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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, 1997 and 1996, and the related statements of activities, cash flows, and functional expenses for the year ended December 31, 1997. These financial statements are the responsibility of IUPAC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides 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, 1997 and 1996, and the changes in its net assets and its cash flows for the year ended December 31, 1997 in conformity with generally accepted accounting principles.

Bachelor, Tillery & Roberts, LLP

November 6, 1998

Balance Sheet

Assets	
Fixed Assets (2)	48 985
Cash in Banks (3)	469 742
Marketable Securities (4)	3 055 920
Subscriptions and Service Charges Outstanding (5)	88 200
Other Receivables	735
Prepaid Expenses	24 818
USD	3 688 400
Liabilities	
Capital - General	3 376 144
Accounts Payable	126 422
Paulo Franzosini Fund	5 659
Provisions and Subaccounts (6)	11 395
Prepaid Subscriptions	400
Excess of Income over Expenses	168 380
USD	3 688 400

Schedule of Income and Expenses

Income	
National Subscriptions and Service Charges	631 436
Interest and Dividends	133 706
Other Income	8 504
Publications	374 750
Affiliate Membership Program	58 341
Restricted Income (7)	45 065
Total Operating Income USD	1 251 802
Expenses	
Governance Expense (8)	44 181
Administrative Expense (9)	661 566
Accounting Transactions (10)	14 880
Operations Expense:	
Standing Committees	47 192
Divisions	118 488
Chemistry International	22 109

General Assembly	415 421
Representatives on Other Bodies	3 880
Other	70 308
Contingencies	<u>8 282</u>
Total Operations	<u>685 680</u>
Restricted Expenses (11)	<u>39 191</u>
Total Expenses	<u>1 445 498</u>
Net Income (Expense) from Operations	(193 696)
Realized Gains on Securities	33 554
Unrealized Gains on Securities	<u>328 522</u>
Net Income (Expense)	<u>168 380</u>

Notes to Financial Statements

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 43 national adhering organizations representing the chemists of their countries. Additionally, there are 15 observer countries, 32 associated organizations, and more than 140 company associates. The official headquarters of IUPAC are in Zurich, and the administrative headquarters are in Research Triangle Park, North Carolina.

- Basis of Presentation:* In accordance with the accrual basis of accounting, subscriptions and service charges are recorded when earned, and expenses are recorded when incurred.
- Fixed Assets:* Furniture, fixtures, and equipment and leasehold improvements are recorded at cost. Depreciation is provided over the estimated useful lives of the assets and is computed on the straight-line method.
- Leases:* Rents paid under operating leases are charged to expense on a straight-line basis over the period of the lease.
- Foreign Currencies:* Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Foreign currency differences are recorded as income or expense.
- Marketable Securities:* Investments in marketable securities are measured at fair value in the balance sheet. Investment income, including gains and losses on investments, interest, and dividends, is included in the schedule of income and expenses. Interest on bonds is recognized as income as received.
- Committed Expenses:* The IUPAC Council meets every two years at the General Assembly to set budgets for the following two years. Starting in 1994, seventy per cent of the budgeted expenses are charged to income and expense accounts in the first year following the General Assembly and thirty per cent in the General Assembly year.
- Income Taxes:* The legal domicile of the Union is accepted by the Canton of Zurich as an association under Swiss law. As such, the Union is exempt from any taxation on any net income arising from its activities.

2. Fixed Assets

Equipment, Furniture and Fixtures, and Leasehold Improvements	53 046
Accumulated Depreciation	<u>(4 061)</u>
	<u>48 985</u>

3. Cash in Banks

Merrill Lynch - Cash	(29 814)
Merrill Lynch - Money Market	488 328
Barclays	6 712
Wachovia	<u>4 516</u>
	<u>469 742</u>

4. Marketable Securities

Cost	2 455 398
Unrealized Profit	<u>600 522</u>
Market Value	<u>3 055 920</u>

Designated Funds:

Reserve Fund	2 172 515
Building Fund	439 605
Southern Hemisphere Sinking Fund	100 000
Endowment Fund	<u>343 800</u>
	<u>3 055 920</u>

5. Subscriptions and Service Charges Outstanding

National Organizations - 1998:

Argentina	1 100
Belgium	14 800
Chile	3 200
France	800
India	15 400
Portugal	4 900
Republic of Korea	10 000
Russia	15 000
United States of America	<u>33 800</u>
	<u>99 000</u>

Allowance for Uncollectible Accounts	<u>(10 800)</u>
	<u>88 200</u>

6. Provisions and Subaccounts

JCAMP	1 730
Royal Society Contribution to Development Activities	<u>9 665</u>
	<u>11 395</u>

7. Restricted Income

ICSU	27 000
JCAMP-DX	3 065
UNESCO	<u>15 000</u>
	<u>45 065</u>

8. Governance Expense

Officers	3 269
SDIC	20 429
Contributions to ICSU & ICSU Committees	<u>20 483</u>
	<u>44,181</u>

9. Administrative Expense

General:

Secretariat	461 243
Accounting, Audit, and Bank Fees	32 523
Handbook 1997/96	1 005
	<u>494,771</u>
Publications	109 977
Affiliate Members Program	<u>56 818</u>
	<u>661 566</u>

10. Accounting Transactions

Foreign Exchange Differences	767
Bad Debt Provision	(9 912)
Depreciation & Loss on Disposition of Assets	24 025
	<u>14,880</u>

11. Restricted Expenses

ICSU	23 303
JCAMP-DX	888
UNESCO Grant	15 000
	<u>39 191</u>

Schedule of Income and Expense—Budget and Actual

	Budget 1997	Actual 12/31/97	Over/ (Under)
INCOME			
National Subscriptions	646 000	623 586	(22 414)
Service Charges	13 000	7 850	(5 150)
Interest and Dividends	135 000	133,706	(1 294)
Restricted Income	-	45 065	45 065
Other Income	-	8 504	8 504
	<u>794,000</u>	<u>818 711</u>	<u>24 711</u>
Publications:			
Blackwell	140 000	337 664	197 664
Other Publishers	-	17,086	17 086
BS Grant	-	20 000	20 000
	<u>140 000</u>	<u>374 750</u>	<u>234 750</u>
AMP:			
Contributions	-	57 527	57 527
Royalties	-	643	643
Ties and Scarves	-	171	171
	<u>-</u>	<u>58 341</u>	<u>58 341</u>
Total Operating Income	934 000	1 251 802	317 802

EXPENSES

Governance Expense:			
Officers	5 000	3 269	(1 731)
SDIC	-	20 429	20 429
Contributions to ICSU & ICSU Committees	21 500	20 483	(1 017)
	<u>26 500</u>	<u>44 181</u>	<u>17 681</u>

Administrative:

General:			
Secretariat	290 000	461 243	171 243
Accounting, Audit, and Bank Fees	37 000	32 523	(4 477)
Handbook 1997/96	18 000	1 005	(16 995)
	<u>345 000</u>	<u>494 771</u>	<u>149 771</u>

Publications	-	109 977	109 977
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AMP:

CI and Leaflets	-	49 940	49 940
Miscellaneous	15 000	6 878	(8 122)
	<u>15 000</u>	<u>56 818</u>	<u>41 818</u>
Total Administrative	<u>360 000</u>	<u>661 566</u>	<u>301 566</u>

Accounting Transactions:

Depreciation and Loss on Disposition of Assets	21 000	24 025	3 025
Bad Debt Provision	15 000	(9 912)	(24 912)
Foreign Exchange Differences	-	767	767
	<u>36 000</u>	<u>14 880</u>	<u>(21 120)</u>

Operations Expense:

Standing Committees	40 000	47 192	7 192
Divisions	99 000	118 488	19 488
CI for Members	23 000	22 109	(891)
General Assembly	500 000	415 421	(84 579)
Representatives to Other Organizations	10 500	3 880	(6 620)
Other	-	70 308	70 308
Contingencies	-	8 282	8 282
	<u>672 500</u>	<u>685 680</u>	<u>13 180</u>

Restricted Expenses:

ICSU	-	23 303	23 303
JCAMP	-	888	888
UNESCO Grant	-	15 000	15 000
	<u>-</u>	<u>39 191</u>	<u>39 191</u>

Unallocated Reserve	-	-	-
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Total Expenses	<u>1 095 000</u>	<u>1 445 498</u>	<u>350 498</u>
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Net Income (Expense) from Operations	(161,000)	(193,696)	(32,696)
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Realized Gains on Securities	-	33 554	33 554
Unrealized Gains on Securities	-	328 522	328 522

Net Income (Expense)	<u>(161 000)</u>	<u>168 380</u>	<u>329 380</u>
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Schedule of Marketable Securities

Quantity	Security Description	Cost Per Books	Estimated Market Value	Unrealized Gain/Loss
CORPORATE BONDS:				
150 000	GENERAL ELECTRIC CAPITAL CORP 5.5%, April 8, 1998	152 280.56	149 175.00	(3 105.56)
100 000	OSAKA GAS CO 5.75%, May 26, 1998	104 428.40	99 875.00	(4 553.40)
50 000	KOREA DEVELOPMENT BANK NOTES 7.0%, July 15, 1999	51 162.34	45 540.00	(5 622.34)
100 000	NIPPON TELEGRAPH & TELEPHONE 7.75%, NOV 18, 1999	109 652.78	102 875.00	(6 777.78)
100 000	SALOMON INCORPORATED NOTES 7.25%, JAN 15, 2000	105 108.88	101 869.00	(3 239.88)
100 000	SOUTHWESTERN BELL TEL CO NOTES 6.125%, MARCH 1, 2000	100 950.39	100 178.00	(772.39)
100 000	CIBA-GEIGY CORP 5.875%, MARCH 23, 2000	100 260.00	99 500.00	(760.00)
100,000	ABBEY NATIONAL TREAS 6.50%, MAY 12, 2003	<u>107 913.89</u>	<u>101 421.00</u>	<u>(6 492.89)</u>
	TOTAL CORPORATE BONDS	<u>831 757.24</u>	<u>800 433.00</u>	<u>(31 324.24)</u>
MUTUAL FUNDS - EQUITY:				
5 007	AETNA EUROPEAN EQUITY FUND CLASS A	183 679.16	242 785.00	59 105.84
423	HAUSSMANN HOLDINGS	285 803.81	473 416.00	187 612.19
13 584	MFS MERIDIAN US EMERGING GROWTH FUND	305 692.38	348 443.00	42 750.62
6 247	ML BASIC VALUE CLASS A	150 231.30	175 192.00	24 960.70
16 297	ML BASIC VALUE PORT CL O	273 610.03	459 097.00	185 486.97
15 434	ML EURO EQUITY PORT CLASS O	<u>247 020.59</u>	<u>369 644.00</u>	<u>122 623.41</u>
	TOTAL MUTUAL FUNDS - EQUITY	<u>1 446 037.27</u>	<u>2 068 577.00</u>	<u>622 539.73</u>
MUTUAL FUNDS - FIXED INCOME				
11 579	ML CORPORATE HIGH INCOME PORTFOLIO CL B	107 765.64	110 344.00	2 578.36
6 230	MLBS USD FIXED INCOME PORTFOLIO	<u>69 838.30</u>	<u>76 566.00</u>	<u>6 727.70</u>
	TOTAL MUTUAL FUNDS - FIXED INCOME	<u>177 603.94</u>	<u>186 910.00</u>	<u>9 306.06</u>
	TOTAL PORTFOLIO	<u>2 455 398.45</u>	<u>3 055 920.00</u>	<u>600 521.55</u>