

INTERNATIONAL UNION OF
PURE AND APPLIED CHEMISTRY

Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Executive Committee
International Union of Pure and Applied Chemistry:

We have audited the accompanying statements of financial position of the International Union of Pure and Applied Chemistry ("IUPAC") as of December 31, 2003 and 2002, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of IUPAC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the International Union of Pure and Applied Chemistry as of December 31, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Batchelor, Tillery & Roberts, LLP

March 19, 2004

INTERNATIONAL UNION OF PURE
AND APPLIED CHEMISTRY

Statements of Financial Position

December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 517,660	811,018
Subscriptions receivable (net of allowance for doubtful accounts of \$46,000 in 2003 and \$40,000 in 2002)	28,975	49,558
Other receivables	9,211	7,381
Inventories	14,000	20,720
Prepaid expenses and other assets	<u>16,156</u>	<u>9,871</u>
Total current assets	586,002	898,548
 Furniture, fixtures, and equipment, net	 38,776	 43,776
Investments, at market value	<u>5,036,153</u>	<u>4,158,757</u>
	 \$ <u>5,660,931</u>	 <u>5,101,081</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	104,100	75,894
Unearned subscriptions	<u>571,059</u>	<u>727,747</u>
Total current liabilities	<u>675,159</u>	<u>803,641</u>
 Commitments		
Net assets:		
Unrestricted	4,851,185	4,275,781
Temporarily restricted	3,928	16,000
Permanently restricted	<u>130,659</u>	<u>5,659</u>
Total net assets	<u>4,985,772</u>	<u>4,297,440</u>
	 \$ <u>5,660,931</u>	 <u>5,101,081</u>

See accompanying notes to financial statements.

INTERNATIONAL UNION OF PURE
AND APPLIED CHEMISTRY

Statements of Activities

Years ended December 31, 2003 and 2002

	2003			Total	2002 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Support:					
Grants and contributions	\$ 59,767	-	125,000	184,767	130,575
National subscriptions and service charges	713,735	-	-	713,735	690,161
Affiliate membership program	82,461	-	-	82,461	74,731
Net assets released from restrictions	<u>16,000</u>	<u>(16,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support	<u>871,963</u>	<u>(16,000)</u>	<u>125,000</u>	<u>980,963</u>	<u>895,467</u>
Other revenue:					
Publications	770,572	-	-	770,572	765,569
Investment income (loss), net	716,220	3,928	-	720,148	(119,133)
Other	<u>25,709</u>	<u>-</u>	<u>-</u>	<u>25,709</u>	<u>18,347</u>
Total other revenue	<u>1,512,501</u>	<u>3,928</u>	<u>-</u>	<u>1,516,429</u>	<u>664,783</u>
Total support and other revenue	<u>2,384,464</u>	<u>(12,072)</u>	<u>125,000</u>	<u>2,497,392</u>	<u>1,560,250</u>
Expenses:					
Program and publications	1,198,304	-	-	1,198,304	845,425
Management and general	<u>610,756</u>	<u>-</u>	<u>-</u>	<u>610,756</u>	<u>639,853</u>
Total expenses	<u>1,809,060</u>	<u>-</u>	<u>-</u>	<u>1,809,060</u>	<u>1,485,278</u>
Increase (decrease) in net assets	575,404	(12,072)	125,000	688,332	74,972
Net assets, beginning of year	<u>4,275,781</u>	<u>16,000</u>	<u>5,659</u>	<u>4,297,440</u>	<u>4,222,468</u>
Net assets, end of year	\$ <u>4,851,185</u>	<u>3,928</u>	<u>130,659</u>	<u>4,985,772</u>	<u>4,297,440</u>

(Continued)

INTERNATIONAL UNION OF PURE
AND APPLIED CHEMISTRY

Statements of Activities, Continued

Years ended December 31, 2003 and 2002

	2002			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Support:				
Grants and contributions	\$ 114,575	16,000	-	130,575
National subscriptions and service charges	690,161	-	-	690,161
Affiliate membership program	74,731	-	-	74,731
Net assets released from restrictions	<u>5,000</u>	<u>(5,000)</u>	<u>-</u>	<u>-</u>
Total support	<u>884,467</u>	<u>11,000</u>	<u>-</u>	<u>895,467</u>
Other revenue:				
Publications	765,569	-	-	765,569
Investment (loss) income, net	(119,133)	-	-	(119,133)
Other	<u>18,347</u>	<u>-</u>	<u>-</u>	<u>18,347</u>
Total other revenue	<u>664,783</u>	<u>-</u>	<u>-</u>	<u>664,783</u>
Total support and other revenue	<u>1,549,250</u>	<u>11,000</u>	<u>-</u>	<u>1,560,250</u>
Expenses:				
Program and publications	845,425	-	-	845,425
Management and general	<u>639,853</u>	<u>-</u>	<u>-</u>	<u>639,853</u>
Total expenses	<u>1,485,278</u>	<u>-</u>	<u>-</u>	<u>1,485,278</u>
Increase in net assets	63,972	11,000	-	74,972
Net assets, beginning of year	<u>4,211,809</u>	<u>5,000</u>	<u>5,659</u>	<u>4,222,468</u>
Net assets, end of year	\$ <u>4,275,781</u>	<u>16,000</u>	<u>5,659</u>	<u>4,297,440</u>

See accompanying notes to financial statements.

INTERNATIONAL UNION OF PURE
AND APPLIED CHEMISTRY

Statements of Cash Flows

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Increase in net assets	\$ 688,332	74,972
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	15,912	16,611
Bad debt expense	5,659	27,693
Realized losses on investments	4,934	27,037
Unrealized (gains) losses on investments	(548,319)	249,043
Loss on disposal	-	2,924
Changes in operating assets and liabilities:		
Subscriptions receivable	14,924	(55,801)
Other receivables	(1,830)	20,383
Inventories	6,720	8,862
Prepaid expenses and other assets	(6,285)	1,734
Accounts payable and accrued expenses	28,206	866
Unearned subscriptions	(156,688)	<u>151,350</u>
Net cash provided by operating activities	<u>51,565</u>	<u>525,674</u>
Cash flows from investing activities:		
Purchases of furniture, fixtures, and equipment	(10,912)	(8,780)
Proceeds from sale of equipment	-	300
Proceeds from sales of investments	485,276	136,830
Purchases of investments	(819,287)	(439,762)
Net cash used in investing activities	<u>(344,923)</u>	<u>(311,412)</u>
Net (decrease) increase in cash and cash equivalents	(293,358)	214,262
Cash and cash equivalents, beginning of year	<u>811,018</u>	<u>596,756</u>
Cash and cash equivalents, end of year	\$ <u>517,660</u>	<u>811,018</u>

See accompanying notes to financial statements.

INTERNATIONAL UNION OF PURE
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Statements of Functional Expenses

Years ended December 31, 2003 and 2002

	2003			2002 <u>Total</u>
	<u>Program and publications</u>	<u>Management and general</u>	<u>Total</u>	
Administrative costs	\$ 174,404	8,716	183,120	73,360
Audit and accounting	-	30,213	30,213	32,719
Bad debt expense	-	5,659	5,659	27,692
Contracted services	402,475	58,158	460,633	388,630
Contributions	30,200	-	30,200	25,352
Depreciation and amortization	-	15,912	15,912	16,611
Insurance	-	1,936	1,936	2,512
Prizes and awards	-	-	-	480
Maintenance	-	738	738	300
Office supplies and expenses	-	33,298	33,298	34,008
Payroll taxes and benefits	-	46,518	46,518	40,222
Postage	4,495	16,616	21,111	27,924
Printing and publications	28,454	13,572	42,026	53,787
Building operations	-	17,775	17,775	17,775
Salaries	-	282,439	282,439	265,209
Travel and subsistence	533,147	61,000	594,147	459,766
Utilities	-	17,686	17,686	14,118
Miscellaneous	<u>25,129</u>	<u>520</u>	<u>25,649</u>	<u>4,813</u>
	<u>\$ 1,198,304</u>	<u>610,756</u>	<u>1,809,060</u>	<u>1,485,278</u>

(Continued)

INTERNATIONAL UNION OF PURE
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Statements of Functional Expenses, Continued

Years ended December 31, 2003 and 2002

	2002		
	Program and publications	Management and general	Total
Administrative costs	\$ 64,305	9,055	73,360
Audit and accounting	-	32,719	32,719
Bad debts expense	-	27,692	27,692
Contracted services	349,612	39,018	388,630
Contributions	25,352	-	25,352
Depreciation and amortization	-	16,611	16,611
Insurance	-	2,512	2,512
Prizes and awards	-	480	480
Maintenance	-	300	300
Office supplies and expenses	-	34,008	34,008
Payroll taxes and benefits	-	40,222	40,222
Postage	4,671	23,253	27,924
Printing and publications	19,111	34,676	53,787
Building operations	-	17,775	17,775
Salaries	-	265,209	265,209
Travel and subsistence	381,686	78,080	459,766
Utilities	-	14,118	14,118
Miscellaneous	<u>688</u>	<u>4,125</u>	<u>4,813</u>
	<u>\$ 845,425</u>	<u>639,853</u>	<u>1,485,278</u>

See accompanying notes to financial statements.

INTERNATIONAL UNION OF PURE
AND APPLIED CHEMISTRY

Notes to Financial Statements

December 31, 2003 and 2002

(1) Nature of Organization and Significant Accounting Policies

The International Union of Pure and Applied Chemistry (IUPAC), founded in 1919, is a voluntary nongovernmental, nonprofit association of forty-four national adhering organizations representing the chemists of their countries. Additionally, there are twenty associate national adhering organizations, thirty-three associated organizations, and more than one hundred ten company associates.

The objectives of IUPAC are to promote continuing cooperation among the chemists of the member countries, to study topics of international importance to pure and applied chemistry which need standardization or codification, to cooperate with other international organizations which deal with topics of a chemical nature, and to contribute to the advancement of pure and applied chemistry in all its aspects.

The significant accounting policies of IUPAC are as follows:

Support, Revenues, and Expenses

IUPAC derives its revenues primarily from national subscriptions, publication income, and investment income. Support, revenues, and expenses are recorded on the accrual basis, and revenue received for future subscriptions is deferred until the applicable year.

Contributions received are measured at their fair values and are reported as an increase in net assets. IUPAC reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Cash and Cash Equivalents

Cash and cash equivalents include commercial checking and money market accounts. At year-end and throughout the year, IUPAC had on deposit with a financial institution amounts in excess of FDIC insurance limits. IUPAC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Allowance for Doubtful Accounts

An allowance is provided for uncollectible receivables equal to the losses that are estimated to be incurred in the collection of all receivables. The allowance is based on historical collection experience combined with a review of the current status of the existing receivables.

INTERNATIONAL UNION OF PURE
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Notes to Financial Statements, Continued

December 31, 2003 and 2002

(1) Nature of Organization and Significant Accounting Policies, Continued

Inventories

Inventories, consisting of various publications, are stated at the lower of cost or market, with cost determined on the weighted-average method.

Investments

Investments in marketable securities are stated at fair market value. Investment income (including gains and losses on investments, interest, and dividends) is included in the statement of activities as a change in unrestricted net assets, except for earnings on permanently restricted net assets which are reported as temporarily restricted.

Furniture, Fixtures, and Equipment

Furniture, fixtures, and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method.

Income Taxes

IUPAC is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made in the 2002 financial statements to conform with the 2003 presentation. Such reclassifications have no impact on change in net assets or net assets.

INTERNATIONAL UNION OF PURE
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Notes to Financial Statements, Continued

December 31, 2003 and 2002

(2) Furniture, Fixtures, and Equipment

	<u>2003</u>	<u>2002</u>
Furniture, fixtures, and equipment consist of the following:		
Equipment	\$ 56,102	52,772
Furniture and fixtures	48,877	41,294
Leasehold improvements	<u>16,097</u>	<u>16,097</u>
	121,076	110,163
Less accumulated depreciation and amortization	<u>(82,300)</u>	<u>(66,387)</u>
	<u>\$ 38,776</u>	<u>43,776</u>

(3) Investments

IUPAC's investments are held by Merrill Lynch. The following table presents the fair market value of those investments (investments that represent five percent or more of net assets are separately identified):

	<u>2003</u>		<u>2002</u>
	<u>Number of</u> <u>shares/par</u>	<u>Fair</u> <u>value</u>	<u>Fair</u> <u>value</u>
Corporate bonds (4.25% - 8.0%), with various maturities through May 2015	\$ <u>2,431,000</u>	\$ <u>2,804,842</u>	<u>2,416,314</u>
Equity securities:			
Defined Asset Fund, S&P Midcap Trust	247,549	395,262	292,257
MLIIF European Value Portfolio, Class A2	9,730	336,755	251,130
Defined Asset Fund, S&P 500 Trust 2	147,320	295,185	230,135
MLIIF UA Basic Value Portfolio, Class A2	6,797	269,977	-
Other	-	<u>934,132</u>	<u>968,921</u>
Total equity securities		<u>2,231,311</u>	<u>1,742,443</u>
		<u>\$ 5,036,153</u>	<u>4,158,757</u>

The carrying amount of investments totaled \$4,517,887 and \$4,133,818 as of December 31, 2003 and 2002, respectively.

INTERNATIONAL UNION OF PURE
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Notes to Financial Statements, Continued

December 31, 2003 and 2002

(3) Investments, Continued

Investment income (loss), net, consists of the following:

	<u>2003</u>	<u>2002</u>
Dividends and interest	\$ 176,763	156,947
Realized losses	(4,934)	(27,037)
Unrealized gains (losses)	<u>548,319</u>	<u>(249,043)</u>
	\$ <u>720,148</u>	<u>(119,133)</u>

(4) Leases

IUPAC leases its facilities under an operating lease, which began in March 1997. This lease has a term of ten years with options to extend the term of the lease for successive one-year periods not to exceed ten additional years. Building operating expenses totaled \$23,699 and \$22,788 in 2003 and 2002, respectively.

Future estimated minimum rental expenses are as follows:

<u>Year ending December 31,</u>	
2004	\$ 23,375
2005	23,375
2006	23,375
2007	<u>5,844</u>
	\$ <u>75,969</u>

IUPAC subleased a portion of its facilities under an agreement which became effective October 1, 1997, for a term of five years and three months. Rental income under this sublease was \$1,723 and \$10,340 for 2003 and 2002, respectively. The sublease was terminated in February 2003.

(5) Net Assets

Temporarily restricted net assets of \$3,646 as of December 31, 2003 consist of interest earned on the Samsung General Chemicals Endowment Fund. Temporarily restricted net assets of \$16,000 as of December 31, 2002 consist of an Army Reserve grant restricted for travel and subsistence for attendees at the 42nd IUPAC General Assembly held in Ottawa, Canada in August 2003.

INTERNATIONAL UNION OF PURE
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Notes to Financial Statements, Continued

December 31, 2003 and 2002

(5) Net Assets, Continued

Permanently restricted net assets consist of the Paulo Fransozini Endowment Fund totaling \$5,659 and the Samsung General Chemicals Endowment Fund totaling \$125,000. Income earned by the Paulo Fransozini Endowment Fund is restricted for awards to science students to attend particular IUPAC meetings. Income earned by the Samsung General Chemicals Endowment Fund is restricted for awards to students and researchers in the field of polymer science and support of educational projects of the IUPAC Macromolecular Division. Such income is recorded as temporarily restricted when earned.

(6) Concentrations of Credit and Market Risk

Financial instruments that potentially expose IUPAC to concentrations of credit and market risk consist primarily of cash equivalents, investments, and subscriptions receivable. Cash equivalents and investments are held by Merrill Lynch and Wachovia Bank, N.A., and no single investment exceeds ten percent of total investments. Subscriptions receivable are amounts due from national adhering organizations. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Beginning in 2004, national adhering organizations were billed their annual national subscriptions in their national foreign currency. As a result, IUPAC has assumed the risk of changes in the foreign currency rates in relation to the United States dollar on these billings. IUPAC has made purchases of certain foreign currency-denominated investments in an effort to reduce the risk of foreign currency exchange losses on these billings when collected.