding in excess of expenses	36	52	1	-	-	89
Decrease of capital						
Transfer to DCC - projects for signed projects	(2,431)	(1,273)	-	-	-	(3,704)
Transfer to DCC for operating - administrative budget	(804)	(774)	-	(22)	(67)	(1,667)
Transfer to DCC for operating - supplemental budget	(1,014)	(1,394)	(360)	-	(603)	(2,768)
Transfer of funds	(149)	-	-	-	-	(603)
UCC - December 31, 2016	\$ 6,181	\$ 17,687	\$ 3,845	\$ 7	\$ 11	\$ 27,731

Accompanying notes, as set out on pages 9 – 29, form an integral part of these financial statements.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Movements in Capital Contributions

For the year ended December 31, 2017

c. *Undesignated Capital Contributions ("UCC") (continued)*

	EU	U.S.	Japan	Norway	South Korea	Kazakhstan	Total
UCC - December 31, 2016	\$ 6,181	\$ 17,687	\$ 3,845	\$ 7	\$ 11	\$ -	\$ 27,731
Increase of capital							
Contributions from parties	2,897	400	680	-	-	100	4,077
Investment income allocation	99	110	27	-	1	-	237
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	130	56	27	8	10	-	231
Transfer from DCC for unused funds on programs under operating - supplemental budget	744	985	168	-	-	-	1,897
Transfer from DCC - projects for approved funding in excess of expenses	36	62	-	-	-	-	98
Other transfers	2	2	2	-	-	-	6
Foreign exchange differences	1,372	-	-	-	-	-	1,372
Decrease of capital							
Transfer to DCC - projects for signed projects	(506)	(878)	(510)	-	-	-	(1,894)
Transfer to DCC for operating - administrative budget	(770)	(387)	-	(7)	-	(40)	(1,204)
Transfer to DCC for operating - supplemental budget	(2,434)	(9,604)	(426)	-	-	-	(12,464)
Transfer of funds to STCU	-	(933)	-	-	-	-	(933)
Other	-	1	-	-	-	(60)	(59)
UCC - December 31, 2017	\$ 7,751	\$ 7,501	\$ 3,813	\$ 8	\$ 22	\$ -	\$ 19,095

Accompanying notes, as set out on pages 9 – 29, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on May 25, 2018



David Cleave  
Executive Director

# **INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**

## **Notes to the Financial Statement**

**For the year ended December 31, 2017**

### **1. ORGANIZATION AND BUSINESS**

The International Science and Technology Center (hereinafter "ISTC") was established in 1992 pursuant to an Agreement signed in Moscow, Russian Federation.

Agreement continuing the ISTC was signed on December 9, 2015 at the GB 61 in Astana city, the Republic of Kazakhstan and fully ratified on December 14, 2017.

The objectives of the ISTC are set forth in Article II of the Agreement. The ISTC develops, approves, finances and monitors science and technology projects for civilian purposes, which are to be carried out primarily at institutions and facilities located in the states of the Commonwealth of Independent States ("CIS") and Georgia. The parties to the Continuing Agreement signed in December 2015 were the European Union, the United States of America, Armenia, Georgia, the Republic of Kazakhstan, the Kyrgyz Republic, Tajikistan, Japan, Norway, and the Republic of South Korea. Funding parties which contribute to the ISTC are the States parties, government and non-government partners.

Based on Article IX of the Continuing Agreement, the Government of the Republic of Kazakhstan provides the ISTC with free office space and other facilities, along with maintenance, utilities and security for the facility. Since August 2014, the ISTC has occupied office space provided in kind by the Government of the Republic of Kazakhstan. The annual contribution included free rent, utilities and security services and is estimated at fair value of \$35,538 in 2017 and \$35,112 in 2016.

On January 15, 2018, the ISTC moved to the new premises at 46/1 Turan Avenue, Astana that were provided in kind by the Government of the Republic of Kazakhstan.

The ISTC has been registered with the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (the Committee). The Committee established that the ISTC, as a part of "Diplomatic and consular representations", is not a corporate income tax payer and is not obligatory to submit the declaration for the corporate income tax. Furthermore, the Committee recognized that the ISTC, in accordance with the Paragraph a) of the Article 34 of the Vienna Convention on Diplomatic Relations dated from 18.04.1961, shall be exempt from all dues and taxes, personal or real, national, regional or municipal.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a. *Basis of preparation*

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), except as described below, and management has concluded that the financial statements present fairly the entity's financial position, results of operations and cash flows.

International Accounting Standard ("IAS") 16 "Property, Plant and Equipment" requires non-current assets to be capitalized; depreciated over their useful economic lives and derecognized upon disposal and IAS 38 "Intangible Assets" requires computer software costs and other intangible assets be capitalized and amortized over their useful economic life and derecognized upon disposal. Due to the project-based nature of ISTC'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.

Non-current assets acquired for use by participating institutes as part of the projects, as well as non-current assets acquired by ISTC for the administrative needs, are charged to the Statement of Revenues and Expenses upon acquisition (project related non-current assets acquired in 2017 - \$213 thousand; 2016 - \$441 thousand). For the administrative needs, ISTC acquired \$30 thousand of non-current assets in 2017 and \$36 thousand in 2016.

These financial statements were approved by the Executive Director and the Chief Financial Officer on May 25, 2018 and will be presented for approval to the Governing Board on July 11, 2018. The Governing Board has the power to reject the financial statements, and the right to request that new financial statements be issued.

In these financial statements, the statement of Comprehensive Income is called "the Statement of Revenues and Expenses" and the Statement of Changes in Equity is called "the Statement of Movements in Capital Contributions".

Statement of Cash Flows is prepared based on direct method.

The financial statements have been prepared on a historical cost basis.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

*b. Functional and presentation currency and foreign currency transactions*

The U.S. dollar is the functional currency for the ISTC. 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 ISTC. All financial information presented in U.S. dollars has been rounded to the nearest thousand.

Foreign currency transactions are translated into U.S. dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the European Central Bank for EUR currency and the National Bank of Republic of Kazakhstan for KZT currency exchange rates prevailing at the year-end date. Foreign currency translation gains and losses are charged to the Statement of Revenues and Expenses under Other expenses with the exception of translation gains and losses arising from project and program funding related transactions involving the European Union and EU partners. The exchange rates applied at the period end for the principal currencies are as follows: EUR/USD 1.1993 (2016: 1.0541), USD/KZT 332.33 (2016: 333.29).

*c. Project activity*

ISTC authorizes and funds scientific projects which are carried out at institutes or various organizations. Projects are financed by the funding parties and partners either individually or jointly. All project agreements include a maximum amount of funding to be provided by the funding parties or partners. Projects also includes sustainability support programs which in 2016 financial statements were recognized under Supplemental operating budget ("SOB"). In 2017 financial statements reclassification was performed for current year and previous year Statement of Revenues and Expenses and Capital contributions in Statement of Financial position. There is no effect on net result from this reclassification.

The project activity is accounted for in the financial statements as follows:

Projects

Projects are initially accounted for upon the later occurrence of either the signing date of the project agreement between ISTC, the recipient institutes and the partners or the project commencement date. Upon commencement of the project accounting, the total amount of the funding is credited to the relevant funding parties' designated capital accounts in proportion to the level of funding agreed to by each party. To the extent that the signed projects are not funded by advance payments from the respective funding parties, a receivable is recorded in the accounting records.

Project expenses

Project expenses consist of three primary components: grants to scientists for time invested in the project activity, purchases of equipment and other sundry project expenses. All project expenses are charged to the Statement of Revenues and Expenses when incurred.

Projects that have not completed the project closing procedures are presented as on-going projects in the Statement of Revenues and Expenses.



# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### Project revenues

Project revenues recognized during the year in the Statement of Revenues and Expenses are amounts equal to the total value of project expenses incurred during the year.

### Closed projects

On the closure of a project, revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the initial contributions from the funding parties. Where closed projects have received funds from private contributors, private contributor revenues in excess of expenses are repaid to the private contributor.

### Terminated projects

On the termination of a project, revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the initial contributions from the funding parties. Where terminated projects have received funds from private contributors, private contributor revenues in excess of expenses are repaid to the private contributor.

#### *d. Operating revenues and expenses*

### Administrative and operating budget ("AOB")

Administrative and operating budget revenues recognized in the Statement of Revenues and Expenses during the year are amounts approved by the funding parties for the AOB of the particular year and transferred from the funding parties' designated capital contributions to administrative and operating budget.

AOB operating expenses are charged to the Statement of Revenues and Expenses when incurred.

Revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the administrative revenues contributions or upon the Governing Board's approval can be allocated in total or a portion to the AOB and/or SOB in the same method as described above.

### Supplemental operating budget ("SOB")

Supplemental operating budget revenues are recognized in the Statement of Revenues and Expenses are amounts equal to expenses incurred during the year.

Supplemental budget operating expenses are charged to the Statement of Revenues and Expenses when incurred.

Any surplus in funds upon completion of the programs within the supplemental operating budget is transferred to the funding parties' undesignated capital contribution account.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### 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 of expenses from closed or terminated projects.

In the case of projects funded by the European Union, the annual protocol signed between the ISTC and the European Union and specifying the amount of funding allocated allows a certain proportion of project amounts to be invoiced upon signing the protocol and before the commencement of the individual projects. As a result, the invoices issued during the year are recognized in the financial statements by including them in the European Union's undesignated capital contributions account and amounts receivable from funding parties. Subsequently, when these projects are finally signed, an appropriation is made between the designated and undesignated capital contributions account.

### *e. Investment income*

Investment income is comprised of interest earned during the year on the cash deposits held by the ISTC.

Investment income is credited to the Statement of Revenues and Expenses and allocated to undesignated capital contributions accounts of each funding party based on contributions account balance at the end of each quarter in the fiscal year.

### *f. Cash and cash equivalents*

Cash and cash equivalents in the Statement of Cash Flows comprise of cash and cash deposits with original maturity of less than 3 months and subject to insignificant risk of change in value.

### *g. Accounts receivable recognition*

Amounts due from funding parties and partners are recognized per the obligation schedule of payments when the project agreement is signed (see Note 2c). Uncommitted funding is recognized at the date, when the funding provider commits to the transfer of funds (date of invoice – see also Note 2c).

Receivables are valued according to the principle of prudence and recognized at net amount due less allowances for doubtful receivables.

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable. Given the nature of the ISTC 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 3.

Other receivables include also advances paid for services which will be received in the next financial year under sustainability support programs and cash deposits with original maturity of more than 3 months.

### *h. Non-current assets*

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

Non-current assets are acquired for the ISTC's own use or for the projects and other activities and are comprised of the following:

### ISTC equipment

The costs of the ISTC's equipment, information technology related to purchases and facility improvements are charged to administrative expenses when acquired.

### Project equipment

Since ISTC does not expect to derive any foreseeable economic benefits from the ownership of project equipment, expenses incurred for equipment under each project is recorded as an expense in the Statement of Revenues and Expenses together with other project expenses incurred during the year (see Note 2c).

Despite the fact that ISTC does not consume economic benefits derived from the project equipment over the term of its useful life, ISTC maintains ownership of the equipment during and beyond the period of project implementation.

#### *i. Contingent assets and liabilities*

Possible assets and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ISTC, and give rise to the possibility of future inflows, are disclosed in the financial statements. ISTC does not have other types of contingent liabilities.

#### *j. Employee benefits*

Short term employee benefits, including staff salaries and social security contributions to the staff in the Republic of Kazakhstan, vacation and other benefits are included in expenses on an accrual basis. The ISTC has no obligations to pay further contributions related to employee services in respect to payroll taxes and contributions outside the Republic of Kazakhstan and any pensions on the retirement of employees.

#### *k. Taxation*

Under the terms of the Agreement Continuing the ISTC with the Republic of Kazakhstan government, the ISTC is exempt from corporate income taxes. In addition, the ISTC is exempt from custom duties and Value Added Taxes ("VAT") on imported goods and VAT exempt on purchases within Kazakhstan, Georgia and the CIS participating countries.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### *1. Financial Instruments*

The ISTC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, certificates of deposit, accounts receivable and accounts payable, and a loan receivable. All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities accounted for at amortized cost.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially on the date that they are originated at fair value plus any directly attributable transaction costs. 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, ISTC estimates future cash flows considering all contractual terms of the financial instruments.

ISTC 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 ISTC is recognized as a separate asset or liability.

Financial liabilities are recognized initially on the trade date at which ISTC becomes a party to the contractual provisions of the instrument at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

ISTC derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, ISTC has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

*m. Use of estimates*

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 recognized 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 sources of estimation uncertainty:

**Accounting policy applied to non-current assets:** Please refer to Note 2a and 2h above.

**Valuation of loans and 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 ISTC'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.

Loans and receivables are valued according to the principle of prudence and recognized at net amount due less allowances for doubtful loans and receivables.

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable. Given the nature of the ISTC funding providers, at the reporting date there was no direct exposure to potential impairment (31 December 2017: see Note 3).

**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 (accrued income), 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 2017 ISTC recognized accrued liabilities of \$387 thousand as part of current liabilities (2016: \$266 thousand) with respect to grants and overheads payable. 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 2017 of \$97 thousand (2016: \$ 48 thousand).

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### *n. 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 2017, and have not been applied in preparing these financial statements.

- (i) *IFRS 9 Financial Instruments (2014)* (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.);

The new standard will require the Centre to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

#### *Classification, measurement and business model assessment*

From classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on an approach taking into consideration the business model in which the assets are managed and their cash flow characteristics. The existing classification categories of IAS 39 are to be replaced by the following three categories: Fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost. The new standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

As of the date of approval of these financial statements, the Centre has not completed SPPI testing for all financial asset portfolios. Management still assess applicability of business model to the ISTC's operation.

#### *Impairment of financial assets*

IFRS 9 will also fundamentally change the account receivable loss impairment methodology. The standard will replace IAS 39's "incurred loss" model with a forward-looking "expected credit loss" (ECL) model. The ISTC will be required to recognise an impairment allowance for expected credit losses for all account receivables not held at FVTPL.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The ISTC will recognize loss allowances at an amount equal to lifetime ECLs, except financial instruments for which credit risk has not increased significantly since initial recognition, for which the amount recognized will be the 12-month ECLs:

Currently, the ISTC plans to establish a policy to perform an assessment at the end of each reporting period as to whether a given asset's credit risk has increased significantly

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

To calculate ECL, the ISTC will estimate the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected of the financial asset, i.e. the difference between: the contractual cash flows that due to the ISTC under the contract, and the cash flows that the ISTC expects to receive, discounted at the effective interest rate of the loan.

### *Timeline for implementing IFRS 9*

The ISTC expects that it will be in a position to provide quantitative information on the impact of the transition to IFRS 9 on its financial position and performance in its 2018 financial statements for.

- (ii) *IFRS 15 Revenue from contracts with customers* (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted).

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new 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 1) over time, in a manner that depicts the entity's performance; or 2) at a point in time, when control of the goods or services is transferred to the customer. 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 management does not expect that the new Standard, when initially applied, to have a material impact on the financial statements. The timing and measurement of the revenues are not expected to change significantly under IFRS 15 because of the nature of the ISTC's operations and the types of revenues it earns.

- (iii) *IFRS 16 Leases* - (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15).

The management does not expect that the new Standard, when initially applied, to have a material impact on the financial statements. The Centre does not have any operating leases. Premises which the ISTC have occupied are provided by the Kazakhstan government for which the ISTC does not pay any consideration for rents or utilities and, therefore, use of such premises does not constitute a lease under IFRS 16.

Furthermore, there were no new or revised standards and interpretations that came into force for financial years ending 31 December 2017 that had a material impact on the ISTC.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### 3. FINANCIAL INSTRUMENTS

<b>Financial assets</b>		
Cash and cash equivalents	\$ 37,718	\$ 41,520
Amounts due from funding parties	\$ 7,405	\$ 8,471
Other receivables	\$ 5,024	-
Accrued income receivable	\$ 30	\$ 14
	<u>\$ 50,177</u>	<u>\$ 50,005</u>
	<b>Other liabilities 2017</b>	<b>Other liabilities 2016</b>
<b>Financial liabilities</b>		
Accounts payable	\$ 531	\$ 334
Grants payable to institutes	\$ 591	\$ 522
	<u>\$ 1,122</u>	<u>\$ 856</u>

Management of risk is an essential element of the ISTC's operations. Due to the non-trading nature of the activities of the ISTC, the organization is not exposed to a high degree of financial risk, as disclosed below:

#### *Credit risk*

Credit risk arises when one party to a financial obligation may fail to discharge an obligation and cause the other party to incur a financial loss. The maximum potential exposure to credit risk of ISTC as of 31 December 2017 and 31 December 2016 is represented by the carrying amounts of financial assets as disclosed above (see also Note 5 for the amounts due from funding parties and partners). Given the nature of the ISTC Funding Parties which have established Undesignated Capital Contribution (UCC) accounts at the reporting date create no direct exposure to credit risk. The potential risk is presented in outstanding amounts due from funding Partners that don't have UCC accounts and may fail to discharge obligations. As of 31 December 2017, the ISTC had outstanding \$5,879 in current obligations and \$1,367 in non-current obligations due from the Funding Partners.

#### *Liquidity risk*

Liquidity risk is the risk that ISTC will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. ISTC'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. Practically all of ISTC's financial assets are formed of cash and cash equivalents that are available on demand; net working



# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

capital surplus is \$48,521 thousand as of 31 December 2017 (2016 - \$46,455 thousand). All carrying amounts of the financial liabilities as of 31 December 2017 and 31 December 2016 agree with the respective value of the contractual cash flows and the contractual maturities do not exceed 3 months.

### *Currency risk*

The notional amounts of financial assets and liabilities denominated in foreign currencies were as follows as at the reporting date:

	EUR	RUB	KZT	USD	Total
<b>Financial assets as of 31 December 2017</b>					
Cash and cash equivalents, other receivables	\$ 15,233	\$ -	\$ 10	\$ 27,499	\$ 42,742
Amounts due from funding parties and partners	\$ 5,594	\$ -	\$ -	\$ 1,811	\$ 7,405
Accrued income receivable	\$ -	\$ -	\$ -	\$ 30	\$ 30
	<b>\$ 20,827</b>	<b>\$ -</b>	<b>\$ 10</b>	<b>\$ 29,340</b>	<b>\$ 50,177</b>
<b>Financial liabilities as of 31 December 2017</b>					
Accounts payable	\$ 62	\$ 25	\$ 19	\$ 425	\$ 531
Grants payable to institutes	\$ -	\$ -	\$ -	\$ 591	\$ 591
	<b>\$ 62</b>	<b>\$ 25</b>	<b>\$ 19</b>	<b>\$ 1,016</b>	<b>\$ 1,122</b>
<b>Net currency position as of 31 December 2017</b>	<b>\$ 20,765</b>	<b>\$ (25)</b>	<b>\$ (9)</b>	<b>\$ 28,324</b>	

A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2017 would have increased (decreased) excess of revenues over expenses and capital contributions by \$2,076 thousand. This analysis assumes that all other variables remain constant.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

	EUR	RUB	KZT	USD	Total
<b>Financial assets as of 31 December 2016</b>					
Cash and cash equivalents, other receivables	\$ 9,113	\$ -	\$ 2	\$ 32,405	\$ 41,520
Amounts due from funding parties	\$ 8,079	\$ -	\$ -	\$ 392	\$ 8,471
Accrued income receivable	\$ -	\$ -	\$ -	\$ 14	\$ 14
	<b>\$ 17,192</b>	<b>\$ -</b>	<b>\$ 2</b>	<b>\$ 32,811</b>	<b>\$ 50,005</b>

	EUR	RUB	KZT	USD	Total
<b>Financial liabilities as of 31 December 2016</b>					
Accounts payable	\$ 55	-	\$ 45	\$ 234	\$ 334
Grants payable to institutes	\$ -	\$ -	\$ -	\$ 522	\$ 522
	<b>\$ 55</b>	<b>\$ -</b>	<b>\$ 45</b>	<b>\$ 756</b>	<b>\$ 856</b>

<b>Net currency position as of 31 December 2016</b>	<b>\$ 17,137</b>	<b>\$ -</b>	<b>\$ (43)</b>	<b>\$ 32,055</b>	
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A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2016 would have increased (decreased) excess of revenues over expenses by \$ 1,714 thousand. This analysis assumes that all other variables remain constant.

### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. ISTC manages interest rate risks by entering into deposit and current account agreements with interest rates that do not significantly differ from market rates. At the reporting date, the interest bearing assets of the ISTC were term deposits and investments in currency fund of \$ 15,173 thousand (2016: \$13,077 thousand).

### *Capital management*

The capital of the ISTC is represented by the net assets attributable to funding parties. The ISTC's objectives in managing capital are to safeguard the assets of the funding parties to enable the ISTC 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. The management of the ISTC after receiving funds from the parties takes care to manage the Parties funds and minimize various risks with the Banks that are chosen to keep these funds and as such these funds are managed on a regular weekly/monthly basis in terms of operational and liquidity requirements.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### *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, or in its absence, the most advantageous market to which ISTC 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, ISTC uses market observable data as far as possible. Fair values are categorized 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 categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

ISTC 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 other 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.

Due to the short-term nature of ISTC financial assets and liabilities, the estimated fair values of all financial instruments of ISTC approximate their carrying amounts as of 31 December 2017 and 2016 and are classified to Level 3 in fair value hierarchy.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up of the following amounts:

	<u>2017</u>	<u>2016</u>
Cash and short-term deposits	\$ 37,718	\$ 41,520
	<u>\$ 37,718</u>	<u>\$ 41,520</u>

As of 31 December 2017 and 31 December 2016, cash and cash equivalents in the short-term deposits are placed with Kazakhstan and foreign banks. Interest rates earned on interest bearing

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

deposits are in line with market rates prevailing in the countries of placement.

### 5. AMOUNTS DUE FROM FUNDING PARTIES AND PARTNERS

Amounts due from funding parties at December 31 2017 were as follows:

	<u>2017</u>	<u>2016</u>
Due within one year		
Other funding parties and partners	6,038	5,399
	<u>\$ 6,038</u>	<u>\$ 5,399</u>
Due after one year		
Other funding parties and partners	1,367	3,072
	<u>\$ 1,367</u>	<u>\$ 3,072</u>

### 6. OTHER RECEIVABLES

Other receivables are amounts paid to vendors and contractors for goods or services in advance and cash deposit.

	<u>2017</u>	<u>2016</u>
Cash deposit	5,024	-
Advances paid for services under sustainability support program	600	-
Other receivables	153	286
	<u>\$ 5,777</u>	<u>\$ 286</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### 7. ADMINISTRATIVE REVENUE

Approved Administrative budget for 2017 is \$1,463 (2016: 1,897) including Administrative Commitments \$66 (2016: \$91) which consist of following categories: Personal \$1 (2016: \$1), Center operations \$ 32 (2016: \$62), Center facilities and equipment \$ 24 (2016: \$20), and other costs of \$10 (2016: \$8).

### 8. OTHER INCOME

Other income during 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Net foreign exchange gain	\$ 1 372	\$ -
VAT	\$ -	\$ -
	<u>\$ 1 372</u>	<u>\$ -</u>

The unrealized exchange gain of \$1,372 was recorded at the end of the fiscal year 2017. Foreign currency translation gains and losses are charged to the Statement of Revenues and Expenses under Other expenses with the exception of translation gains and losses arising from project and program funding related transactions involving the European Union and EU partners. The exchange rates applied at the period end for the principal currencies were 1.1993 EUR/USD in 2017 vs 1.0541 EUR/USD in 2016.

The Parties have agreed that VAT recoveries should be repaid to the individual funding bodies when received. Since the Continuation Agreement ratification was fully completed on December 14, 2017, the ISTC will start a process for VAT reimbursements with the Kazakhstan authorities.

### 9. OTHER EXPENSES

Other expenses during 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Other expenses		
Net foreign exchange loss	\$ -	\$ (148)
Other	\$ -	\$ -
	<u>\$ -</u>	<u>\$ (148)</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### 10. PROJECT EXPENSES

Project expenses charged to the statements of revenues and expenses during each year ended December 31 since inception are as follows:

2017	\$ 4,938
2016	4,358
2015	4,353
2014	8,279
2013	13,544
2012	18,111
2011	30,927
2010	39,307
2009	45,992
2008	57,158
2007	66,002
2006	67,454
2005	72,476
2004	77,102
2003	75,715
2002	68,215
2001	52,690
2000	43,923
1999	36,039
1998	33,320
1997	31,029
1996	28,459
1995	22,001
1994	1,765
Cumulative project expenses incurred as of December 31, 2017	\$ 903,157

\*Reclassification transfer of \$347 was done in Fiscal Year 2016 to achieve a more accurate presentation of the ISTC projects and programs.

DEVCO (EU) funded Sustainability Support multimillion and multiyear programs have been moved from the Supplemental budget program accounts to Project accounts. The reclassification is noted in several tables of these Financial Statements.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### PROJECT EXPENSES (continued)

Cumulative project expenses amounting to \$903,157 thousand (2016 \$898,219 thousand) reflect actual expenses incurred on ongoing projects and completed projects. Such expenses consisted of the following in 2017 and 2016 for Regular Projects and Sustainability Support Programs:

<u>Regular Projects</u>	<u>2017</u>	<u>2016</u>
Grants to scientists	\$ 2,161	\$ 2,747
Equipment	142	441
Other project costs	811	823
	<u>\$ 3,114</u>	<u>\$ 4,011</u>

<u>Sustainability Support Programs</u>	<u>2017</u>	<u>2016</u>
Grants to scientists	157	-
Equipment	70	-
Other program costs	1,597	347
	<u>\$ 1,824</u>	<u>347</u>

Other program costs include trainings, training materials, and contractual costs.

Reclassification transfer of \$347 was done in Fiscal Year 2016 to achieve a more accurate presentation of the ISTC projects and programs.

### 11. OPERATING EXPENSES

Operating expenses incurred during 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Administrative budget		
Personnel	\$ 793	\$ 893
Center operations	246	453
Center facilities and equipment	59	135
Information and branch offices	134	137
	<u>\$ 1,232</u>	<u>\$ 1,618</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

DEVCO (EU) funded Sustainability Support multimillion and multiyear programs have been moved from the Supplemental budget program accounts to Project accounts. The reclassification is noted in several tables of these Financial Statements.

	<u>2017</u>	<u>2016</u>
Supplemental budget		
Training	\$ -	\$ 44
Seminars	1,721	1,285
Management information systems	228	26
Expert participation		
United States	254	562
European Union	772	684
Japan	146	153
	<u>\$ 3,121</u>	<u>\$ 2,754</u>



**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Notes to the Financial Statement**

For the year ended December 31, 2017

**12. FUNDING PARTY INFORMATION**

The revenues in excess of expenses during the year have been allocated to the funding parties as follows:

	Project Revenues	Net Admin Budget Revenues	Supplemental Budget Revenues	Investment Income	Project Expenses	Supplemental Budget Expenses	Net Other Income (Expenses)	Total
<u>2017</u>								
European Union	3,163	130	1,399	99	\$ (3,163)	\$ (1,399)	1,372	1,601
Japan	456	27	300	27	\$ (456)	\$ (300)	-	54
United States	1,180	56	1,422	110	\$ (1,180)	\$ (1,422)	-	166
Norway	-	8	-	-	\$ -	\$ -	-	8
South Korea	139	10	-	1	\$ (139)	\$ -	-	11
	<u>\$ 4,938</u>	<u>\$ 231</u>	<u>\$ 3,121</u>	<u>\$ 237</u>	<u>\$ (4,938)</u>	<u>\$ (3,121)</u>	<u>\$ 1,372</u>	<u>\$ 1,840</u>
<u>2016</u>								
European Union	2,146	118	898	17	\$ (2,146)	\$ (898)	(148)	(13)
Japan	296	36	217	7	\$ (296)	\$ (217)	-	43
United States	1,799	108	1,639	35	\$ (1,799)	\$ (1,639)	-	143
Norway	-	7	-	-	\$ -	\$ -	-	7
South Korea	117	10	-	1	\$ (117)	\$ -	-	11
	<u>\$ 4,358</u>	<u>\$ 279</u>	<u>\$ 2,754</u>	<u>\$ 60</u>	<u>\$ (4,358)</u>	<u>\$ (2,754)</u>	<u>\$ (148)</u>	<u>\$ 192</u>

All revenues in excess of expenses arising during the year have been allocated to the funding parties UCC accounts based on the funding levels of the sponsors.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to the Financial Statement

For the year ended December 31, 2017

### 13. AMOUNTS RECEIVED FROM FUNDING PARTIES

Amounts received during the year from the funding parties have either been recorded against accounts receivable or directly against the parties' capital contributions accounts. Such amounts received, less transfer of funds back to funding parties, during 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
European Union	\$ 8,196	\$ 11,327
Japan	842	926
United States	(48)	3,648
Norway	43	28
South Korea	60	(603)
Kazakhstan	100	-
	<u>\$ 9,193</u>	<u>\$ 15,326</u>

### 14. FINANCIAL COMMITMENTS

The funding parties have approved but not yet signed 8 (2016 - 9) projects with a total funding of \$2,799 thousand (2016 - \$2,799 thousand) including €127 thousand; (2016 - €123 thousand) denominated pledges at December 31, 2017 and 2016. Out of \$2,799, the amount of \$520 was approved for projects by GB 60 in June 2015, and \$2,279 was committed by government partners in FY2017 by GB 61, G64 and GB65. The agreements for projects unsigned as of December 31, 2017 are expected to be signed in 2018.

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

The ISTC 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 December 65<sup>th</sup> Governing Board Meeting in Frankfurt to try and seek out ways to deal with this challenge. Currently, the U.S. DoS Party has adequate funds on hand to support the ISTC for the immediate future.

### 15. CONTINGENT LIABILITIES

There are no contingent liabilities to report in 2017 (2016 – None).

### 16. RELATED PARTIES

Other than the parties to the Agreement described in Note 1, there are no related parties (2016 - None). All transactions with related parties have been undertaken on arm's length terms.