

## **Item 13.1: Biennial Report of Treasurer**

### **Treasurer's Review**

I am happy to report that the financial situation of IUPAC is still in line with our plans and at the present time well in balance with the Budget the Bureau and Council voted on at Ottawa in August 2003. As you will see from the Finance Committee report, the reserves are adequate and our earlier losses due to the turmoil in the finance markets have been made up. The Financial Committee has made the right moves in the investments area and our reserves secure operations for the next biennium.

That is the good news.

Unfortunately we had to take actions against some National Adhering Organizations who had not paid their National Subscriptions for more than two years. Fairness and our rules were clearly applied; in one instance we received payment of part of the dues in arrears.

If we look to the future and anticipate the changes in the next years, some concerns have to be outlined. The worldwide economy continues to turbulent, some of our National Adhering Organizations are facing financial bottlenecks, and governments are actually overspending to accelerate the economy, consequently creating large debt. Practically all our direct and indirect sources for funds have seriously decreased spending and have cost cutting actions in place. Not-for-profit organizations like ours are competing in this increasingly difficult market for financial support. Talking to industry and industry-related organizations, we have had to face tough questions about validating our spending and our returns. Our Strategic Plan is to some extent an answer to the changed economic and political environment. A good part is dedicated to a better understanding of our future with our internal and external constituents. We do not have the means to finance all our ideas but will need to continue to concentrate and focus on topics we feel are our strengths.

We have learned to cope with the uncertainty in the economy. It seems that our billing of the National Subscription in local currency has reduced some of the trouble our National Adherent Organization had in the past. The rather weak USD helped as well. I should point out that because of government regulations some of our NAOs must be billed in USD.

In the past Biennium we were able to fund all approved projects. A survey of the projects shows that, with a few exceptions, the spending discipline is good.

The Table that follows this report summarizes the financial results for IUPAC for 2002, 2003, and 2004 as contained in the audited Financial Statements. The discussion below reviews and comments on some significant aspects of the Union's finances.

### ***Income***

#### ***Membership Dues from National Adhering Organization***

Council at Ottawa approved the billing of National Subscriptions in national currencies. As expected this change has had only a small effect on the Union's income. The expenses for the Ottawa General Assembly included the cost for the transportation and subsistence expenses of one delegate to the Council from each NAO.

As mentioned above action was taken to sanction those NAOs more than two years in arrears in their National Subscriptions. As of 31 December 2004 the total of these arrears was USD 46 392. In April 2005 Brazil paid USD 24 477 with a promise that the balance of its arrears would be paid by 1 July. Chile and Argentina have not paid their arrears as of 20 June and very unfortunately the Council now has to decide on sanctions. In all cases we have tried to convince the National Adhering Organization that a payment avoids serious consequences.

## **Item 13.1: Biennial Report of Treasurer**

National Subscriptions are the main source of our income. Therefore we have to observe a normal payment cycle in the name of fairness. We recognize and are thankful that most of the National Adhering Organizations pay on time.

### *Publications and other income sources*

*Pure and Applied Chemistry:* Due to a modestly higher subscription rate for 2004 and a lower than expected decline in the number of subscribers, publications revenue increased in 2004. Certain one time income also contributed to the increase. However, the long-term trend of slowly declining subscriptions is likely to continue, so an increase in the subscription rate for 2006 will be necessary to maintain the revenue. Please note that the revue from publications is partly offset by expenses associated with publications included in the Program Expenses line of the Table.

*Income from Investments:* Our long-term accounts have recovered their losses from previous years. A greater portion of our investment income is interest than in the past due to the shift of our portfolio from equities to bonds.

*Grants:* IUPAC organized a workshop on Chemical Weapons in Bergen, Norway, in 2002 and received substantial grants from foundations, government agencies and industry to support the worshop. In 2003 we received a major contribution from the Samsung Chemical Company. The income from this grant will be used to support awards to excellent researchers and students in polymer science and to support the educational programs of the IUPAC Polymer Division. The fund will be an endowment type fund that will assure annual awards for the future in this field. These two items explain the unusually large amount shown for the Grants and contributions line item in 2002and 2003 vs. 2004.

### *Expenses*

As is usual, expenses for 2004 were lower than for the previous year due to the expense of the General Assembly in 2003. Expenses were lower than operating income in 2004 and 2005 appears to be on track to end the biennium in balance.

### *Summary and Conclusions*

It is important to recall that it is not the purpose of IUPAC to accumulate reserves, however, the income from the reserves allows the Union to support a more extensive program than it could based on operating income alone. The strong reserves also allow the Union to accept short-term losses, such as will no doubt occur in some years due to the payment of National Subscriptions in national currencies. In general the Union's reserves give it flexibility and scope for activity.

### *Acknowledgements*

The work of the Treasurer was only possible thanks to the great cooperation and help of the Executive Director and the Finance Committee.

**Audited Financial Statements**  
**2002-2004**

	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Support</b>			
Grants and contributions	130,575	184,767	83,478
National Subscriptions	690,161	713,735	726,650
Affiliate Membership Program	74,731	82,461	71,650
<b>Total Support</b>	<u>895,467</u>	<u>980,963</u>	<u>881,778</u>
<b>Other Revenues</b>			
Publications	765,569	770,572	838,462
Investment income	(119,133)	720,148	523,793
Other	18,347	25,709	3,050
<b>Total Other Revenues</b>	<u>664,783</u>	<u>1,516,429</u>	<u>1,365,305</u>
<b>Total Support and Other Revenues</b>	<u>1,560,250</u>	<u>2,497,392</u>	<u>2,247,083</u>
<b>Expenses</b>			
Program	845,425	1,198,304	919,768
Management and general	639,853	610,756	765,954
<b>Total expenses</b>	<u>1,485,278</u>	<u>1,809,060</u>	<u>1,685,722</u>
<b>Increase (Decrease) in net assets</b>	74,972	688,332	561,361
<b>Net assets, beginning of year</b>	<u>4,222,468</u>	<u>4,297,440</u>	<u>4,985,772</u>
<b>Net assets , end of year</b>	<u>4,297,440</u>	<u>4,985,772</u>	<u>5,547,133</u>



## **13.2 Report of the Finance Committee (FC)**

The FC has the following responsibilities within IUPAC:

- (i) To advise the President and the Executive Committee on financial matters.
- (ii) To make financial recommendations for decision by the President and/or the Executive Committee.
- (iii) To review the IUPAC securities at least annually and to make such changes as appear appropriate.
- (iv) The Finance Committee shall not have executive functions except with respect to dealings in securities. The Finance Committee shall have executive authority with respect to selection, purchases, and sales of securities held by IUPAC, provided that the Treasurer concurs with the decisions of the Finance Committee.

In the context of these responsibilities, the FC reviews the financial operations of IUPAC against approved budgets, reviews proposed budgets and sources of income and makes recommendations regarding these matters to the Executive Committee, Bureau and Council. The FC has management responsibility for the long term account of the Union insuring that sufficient funds are available to support its work not only in the current year, but for the foreseeable future. This report consists of three parts: (1) a status report on the long term account, (2) the Long Term Policy Statement, and (3) the Funds Policy Statement. The latter two statements describe policies that govern the investments and use of the long term account of the union.

### **Long Term Account**

The value of the USD value of the IUPAC long-term portfolio and its growth over the last 6 years is shown in Figure 1. The portfolio consists of 65% bond and 35% equity investments and the investments are roughly 40% in European-based companies and 60% in U.S.-based companies. The bond portfolio consists of 23% Euro-denominated bonds.

The FC has actively managed this account conservatively. Decisions taken by the FC during the past 6 years to shift its portfolio from equities into bonds and to invest a significant portion of its portfolio in Euro-denominated bonds is responsible for the good performance of the portfolio.

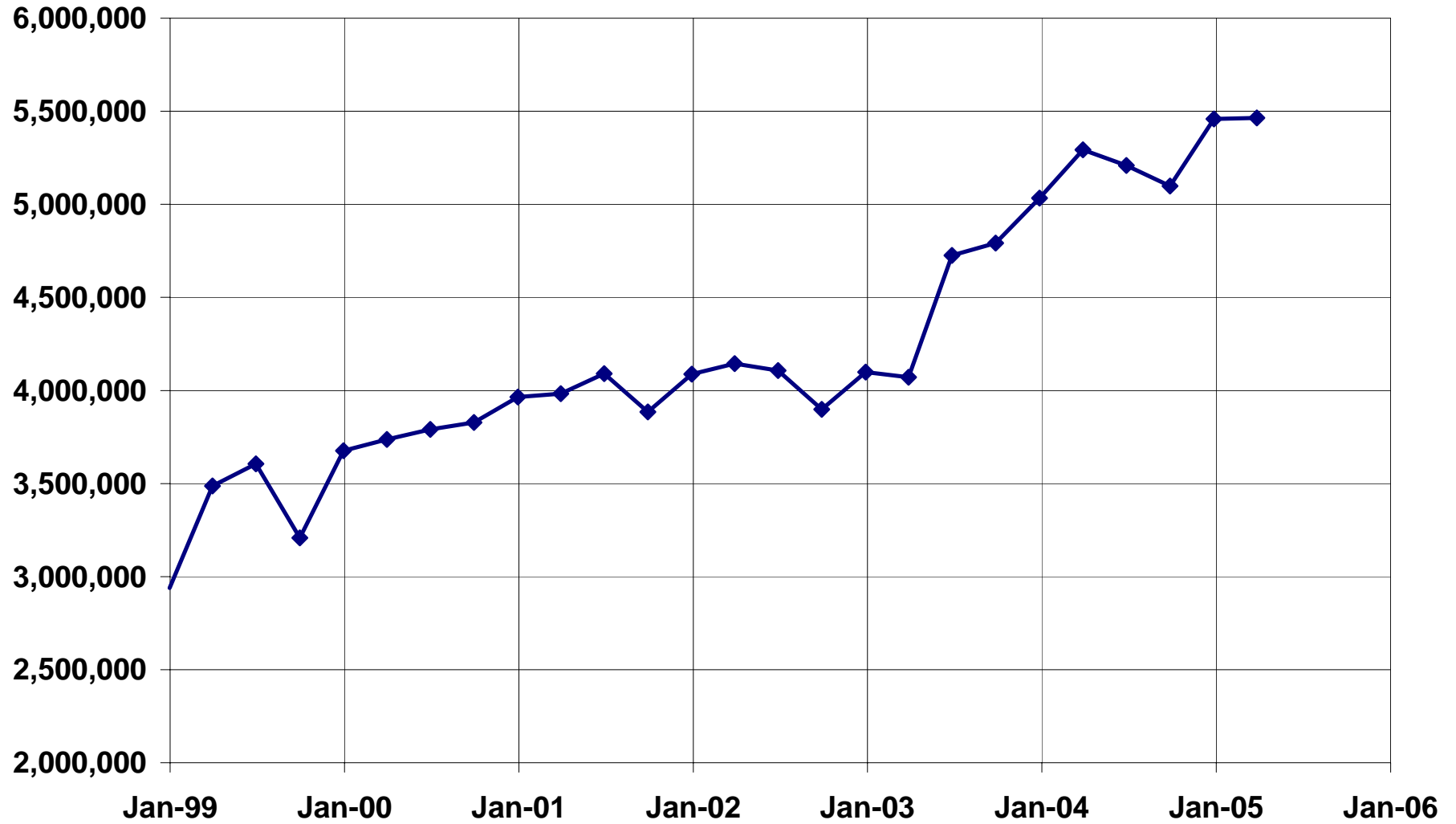
The overall performance of the portfolio is considered excellent and has outperformed the market in most years. This account insures that the Union has sufficient resources to support its programs into the foreseeable future.

### **Investment and Fund Policy Statements**

The Investment Policy and Fund Policy statements are attached for information.

This was the last meeting for Ed Przybylowicz, who has been a member of the committee for 12 years and will complete his term at the end of 2005. Luzius Senti has agreed and been appointed for 2 years as chairman of the FC.

**Figure 1: IUPAC Long Term Portfolio Value (USD) - 6 Years**



## **Investment Policy Updates**

Each year at its annual meeting, the Finance Committee reviews the policy statements governing its investments and fund allocations. The Finance Committee action is either approval or modification of the attached policies.

The Investment Policy statement that follows has been updated with last year's performance data to show how the investments are performing relative to the established guidelines. This review can result in either an endorsement of the present policy, or a revision of the guidelines. Once the policy is approved by the Finance Committee, it is then reviewed at the spring meeting of the Executive Committee meeting and later in the year with the Bureau for information and input.

The Fund Policy is a statement of how the total long-range portfolio is segmented relative to its intended purposes. This statement has evolved over the past four years to its present definitions and guidelines. It is presented here as a statement that has been reviewed and approved by the Executive Committee at its April 2005 meeting.



International Union of Pure and Applied Chemistry

## **INVESTMENT POLICY STATEMENT**

### **1.0 PURPOSE**

The purpose of this document is to identify a set of investment objectives and constraints, asset allocation parameters, performance measurement benchmarks, and guidelines for the International Union of Pure and Applied Chemistry (IUPAC) long term investments. The investment policy statement is intended to assure the Officers, Executive Committee and Bureau of IUPAC that reserve assets are being invested in accordance with the best long-term interests of IUPAC, given the following considerations:

- IUPAC's risk tolerance, or its willingness to withstand substantial losses due to adverse market conditions.
- IUPAC's need to obtain real, or inflation-adjusted, growth in its asset base.
- IUPAC's requirement for current income to support IUPAC programs and activities.
- IUPAC's liquidity requirements, or its need to maintain adequate cash balances to accommodate share withdrawals from the long term portfolio when needed.

### **2.0 INVESTMENT OBJECTIVES AND CONSTRAINTS**

#### **2.1 Objectives**

The primary objective of having reserve funds is provide continuity in the programs set out in the IUPAC Strategic Plan regardless of short term financial discontinuities and disruptions. With this objective, the reserve funds must (1) provide protection for biennial operating expenses, (2) provide for periodic, planned extraordinary expenses (such as moving the Secretariat), (3) provide for extraordinary expenses in connection with General Assembly and Congress meetings held in regions of the world which would increase the normal expenses, and (4) support endowed programs of the organization. It is expected that under normal circumstances, the National Subscriptions plus other annual sources of operating income will cover normal operating expenses.

To meet these objectives the reserve funds of IUPAC must earn an annual real, or inflation adjusted (OECD), total return of 4.5%. It is recognized that the real return objective may not be achieved during each year, however, the fund will be structured to enhance the probability of earning an annualized real return of 4.5% over the long term.

The risk tolerance of the organization should be viewed as moderate. Volatility in the fund's returns can be tolerated provided that there are reasonable expectations that the fund will achieve its desired return over the long term. The reserve portfolio will not be structured to incur unnecessary risk. On an overall portfolio basis, risk shall be controlled through the use of more than one asset class as well as a regional distribution of investments throughout the world, consistent with the investment objectives.





## **2.2 Constraints**

The liquidity requirements of the reserve funds are minimal. At least 2% of the fund shall be available on short notice (30 days) for conversion into liquid assets without significant penalty.

Since IUPAC's 501 (c)(3) tax-exempt status extends to the reserve funds, tax considerations are not a constraint in the management of this fund.

## **3.0 ASSET CLASSES AND ALLOCATION**

In order to minimize the total risk of the reserve funds, three asset classes will be utilized in order to derive the benefits of diversification. Accordingly, the investment portfolio will be managed as a balanced fund consisting of mutual funds, bonds, and cash equivalents.

Asset allocation will be structured to achieve the primary objective of an inflation-adjusted annualized return of 4.5% over a full market cycle. Based on historic performance over the twenty-five year period from 1975-1999, a low-risk portfolio providing this level of return would be comprised of 25% large-company equities (average annual real return of 13.2%) and 75% fixed income instruments having an average annual real return of 5.4%. This assumes an historic average inflation rate of 3%.

As a guideline, the Finance Committee will review and adjust the ratio of equity-to-fixed income on an annual basis or more frequently if necessary, to provide the expected return. The equity percentage in the portfolio is expected to vary from 20 to 40% of the portfolio.

The balance between stocks and bonds will be determined by prevailing capital market conditions and the relative valuations between asset classes.

## **4.0 PERFORMANCE MEASUREMENT**

### **4.1 Total Return**

The primary objective of the fund is to achieve an annualized total return, in real terms, of 4.5% over the long term. In terms of relative performance, the objective will be to outperform a benchmark portfolio. The return on each asset class will be that of its respective market index (i.e. MSCI-North America, MSCI-Europe, Lehman Brothers Aggregate Index, etc.). Analysis of the actual return of the reserve fund as compared to the benchmark portfolio will determine if adjustments need to be made to the portfolio. While this analysis will be done on a quarterly basis, adjustments to the portfolio shall be made on an annual basis after review and discussion of the portfolio performance at the Finance Committee meeting early in the year.

## **5.0 REPORTING**

The Chairman of the Finance Committee and the Treasurer will report on the performance of the reserve funds at each meeting of the Executive Committee and as appropriate at the Bureau and Council meetings.



## Year 2004 Performance

For the year 2004, the long-term portfolio showed the following performance in comparison with the relevant indices.

<u>Asset Class</u>	<u>Percent of Total Assets</u> (Ave. during Yr.)	<u>Annual Total Return</u>	<u>Annual Weighted Return</u>
Equities	37%	7.3%	2.7%
Bonds	62%	9.9%	6.1%
Cash Equivalents	1%	2.0%	0.1%
Total	100%		8.9%
MSCI-North America	25%	9.4%	2.4%
MSCI-Europe	13%	17.9%	2.3%
DJ Corp Bond Index	62%	7.3%	4.5%
Total	100%		9.2%

- MSCI is the Morgan Stanley Capital Index that is reported country by country as well as by region. The DJ Corp Bond Index is the 10-year Dow Jones Corporate Bond Index total return change reported annually.
- Annual Weighted Return is the Percent of Total Assets (Average during the Year) in a given Asset Class multiplied by the Annual Total Return.

It is interesting to note that the IUPAC Total portfolio performed close to the value predicted by the indices (8.9% vs. 9.2%). The equity portion of the IUPAC portfolio under-performed the combined indices for Europe and North America whereas the IUPAC bonds performed substantially better than the Dow Jones Bond Index.



## *International Union of Pure and Applied Chemistry*

### *Fund Policy Statements*

#### **1. PURPOSE**

Biennium Operating Reserve Fund This fund shall contain an amount of money equal to the currently approved biennium budget minus the operating funds for the publications. It is the prime financial protection for the Union in the event of a severe worldwide economic downturn.

General Assembly Special Fund This fund is to be used to supplement the expense of holding General Assembly meetings in locations where the costs are considerably more expensive than the norm. General Assembly meetings such as the recently held one in Brisbane, Australia and the upcoming 2005 General Assembly in Beijing, China will draw on this fund.

IUPAC Endowment Fund This will be treated as an “endowment fund”, that is, only the interest earned on the principal in this fund will be used for special projects of a broad nature that enhance the stature of the Union. For example, the recently established IUPAC Prize for Young Chemists will be supported by the proceeds from this fund. Other projects approved by the Executive Committee and the Finance Committee may be supported by this fund..

Special Funds IUPAC encourages individuals and organizations to participate in its mission. While in most cases this takes the form of collaboration and participation in IUPAC projects, it can also be financial aid to various IUPAC activities. Such financial aid can directly support specific IUPAC projects, or it can be set up as a special fund that is used to accomplish certain goals over a period of time or in perpetuity. Special Funds may also consist of those royalty streams from books published by a Division or commission that have an ongoing activity to update the publication.

#### **2. Investment of Funds**

The aggregate of these funds is managed as a single long term portfolio according to the IUPAC Investment Policy and the guidelines contained therein.

#### **3. Allocations to Funds**

Biennium Operating Reserve Fund This fund shall contain an amount equal to the total approved budget for the next biennium.

General Assembly Special Fund The level of this fund shall be set by the Finance Committee at its annual meeting. The maximum held in this fund is \$250,000 USD. (At the present time, 1 March 2002, it totals \$150,000 since \$100,000 was approved to be used to support the higher expenses of the 2001 General Assembly in Brisbane, Australia)

Special Funds Any funds which are set up as Special Funds shall have the amounts designated according to agreements with the Division controlling these funds. These funds will appear as separate line items in the accounting documents of the organization.



IUPAC Endowment Fund The level of this fund shall be the residual long-term portfolio after allocations for the Biennium Operating Reserve Fund, General Assembly Special Fund and any Special Funds are subtracted.

#### **4. Disbursement Guidelines from Funds**

Disbursement of funds from these accounts must be approved by the Finance Committee, or the Treasurer and Chairman acting on behalf of the Finance Committee.

As needed funds from the Biennium Operating Reserve Fund and General Assembly Special Fund may be approved for disbursement, decreasing these funds until new levels are established at the annual Finance Committee meeting.

Disbursement of Special Funds shall follow the following guidelines:

1. The goals for which such a special fund is established must be consistent with and support the IUPAC mission and goals.
2. The purposes of the fund should be defined and the body or group within IUPAC that is responsible for administering the funds should be specifically identified (i.e. is it a Division Committee, the President of IUPAC etc.).
3. The fund should be categorized as either an endowment (i.e. only the interest on the money will be used to fund projects) or a consumable fund (i.e. a fund in which both the interest and some principal will be used until the fund is exhausted).
4. The money in the fund shall be invested in the long-term IUPAC investment portfolio and shall earn the prevailing interest based on the portfolio of fixed income instruments in the IUPAC portfolio such as bonds and fixed income funds. In recent years this has provided an annual return in the range of 5 to 6%.

The disbursement from these special funds will be under the control of the responsible group subject to all the guidelines contained in this policy and the accepted IUPAC practices for reimbursed expenditures such as travel and subsistence.

The IUPAC Endowment Fund will maintain its principal and the funds available for disbursement will not exceed the annual yield on this fund at the fixed interest rate (bonds and fixed funds). Currently that is 6.0%.

INTERNATIONAL UNION OF  
PURE AND APPLIED CHEMISTRY

Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR  
ANN H. TILLERY  
FRANKLIN T. ROBERTS  
WM. JAMES BLACK, JR.

3105 GLENWOOD AVENUE, SUITE 301  
RALEIGH, NORTH CAROLINA 27612  
TELEPHONE (919) 787-8212  
FACSIMILE (919) 783-6724

**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>Total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</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  
AND APPLIED CHEMISTRY

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  
AND APPLIED CHEMISTRY

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  
AND APPLIED CHEMISTRY

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  
AND APPLIED CHEMISTRY

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  
AND APPLIED CHEMISTRY

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  
AND APPLIED CHEMISTRY

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.



INTERNATIONAL UNION OF  
PURE AND APPLIED CHEMISTRY

Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

**BATCHELOR, TILLERY & ROBERTS, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

POST OFFICE BOX 18068

RALEIGH, NORTH CAROLINA 27619

RONALD A. BATCHELOR  
ANN H. TILLERY  
FRANKLIN T. ROBERTS  
WM. JAMES BLACK, JR.

3105 GLENWOOD AVENUE, SUITE 301  
RALEIGH, NORTH CAROLINA 27612  
TELEPHONE (919) 787-8212  
FACSIMILE (919) 783-6724

**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, 2004 and 2003, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IUPAC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 IUPAC as of December 31, 2004 and 2003, 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*

June 2, 2005

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Statements of Financial Position

December 31, 2004 and 2003

<u>Assets</u>	<u>2004</u>	<u>2003</u>
Current assets:		
Cash and cash equivalents	\$ 757,058	517,660
Subscriptions receivable (net of allowance for doubtful accounts of \$48,000 in 2004 and \$46,000 in 2003)	124,365	28,975
Other receivables	14,219	9,211
Inventories	11,500	14,000
Prepaid expenses and other assets	<u>30,381</u>	<u>16,156</u>
Total current assets	937,523	586,002
Furniture, fixtures, and equipment, net	25,495	38,776
Investments, at market value	<u>5,336,526</u>	<u>5,036,153</u>
	<u>\$ 6,299,544</u>	<u>5,660,931</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable and accrued expenses	61,001	104,100
Unearned subscriptions	<u>691,410</u>	<u>571,059</u>
Total current liabilities	<u>752,411</u>	<u>675,159</u>
Commitments		
Net assets:		
Unrestricted	5,341,213	4,851,185
Temporarily restricted	75,261	3,928
Permanently restricted	<u>130,659</u>	<u>130,659</u>
Total net assets	<u>5,547,133</u>	<u>4,985,772</u>
	<u>\$ 6,299,544</u>	<u>5,660,931</u>

See accompanying notes to financial statements.

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Statements of Activities

Year ended December 31, 2004, with comparative totals for 2003

	2004			Total	2003 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Support:					
Grants and contributions	\$ 11,530	71,948	-	83,478	184,767
National subscriptions and service charges	726,650	-	-	726,650	713,735
Affiliate membership program	71,650	-	-	71,650	82,461
Net assets released from restrictions	<u>7,600</u>	<u>(7,600)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support	<u>817,430</u>	<u>64,348</u>	<u>-</u>	<u>881,778</u>	<u>980,963</u>
Other revenue:					
Publications	838,462	-	-	838,462	770,572
Investment income, net	516,808	6,985	-	523,793	721,206
Other	<u>3,050</u>	<u>-</u>	<u>-</u>	<u>3,050</u>	<u>25,709</u>
Total other revenue	<u>1,358,320</u>	<u>6,985</u>	<u>-</u>	<u>1,365,305</u>	<u>1,517,487</u>
Total support and other revenue	<u>2,175,750</u>	<u>71,333</u>	<u>-</u>	<u>2,247,083</u>	<u>2,498,450</u>
Expenses:					
Program and publications	919,768	-	-	919,768	1,198,304
Management and general	<u>765,954</u>	<u>-</u>	<u>-</u>	<u>765,954</u>	<u>611,814</u>
Total expenses	<u>1,685,722</u>	<u>-</u>	<u>-</u>	<u>1,685,722</u>	<u>1,810,118</u>
Increase in net assets	490,028	71,333	-	561,361	688,332
Net assets, beginning 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>
Net assets, end of year	\$ <u>5,341,213</u>	<u>75,261</u>	<u>130,659</u>	<u>5,547,133</u>	<u>4,985,772</u>

(Continued)

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Statements of Activities, Continued

Year ended December 31, 2003

	2003			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Support:				
Grants and contributions	\$ 59,767	-	125,000	184,767
National subscriptions and service charges	713,735	-	-	713,735
Affiliate membership program	82,461	-	-	82,461
Net assets released from restrictions	<u>16,000</u>	<u>(16,000)</u>	<u>-</u>	<u>-</u>
Total support	<u>871,963</u>	<u>(16,000)</u>	<u>125,000</u>	<u>980,963</u>
Other revenue:				
Publications	770,572	-	-	770,572
Investment income, net	717,278	3,928	-	721,206
Other	<u>25,709</u>	<u>-</u>	<u>-</u>	<u>25,709</u>
Total other revenue	<u>1,513,559</u>	<u>3,928</u>	<u>-</u>	<u>1,517,487</u>
Total support and other revenue	<u>2,385,522</u>	<u>(12,072)</u>	<u>125,000</u>	<u>2,498,450</u>
Expenses:				
Program and publications	1,198,304	-	-	1,198,304
Management and general	<u>611,814</u>	<u>-</u>	<u>-</u>	<u>611,814</u>
Total expenses	<u>1,810,118</u>	<u>-</u>	<u>-</u>	<u>1,810,118</u>
Increase (decrease) in net assets	575,404	(12,072)	125,000	688,332
Net assets, beginning of year	<u>4,275,781</u>	<u>16,000</u>	<u>5,659</u>	<u>4,297,440</u>
Net assets, end of year	\$ <u>4,851,185</u>	<u>3,928</u>	<u>130,659</u>	<u>4,985,772</u>

See accompanying notes to financial statements.

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Statements of Cash Flows

Years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Increase in net assets	\$ 561,361	688,332
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	14,124	15,912
Bad debt expense	2,128	5,659
Realized losses on investments	71,745	4,934
Unrealized gains on investments	(353,738)	(548,319)
Changes in operating assets and liabilities:		
Subscriptions receivable	(97,518)	14,924
Other receivables	(5,008)	(1,830)
Inventories	2,500	6,720
Prepaid expenses and accrued expenses	(14,225)	(6,285)
Accounts payable and accrued expenses	(43,098)	28,206
Unearned subscriptions	<u>120,351</u>	<u>(156,688)</u>
Net cash provided by operating activities	<u>258,622</u>	<u>51,565</u>
Cash flows from investing activities:		
Purchases of furniture, fixtures and equipment	(842)	(10,912)
Proceeds from sales of investments	726,603	485,276
Purchases of investments	<u>(744,985)</u>	<u>(819,287)</u>
Net cash used in investing activities	<u>(19,224)</u>	<u>(344,923)</u>
Net increase (decrease) in cash and cash equivalents	239,398	(293,358)
Cash and cash equivalents, beginning of year	<u>517,660</u>	<u>811,018</u>
Cash and cash equivalents, end of year	\$ <u>757,058</u>	<u>517,660</u>

See accompanying notes to financial statements.



INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Statements of Functional Expenses

Year ended December 31, 2004, with comparative totals for 2003

	2004			2003 <u>Total</u>
	Program and publications	Management and general	<u>Total</u>	
Administrative costs	\$ 114,897	12,699	127,596	183,120
Audit and accounting	-	25,694	25,694	30,213
Bad debt	-	2,128	2,128	5,659
Contracted services	338,310	20,145	358,455	460,633
Contributions	25,202	-	25,202	30,200
Depreciation and amortization	-	14,124	14,124	15,912
Insurance	-	1,273	1,273	1,936
Maintenance	-	821	821	738
Office supplies and expenses	-	32,449	32,449	33,298
Payroll taxes and benefits	-	57,078	57,078	46,518
Postage	18,700	18,883	37,583	21,111
Printing and publications	79,924	89,005	168,929	42,026
Building operations	-	17,775	17,775	17,775
Salaries	-	323,207	323,207	282,439
Travel and subsistence	342,335	134,127	476,462	594,147
Utilities	-	15,164	15,164	17,686
Miscellaneous	<u>400</u>	<u>1,382</u>	<u>1,782</u>	<u>26,707</u>
	<u>\$ 919,768</u>	<u>765,954</u>	<u>1,685,722</u>	<u>1,810,118</u>

(Continued)

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Statements of Functional Expenses, Continued

Year ended December 31, 2003

	Program and publications	Management and general	Total
Administrative costs	\$ 174,404	8,716	183,120
Audit and accounting	-	30,213	30,213
Bad debt	-	5,659	5,659
Contracted services	402,475	58,158	460,633
Contributions	30,200	-	30,200
Depreciation and amortization	-	15,912	15,912
Insurance	-	1,936	1,936
Maintenance	-	738	738
Office supplies and expenses	-	33,298	33,298
Payroll taxes and benefits	-	46,518	46,518
Postage	4,495	16,616	21,111
Printing and publications	28,454	13,572	42,026
Building operations	-	17,775	17,775
Salaries	-	282,439	282,439
Travel and subsistence	533,147	61,000	594,147
Utilities	-	17,686	17,686
Miscellaneous	<u>25,129</u>	<u>1,578</u>	<u>26,707</u>
	\$ <u>1,198,304</u>	<u>611,814</u>	<u>1,810,118</u>

See accompanying notes to financial statements.

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Notes to Financial Statements

December 31, 2004 and 2003

(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-five 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  
AND APPLIED CHEMISTRY

Notes to Financial Statements, Continued

December 31, 2004 and 2003

(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 2003 financial statements to conform with the 2004 presentation. Such reclassifications have no impact on change in net assets or net assets.

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Notes to Financial Statements, Continued

December 31, 2004 and 2003

(2) Furniture, Fixtures, and Equipment

Furniture, fixtures, and equipment consist of the following:

	<u>2004</u>	<u>2003</u>
Equipment	\$ 56,944	56,102
Furniture and fixtures	48,877	48,877
Leasehold improvements	<u>16,097</u>	<u>16,097</u>
	121,918	121,076
Less accumulated depreciation and amortization	<u>(96,423)</u>	<u>(82,300)</u>
	<u>\$ 25,495</u>	<u>38,776</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>2004</u>		<u>2003</u>
	Number of shares/par	Fair value	Fair value
Corporate bonds (4.25% - 7.38%), with various maturities through June 2033	\$ <u>2,731,000</u>	\$ <u>3,207,801</u>	<u>2,804,842</u>
Equity securities:			
Defined Asset Fund, S&P Midcap Trust	187,505	\$ 345,347	395,262
MLIIF European Value Portfolio, Class A2	9,730	404,963	336,755
MLIIF UA Basic Portfolio, Class A2	6,797	293,630	269,977
Other	-	<u>1,084,785</u>	<u>1,229,317</u>
Total equity securities		<u>2,128,725</u>	<u>2,231,311</u>
		<u>\$ 5,336,526</u>	<u>5,036,153</u>

The cost of investments totaled \$4,426,183 and \$4,517,887 as of December 31, 2004 and 2003, respectively.

INTERNATIONAL UNION OF PURE  
AND APPLIED CHEMISTRY

Notes to Financial Statements, Continued

December 31, 2004 and 2003

(3) Investments, Continued

Investment income, net, consists of the following:

	<u>2004</u>	<u>2003</u>
Dividends and interest	\$ 241,800	177,821
Realized losses	(71,745)	(4,934)
Unrealized gains	<u>353,738</u>	<u>548,319</u>
	\$ <u>523,793</u>	<u>721,206</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 \$21,253 and \$23,699 in 2004 and 2003, respectively.

Future estimated minimum rental expenses are as follows:

<u>Year ending December 31,</u>	
2005	\$ 22,575
2006	22,575
2007	<u>6,844</u>
	\$ <u>51,994</u>

IUPAC subleased a portion of its facilities through February 2003. Rental income under this sublease was \$0 and \$1,723 for 2004 and 2003, respectively.

(5) Net Assets

Temporarily restricted net assets of \$78,481 as of December 31, 2004 consist of interest earned on the Samsung General Chemicals Endowment Fund and various grants not fully expended as of December 31, 2004. Temporarily restricted net assets of \$3,646 as of December 31, 2003 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  
AND APPLIED CHEMISTRY

Notes to Financial Statements, Continued

December 31, 2004 and 2003

(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.





**Item 13.4: Recommendation on Appointment of Auditors for 2005 and 2006**

Bureau has recommended to Council the appointment of Batchelor, Tillery & Roberts, LLP, of Raleigh, North Carolina, USA as IUPAC Auditors for 2005 and 2006. Council is asked to approve this recommendation.

