PCAOB
Public Company Accounting Oversight Board

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Inspection of
Gary Skibicki C.P.A. P.C.

Issued by the

Public Company Accounting Oversight Board

October 26, 2006

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT **PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002**

PCAOB RELEASE NO. 104-2006-170A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2006-170)

PCAOB Release No. 104-2006-170A

PCAOB
Public Company Accounting Oversight Board

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.

2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

3. Board inspections encompass, among other things, whether the firm has failed to identify departures from Generally Accepted Accounting Principles ("GAAP") in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP, rests with the Securities and Exchange Commission ("SEC" or "Commission"). Any description, in this report, of perceived departures from GAAP should not be understood as an indication that the Commission has considered or made any determination regarding these GAAP issues unless otherwise expressly stated.

PCAOB
Public Company Accounting Oversight Board

INSPECTION OF GARY SKIBICKI C.P.A. P.C.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Gary Skibicki C.P.A. P.C. ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.[1/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[2/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

2/ See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection from October 3, 2005 to October 6, 2005. The fieldwork included procedures tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	1 (Oklahoma City, Oklahoma)
Ownership structure	Professional corporation
Number of partners	1
Number of professional staff[3/]	6
Number of issuer audit clients[4/]	1

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present

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3/ "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

4/ The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act.

fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[5/] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagement

The scope of the inspection procedures performed included a review of aspects of the performance of the Firm's audit of the financial statements of its issuer audit client. Those aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.[6/] The deficiencies identified included a deficiency of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements. That deficiency was the failure to perform and document procedures to evaluate the recoverability of certain of the issuer's assets.

[5/] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations or cash flows of the issuer in conformity with GAAP, the Board reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[6/] PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration of Omitted Procedures After the Report Date,* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on a specific audit, the inspection included review of certain of the Firm's practices, policies and procedures related to audit quality. This review addressed practices, policies and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART II

* * * *

B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.[7/] On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiency described in Part II.A and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects –

Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism.

* * * *

[7/] A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report. The Board routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.

Gary Skibicki
Certified Public Accountant

Eagle Office Park
11902 N. Pennsylvania, Suite C-10
Oklahoma City, OK 73120

(405) 752-2640
(405) 755-7300 (Fax)

February 14, 2006

Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006

Subject: Gary Skibicki CPA, PC Draft Report
Reference: Your letter dated January 25, 2006

The subject draft report refers to the October 2005 inspection period whereby the inspectors provided a comment that engagement work papers did not specifically document testing for asset impairment. I accepted these comments and it is standard policy that future audits include a dedicated work paper section documenting impairment testing.

I want the Board as well as the inspectors to know that although impairment was not specifically documented it was considered and disclosed in a "Going Concern" paragraph as well as in a detailed note to the financial statements unambiguously communicating that the entire Company's continued existence was in substantial doubt. Similar disclosures were also incorporated in the interim financial statements of June 30, 2004 and September 30, 2004. Such disclosures are not made unless asset recoverability is not considered.

The accounting standards provide examples of impairment testing with the requirement that future undiscounted cash flows be estimated to test recoverability. In line with that guidance the PCAOB inspectors were provided copies of my e-mails to the issuer specifically describing the impairment standards plus the entire standard including appendixes were both e-mailed and faxed with confirmations to management so to imply that impairment was not considered is demonstratively inaccurate. My e-mail transmittal notes of June 10, 2004 and July 19, 2004 clearly explained impairment testing to management in non-accountant terms and I even recommended that it be referred to and discussed in their Management Discussion and Analysis on public filings.

There were three assets involved; one was a 2003 tangible asset and one was an ongoing intangible asset with each virtually being brand new and unique to the United States of America offering no realistic basis for management to make an estimate of future undiscounted cash flows. Management was and still is optimistic about the future prospects of both these projects which are well documented in public releases but I am neither an optimist nor pessimist and to document asset value changes on as of yet unknowns because of newness would be unjustifiable. There is a presumption in the standard that there is a basis to making a reasonable estimate which if not available, and accordingly not specifically documented, the financial statement users have to evaluate the representational faithfulling of the reports taken as a whole including disclosures indicating impairment was considered. It is unclear to me how many other CPAs provided management with the full text of impairment directives to insure this consideration was not overlooked plus recommend it be discussed in public filings. To assert in the draft report that procedures were neither performed nor documented to evaluate asset recoverability is misleading and unfair to both the issuer and myself and enclosed are the e-mails less attachments in the event they were originally overlooked by the inspectors.

There are fourteen AICPA technical practice aids that address impairment testing but none provide directions on estimating future cash flows on virtually brand new technologies too new to realistically estimate cash flows or to even expect them and that disclosure of the uncertainty is the alternative. Being aware of the requirement management could have very easily provided residual values each to equal carrying amounts that could have readily been documented but being impossible to realistically estimate a separate worksheet was not created. The practice aids discuss an underlying theme that over time operations, market dynamics and economic lives of assets can and do cause values to change. The one tangible asset and one intangible asset were created in 2003/2004 and it was management's opinion that I concurred with that insufficient time transpired to reasonable adjust any carrying amounts from the documented actual dollars spent less reasonable allocations for depreciation and amortization. My assessment of the financial statement as originally filed is that they are free of material misstatement.

Each year I travel to the foreign equity investee and examine each one of their financial statement accounts as to existence, valuation, and completeness and then convert these to U.S. dollars and as necessary convert them to U.S. GAAP. I personally spend a full day with their chief accountant to examine and study each account on their financial statements including the underlying supporting documents which I believed would satisfy impairment testing. The PCAOB report infers there is not sufficient evidence to support the opinion and accordingly I disagree. The investee was audited by a public accounting firm licensed and approved by the host country's own Securities and Exchange Commission with a complete copy provided to the PCAOB inspectors and to assert there was not adequate information to base my report on is at a minimum unfair to a national regulatory body of a major European Industrialized Country.

The formation of the equity investee was a joint venture between the host government and the issuer whereby if and upon liquidation a preferential material payment would be paid to the issuer in priority to all other creditors as stated in the original organizing documents. This advantage combined with the above investee financial statement analysis was documented in my working papers that provides evidence to support the carrying values. When the PCAOB inspectors faxed me their comments on impairment they cited SFAS 144 on impairment testing and that I failed to follow it; their comment is enclosed. However, if you read SFAS 144 the statement does not apply to securities accounted for under the equity method but, nevertheless, look at the effort I went through anyway to insure that the value of the equity investee was fairly stated. As a postscript to the 2004 audit report directors of the issuer offered to buy the equity investee interest for approximately 2.5 times its carrying value as evidenced by the enclosed corporate minutes. The transaction never finalized but it does demonstrate that parties with full knowledge placed a value on the company far in excess of its book value.

We provided all invoices, purchase orders, and contracts regarding the tangible CO_2 equipment asset and agreements to sell the end product. The payments were traced to and agreed with the general ledger. I was provided a video during installation which is a part of the audit files, not copied for the PCAOB, showing the substantive nature of the equipment. The equipment scrubs CO_2 gas from landfill methane and engineering reports showing expected quantities and BTU content that when multiplied by market prices several times over cover the gross book value of the equipment. But that was not enough, the audit client was instructed to provide me with a photo file showing the equipment, engineering and engineers who built and installed the equipment. Although the PCAOB inspectors were not provided these (they were in the 2003 files) copies are enclosed. It is unclear to me that per the photos showing physical existence, documentation on payments for valuation and impairment testing as outlined above that there was insufficient evidence to support my opinion.

The intangible asset or tissue bonding patent audit procedures similarly comprised tracing every patent attorney invoice to the general ledger. Additionally, the patent attorney provided me with a detailed status report on twenty (20) patents involving the U.S., Ukraine, Japan, India, China, Canada, Australia, and the European Union protecting soft biological tissue bonding. The process is a proven surgical procedure being introduced into the U.S. with 2004 test trials performed on live animals in several U.S. hospitals. One test was conducted at the University of Louisville Medical Center with the event highlighted that evening on the local evening news. As part of the interview one of the most prominent surgeons in the U.S. publicly stated that eventually all soft tissue surgeries in the U.S. will use that procedure and as part of my audit evidence had the television station provide me a DVD of that interview. What discounted cash flow can be used to test for impairment of such an asset? Any assumptions made would be purely hypothetical and far more misleading than the amortized book values bearing in mind that management was well apprised of impairment testing.

This inspection was conducted by mail and telephone. Had the inspectors been in the office where one on one explanations could have been provided including viewing the above mentioned photos, videos and DVDs the end result of their report may very well been different. As it now appears the draft report states there was not sufficient competent evidence to support an opinion when in reality I have more than a reasonable person would expect when considered in the context of the unusual assets presented on the financial statements.

Very truly yours,

Gary Skibicki, CPA, PC

Enclosures

Attachments

1. Equity investee audit filed with country's Securities and Exchange Commission
2. PCAOB comment form, SFAS 144
3. Minutes detailing proposed purchase of equity investee
4. June 19, 2004 e-mail explaining SFAS 144 sent to issuer, issuer's CPA accountant, and VP of Finance
5. July 8, 2004 e-mail explaining SFAS 144 to issuer, issuer's CPA accountant and VP of Finance recommending it be discussed in MD&A, with entire SFAS 144 attached
6. July 12, 2004 impairment letter to issuer, issuer's CPA accountant and VP of Finance again attaching SFAS 144
7. CO_2 equipment photos

Attachment

1. Equity investee audit filed with country's Securities and Exchange Commission

AUDITING COMPANY "ALTAIRE", Ltd.

To: V. A. Guzhva
Director General of United Engineering Company
and

Dneepropetrovsk Department of the Ukraine Securities and Exchange Commission

Auditing conclusion on reported financials of United Engineering Company
as of 31 December 2004

Dneepropetrovsk

16 February 2005

The audit was done by independent auditors Mickola M. Skryabin and Tetyana M. Gornostay .

Legal address:
84 Phylosophska street, building 8, office 201, 49006, Dneepropetrovsk, Ukraine
Telephone: +38 044 316921
Place of audit: 67 a Karl Marx Ave., 49000, Dneepropetrovsk, Ukraine

The main activities of UEC are:

- Activities in the area of architecture; engineering and technical activities related to construction
- Manufacturing of precast concrete and reinforced concrete products
- Research and development in the area of natural and engineering sciences
- Consultations on commercial activity and management issues
- Market research and research of public opinion
- Other kinds of wholesaling

The audit was done on the basis of Agreement on audit of financials # 10 of February 11, 2005. The audit was done between February 11, 2005 and February 16, 2005. This audit covers the activity of UEC between 01/01/2004 and 12/31/2004.

The objective of this audit was to obtain sufficient evidence of no substantial mistakes in the reported financials. The following documents were audited by testing the evidence and validating the amounts and information:

1. Balance sheet as of 12/31/2004
2. Report on financial results for the year 2004
3. Report on cash flow for the year 2004
4. Report on ownership capital for 2004

Compliance of the accounting principles used by the Company with the accounting requirements and norms effective in Ukraine at the time of this audit was checked. According to the auditors, this audit is a substantial basis for making an auditor's conclusion.
The basis for this audit are the laws currently in force.
The audit was carried out in accordance with the following requirements: Law of Ukraine on "Auditing Activity", International Standard for Audit # 700 "Auditor's Conclusion on Financial Reports"; Professional Code; National Regulations (Standards) for Accounting; Requirements to auditor's conclusion and statement of financial implications which are submitted to SEC Ukraine for recording of securities issuance and information on securities issuance, as well as the auditor's conclusion on submitting regular information by companies and enterprises – emitters of bonds (except banks), adopted in compliance with resolutions of SEC Ukraine #5 of 01/25/2001, reading of this resolution # 484 of 11/17/2004, recorded by the Ministry of Justice on 29 December 2004, #1664/10263.

The auditors believe that they received sufficient but not absolute evidence of the reported financials not containing any substantially inadequate information.

The following documents were provided by the Company for audit:

- Statutory documents;
- Order on "Accounting policy of the Company for 2004";
- Order on Inventory
- Form #1 – Balance Sheet of 12/31/2004;
- Form #2 – Report on Financial Results of 2004;
- Form #3 – Report on Cash Flow of 2004;
- Form # 4 – Report on Ownership Capital of 2004;
- Book inventory (analytic) records and synthetic records;
- Other selected documents

The executive staff of the Company is responsible for financial reports of the Company, the auditors' responsibility is to provide their opinion about the financial reports based on their audit.

The audit was done by the method of sampling. The degree of materiality (importance), according to the terms of the Agreement, was not a subject of agreement with the Customer. Tax accounts were not audited.

The following was established by the independent audit:

The audited company complies with the requirements of the Law of Ukraine on "Accounting and Financial Reports in Ukraine". Principles, methods and procedures of the accounting policy are established by the Order # 12 of 01/08/2004, the accounting policy was not changing over the auditing period. The accounting system used by the Company is the account-order system using a computer program, and complies with the following regulations: "Law of Ukraine on Accounting and Financial Reporting in Ukraine" # 996-XIV of 07/16/1999; Card of Accounts for assets, capital, liabilities and economic activities of enterprises and organizations; Instructions for application of the Card of Accounts for assets, capital, liabilities and economic activities of enterprises and organizations, approved by the Ministry of Finance Ukraine of 11/30/1999, order # 291, and with the effective National Accounting Regulations (Standards).

The Company made its inventory on 1 December 2004 according to Order # 260 of 11/30/2004.

The following assets are shown on the Company's accounts as of 12/31/2004:

Initial value of non-material assets is UAH 48.0 thousand, depreciation of non-material assets is UAH 20.7 thousand, depreciated cost is UAH 27.3 thousand. The non-material assets are accounted in accordance with Accounting Regulations #8 "Nonmaterial assets".

Initial value of fixed (permanent) assets is UAH 3,053.1 thousand. Depreciation of fixed assets is UAH 1,047.7 thousand, depreciated cost is UAH 2,005.4 thousand. The fixed assets are accounted on account 10 "Fixed assets". Fixed assets classification complies with the groups established by Accounting Regulations #7 "Fixed assets". The accounting information on depreciation of fixed assets corresponds to the balance sheet of the Company as of 12/31/2004.

Long-term financial investments are accounted using the method of participation in the capital of other enterprises and are UAH 376.3 thousand.

Other non-circulating assets are UAH 0.5 thousand.

Accounting of stocks (reserves) complies with the requirements of Accounting Regulations #9 "Stocks". The value of production stocks is UAH 71.1 thousand, and uncompleted (unfinished) production is UAH 135.7 thousand. No errors were found by the audit.

- The information of accounts receivable is in compliance with Accounting Regulations #10 "Accounts receivable". The accounts receivable are:
  - Receivables for products, jobs, services: the net sale cost (line 160) is UAH 643.0 thousand, the initial cost is UAH 692.3 thousand, provision for doubtful debts is UAH 49.3 thousand.
  - Receivables on settlements with the National Budget – UAH 60.2 thousand.
  - Receivables on internal settlements - UAH 1.4 thousand.
  - Other current receivables - UAH 274.8 thousand.

  The Balance Sheet includes the money and its equivalents in the national currency of UAH 14.7 thousand, and in foreign currency - UAH 52.2 thousand.

  The audit of assets, their classification and accounting evaluation did not find any discrepancies.

  The liabilities as of 12/31/2004 are the following:
  - Current accounts payable for products, jobs, services - UAH 39.2 thousand;
  - Payables to the National Budget - UAH 54.7 thousand;
  - Payables to the Insurance - UAH 20.7 thousand
  - Payables on wages and salaries - UAH 0.8 thousand.

Other current liabilities are UAH 63.9 thousand.

Long-term liabilities are not being accounted in the Company's Balance Sheet.

Liabilities are accounted in according with the Accounting Regulations # 11 "Liabilities". No discrepancies were found by the audit.

According to the Company's Statute, the statutory (authorized) capital is UAH 104.6 thousand. The statutory capital is formed in its entirety and complies with the accounting data on account 40 "Statutory capital". The statutory capital was formed in compliance with the Law of Ukraine on "Economic entities".

Other additional capital (line 330) is UAH 182.1 thousand.
Reserve capital (surplus) is UAH 155.3 thousand.

Accounting of financial results is done in accordance with Accounting Regulations #1 "General requirements to financial accounting". Income is formed in accordance with Accounting Regulations # 15 "Income".

The profit on the Balance Sheet as of 12/31/2004 is shown in line 350 "Undistributed profit (uncovered loss)" and makes UAH 3,41.3 thousand.

Audit of compliance of the reported financial data with the accounting data did not reveal any substantial discrepancies. Balancing between indicators in the financial report forms did not reveal any discrepancies.

Based on the accounting data, the auditors has completed a financial analysis of UEC as of 12/31/2004:

Table to be inserted

Diagram. **Dynamics of financial indicators of UEC.**

First column: Absolute liquidity ratio
Second column: General liquidity ratio
Third column: Financial stability or financial independence ratio
Forth column: Structure of capital ratio

The auditors did observe inventory of reserves available on 1 December 2004. Due to character of the accounting records, the auditors could not confirm the amount of reserves using other procedures.

The conceptual framework adopted for Ukraine was used by the Company when putting together its financial reports.
Based on the data of the audit completed, the auditors arrived at the conclusion that the financial reports of the Company with all their essential aspects, except for the above mentioned discrepancies, show true and exact information in compliance with the conceptual framework for financial reports and comply with the provisions of the laws.

Signed by

M. M. Skryabin
Auditor

T. M. Gornostay
Director
"Altaire" Auditing Company

		Codes		
	Form # 1 according to ДКУД	1801003		
	Date (year, month, day)	2004	10	01
Enterprise - CJSC "United Engineering Company"	**ЄДРПОУ**	20272048		
Territory - Ukraine	**КОАТУУ**	008		
Form of property – Joint	**КФВ**	20		
Authorities – self-governed	**СПОДУ**	07794		
Branch of Industry (kind of activity) : disarmament	**ЗКГНГ**	95300; 66000;		
Unit of measure : thousand grivnyas	**Control sum**			
Address : 49000, Dnipropetrovsk city, Karl Marx Avenue, 67-a				

REPORT of FINANCIAL RESULTS
for 2004

FORM 2

ДКУД Code 1801003

I. FINANCIAL RESULTS

Name of item	Code of line	Accounting period 2004	Previous period 2003
1	2	3	4
Income (proceeds) from marketing goods and services (products, works)	010	6 021,6	6 764,9
VAT	015	(1 001,2)	(754,2)
Excise tax	020		0,0
	025	0,0	
Other income deductions	030	0,0	
Net income (proceeds) from marketing goods and services (products, works)	035	5 020,4	6 010,7
Expenditures for manufacture of sold products (works, services)	040	(4 267,2)	(5 321,7)
Gross:		0,0	
Profit 15.0	050	753,2	689,0 11.4
Loss	055	0,0	0,0
Other operating income	060	406,1	3 291,8
Administrative expenses	070	(1 225,7)	(1 521,5)
Commercial expenditures	080	0,0	0,0
Other operating expenditures	090	(408,8)	(3 341,8)
Financial results of operating activity			
Profit	100	0,0	0,0
Loss	105	(475,2)	(882,5)
Income from corporate rights ownership	110	12,0	19,1
Other financial incomes	120	5,2	13,0
Other incomes	130	2,0	44,3
Financial expenses	140	(4,9)	0,0
Expenses from corporate rights ownership	150	(15,1)	
Other expenses	160	(14,9)	(74,3)
Financial results of ordinary activity, pretax			
Profit	170	0,0	0,0
Loss	175	490,9	880,4
Profit tax for ordinary activity	180	0,0	0,0
Financial results of ordinary activity			0,0
Profit	190	0,0	0,0
Loss	195	490,9	880,4
Extraordinary:		0,0	0,0
Profit	200	0,0	0,0
Loss	205	0,0	0,0
Extraordinary profit tax	210	0,0	0,0
Net:		0,0	0,0
Profit	220	0,0	0,0
Loss	225	490,9	880,4

II. ELEMENTS OF OPERATING EXPENSES

Name of index	Code of line	Accounting period	Previous period
1	2	3	4
Material expenditures	230	2 845,9	2 173,2
Wages and salaries	240	1 431,9	1 563,0
Deductions for social measures	250	458,9	495,0
Depreciation	260	230,0	203,1
Other expenses	270	313,4	403,4
Total	**280**	**5 280,0**	**4 837,7**

Director General ____________________
(Signature)

Chief Accountant ____________________
(Signature)

		Codes
	Form # 1 according to ДКУД	1801002
	Date (year, month, day)	2004 / 09 / 30
Enterprise - CJSC "United Engineering Company"	ЄДРПОУ	20272048
Territory - Ukraine	СПАТО	
Form of property – Joint	КФВ	
Authorities – self-governed	СПОДУ	7794
Branch of Industry (kind of activity) : disarmament	ЗКГНГ	95300; 66000;
Unit of measure : thousand gryvnyas	Control sum	
Address : 49000, Dnipropetrovsk city, Karl Marx Avenue, 67-a		

BALANCE
For 2004

FORM 1

JAN 1 2004 — Code ДКДУ

DEC 31 2004 — 1801001

ASSETS	Code of line	At the beginning of the year	At the end of the year
1	2	3	4
I. Non-circulating assets			
Nonmaterial assets:			
Depreciated cost	010	40,7	27,3
Initial cost	011	41,2	48,0
Wear and tear	012	(0,5)	(20,7)
Incompleted construction	020	0,0	0,0
Fixed assets:			
Depreciated cost	030	1 600,2	2 005,4
Initial cost	031	2 451,5	3 053,1
Wear and tear	032	(851,3)	(1 047,7)
Long-term financial investments			
that are calculated by the method of participation in other enterprises capital.	040	379,4	376,3
Other financial investments	045	0,0	0,0
Long-term settlements with debtors	050	0,0	0,0
Deferred tax assets	060	0,0	0,0
Other non-circulating assets	070	2,6	0,5
Total on Part I	080	2 022,9	2 409,5
II. Circulating assets			
Stocks			
Production stocks	100	43,7	71,1
Animals on fattening and breeding	110	0,0	0,0
Unfinished production	120	714,3	135,7
Finished products	130	0,0	0,0
Goods :	140	0,0	0,0
Bills, received	150	0,0	0,0
Settlements with debtors for goods, works and services:			
Real selling cost	160	305,1	643,0
Initial cost	161	354,4	692,3
Provision for doubtful debts	162	(49,3)	(49,3)
Settlements with debtors:			
Budget settlements	170	59,1	60,2
Payments on account	180	0,0	0,0
Imputed income	190	0,0	0,0
Internal settlements	200	0,0	1,4
Other current settlements with debtors	210	457,3	274,8
Current financial investments	220	0,0	0,0
Cash and its equivalents			
National currency	230	116,8	14,7
Foreign currency	240	314,7	52,2
Other circulating assets	250	0,0	0,0
Total on Part II	260	2 011,0	1 253,1
III. Expenses of future periods	270	0,0	0,0
Balance	280	4 033,9	3 662,6

Liabilities	Code of line	[illegible] beginning of the year	At the end of the year
1	2	3	4
I. Ownership capital			
Authorized capital	300	**104,6**	**104,6**
Share capital	310	**0,0**	**0,0**
Additional committed capital	320	**0,0**	**0,0**
Another additional capital	330	**182,1**	**182,1**
Reserve capital	340	**155,3**	**155,3**
Non-distributed profit (uncovered loss)	350	**3 532,2**	**3 041,3**
Unpaid capital	360	**0,0**	**0,0**
Exempted capital	370	**0,0**	**0,0**
Total on Part I	380	**3 974,2**	**3 483,3**
II. Providing future expenses and payments			
Providing personnel payments	400	**0,0**	**0,0**
Other supplies	410	**0,0**	**0,0**
Purpose financing	420	**0,0**	**0,0**
Total on Part II	**430**	**0,0**	**0,0**
III. Long-term liabilities			
Long-term bank credits	440	**0,0**	**0,0**
Long-term financial liabilities	450	**0,0**	**0,0**
Deferred tax liabilities	460	**0,0**	**0,0**
Other long-term liabilities	470	**0,0**	**0,0**
Total on Part	**480**	**0,0**	**0,0**
IV. Current liabilities			
Short-term bank credits	500	**0,0**	**0,0**
Current debt on long-term liabilities	510	**0,0**	**0,0**
Bills, passed	520	**0,0**	**0,0**
Payments with creditors for goods, works and services	530	**0,0**	**39,2**
Current liabilities:			
Payments in advance	540	**0,0**	**0,0**
Budget payments	550	**52,0**	**54,7**
Subsequent payments	560	**0,0**	**0,0**
Insurance payments	570	**0,0**	**20,7**
Wages and salaries	580	**0,0**	**0,8**
With investments partners	590	**0,0**	**0,0**
Internal settlements	600	**3,1**	**0,0**
Other current liabilities	610	**4,6**	**63,9**
Total on Part IV	620	**59,7**	**179,3**
V. Forward periods income	630	**0,0**	**0,0**
Balance	640	**4 033,9**	**3 662,6**

Director General ____________________

(Signature)

Chief Accountant ____________________

(Signature)

Attachment

2 PCAOB comment form, SFAS 144

Board Note – As part of its response to a draft inspection report, the Firm submitted "comment forms." Comment forms typically are prepared by the inspection team, and responded on in writing by the firm, as part of a dialogue between the inspection team and the firm in the course of the inspection process, before the preparation of any draft inspection report. If a firm submits such comment forms as its response to the draft inspection report, it is the Board's policy to redact the portions of the form that were prepared by the Board staff during the inspection process. The Firm was given notice of this policy. Those forms are included here, redacted in accordance with the Board's policy.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD
INSPECTION COMMENT FORM

REDACTED

consolidation for a temporarily controlled subsidiary.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

FAS144, Par. 3

Scope

FAS144, Par. 3
FAS144, Par. 3

3. Except as indicated in paragraphs 4 and 5, this Statement applies to recognized long-lived assets of an *entity* 1(1) to be held and used or to be disposed of, including (a) capital leases of lessees, (b) long-lived assets of lessors subject to operating leases, (c) proved oil and gas properties that are being accounted for using the successful-efforts method of accounting,2(2) and (d) long-term prepaid assets.3(3)

FAS144, Par. 4

4. If a long-lived asset (or assets) is part of a group that includes other assets and liabilities not covered by this Statement, this Statement applies to the group. In those situations, the unit of accounting for the long-lived asset is its group. For a long-lived asset or assets to be held and used, that group (hereinafter referred to as an *asset group*) represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. For a long-lived asset or assets to be disposed of by sale or otherwise, that group (hereinafter referred to as a *disposal group*) represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.4(4) This Statement does not change generally accepted accounting principles applicable to those other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by this Statement that are included in such groups.

FAS144, Par. 5

5. This Statement does not apply to (a) goodwill, (b) intangible assets not being amortized, (c) long-term customer relationships of a financial institution, such as core deposit intangibles, credit cardholder intangibles, and servicing assets, (d) financial instruments, including investments in equity securities accounted for under the cost or equity method, (e) deferred policy acquisition costs, (f) deferred tax assets, and (g) unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting. This Statement also does not apply to long-lived assets for which the accounting is prescribed by:

- FASB Statement No. 44, *Accounting for Intangible Assets of Motor Carriers*
- FASB Statement No. 50, *Financial Reporting in the Record and Music Industry*
- FASB Statement No. 63, *Financial Reporting by Broadcasters*

Attachment

3. Minutes detailing proposed purchase of equity investee

REDACTED

Comments on Non-public Aspects of Report

Attachment

4. June 19, 2004 e-mail explaining SFAS 144 sent to issuer, issuer's CPA accountant, and VP of Finance

Gary Skibicki

From: "Gary Skibicki" <skibicki@brightok.net>
To: <JCree56682@aol.com>
Cc: "Donald S. Robbins" <csmg@sbcglobal.net>; "Gordon Allison" <EEdsi@aol.com>
Sent: Saturday, June 19, 2004 10:12 AM
Subject: Re: CSMG - CO2 equipment

The thrust of FASB 144 is if the asset's book value cannot be recovered from its undiscounted future cash flows a loss is recognized amounting to the difference between its book value and new fair value. Para 8 makes no distinction on what the legal circumstances are etc but simply states if among a whole of reasons one being legal future cash flows are inadequate to recover the asset's cost it has to be written down. In the 2003 audit I addressed this under Note 1 , Nature of Operations , and if after another year no cash flows are realized a writedown seems to me to be almost unavoidable especially when this is a big area of SEC scrutiny.
I view my job not only auditor but also as a source of information so that management can keep abreast of accounting and reporting standards. If anyone wants a copy of FASB 144 I'll br happy to do so. Remember, I don't author any of these directives but try to make sure we follow them because one thing CSMG does have is believability. It would be helpful and even necessary to discuss this in the MD&A in the forthcoming 10QSB because its very material to operations.
Gary

> ----- Original Message -----
> **From:** JCree56682@aol.com
> **To:** skibicki@brightok.net
> **Sent:** Friday, June 18, 2004 10:03 PM
> **Subject:** Re: CSMG - CO2 equipment
>
> I need to go read 144, but of course the legal action involved here is not with CSMG but between other parties. Once it is resolved the plant will be put into operation. So does 144 really address writing down the assets of one company due to legal action between unrelated parties.

Attachment

5. July 8, 2004 e-mail explaining SFAS 144 to issuer, issuer's CPA accountant and VP of Finance recommending it be discussed in MD&A, with entire SFAS 144 attached

Gary Skibicki

From: "Gary Skibicki" <skibicki@brightok.net>
To: "John Creedon" <jcree56682@aol.com>; "Gordon Allison" <EEdsi@aol.com>; "Don Robbins" <csmg@sbcglobal.net>
Sent: Thursday, July 08, 2004 10:54 AM
Attach: fasb-op.TXT
Subject: CO2 equipment

Attached is the accounting standard that dictates that impaired equipment be written down to expected undiscounted future cash flows. As I read it equipment, if impaired, has to be written down to a value no greater than the cash it is expected to produce and impairment includes changes in legal circumstances that impact cash flows.

As auditor I view my job to inform management of accounting standards to insure financial reports confirm with them and in reading FAS 144 combined with my understanding of the CO2 events a writedown on the second quarter's financial reports appears to be necessary. My grasp of the CO2 equipment situation is as follows which in turn persuades me to this conclusion:

1. The legal proceedings can go on for years resulting in time deterioration of the equipment even if a caretaker is on the property.
2. Waste Management is asserting as part of the litigation that RTC has no right to access the landfill other than to remove the CO2 equipment.
3. The equipment does not scrub landfill gas sufficiently to meet Mobile Gas standards.
4. Because of 2 & 3 above there could be substantial costs involved to remove/dispose of the equipment and if so added to the writedown.
5. No one knows even if the CO2 equipment works because there has been no sustained production run to evaluate it.

I'm not involved in the day to day operations, of the CO2 activities so if I'm incorrect on any of the above a second quarter impairment may not be in order. However, I just completed a SEC accounting/reporting class and knowing that Don and Gordon have to certify the reports as being fairly presented the 144 benchmark needs to be considered prior to offering this assurance.

A writedown doesn't mean the CO2 undertaking is abandoned but instead management is complying with an accounting standard effective with fiscal years beginning after Dec 15, 2001. Additionally, and equally important, this needs to be discussed in the MD&A on the upcoming 10QSB because it was detailed under Note 1 on Note 1 in the 2003 audit and investors should be updated.

If for some reason you are unable to open the attached file for FAS 144 I'll be happy to fax it. As I read no distinction made on the nature of the legal tie up which causes the disruption of cash flows. If CSMG sandwiched in the middle of a legal dispute a writedown is still required so long as cash flows are not fo

If the above is not complete, or new information is available that I am not aware of, please let me know.

Attachment

6. July 12, 2004 impairment letter to issuer, issuer's CPA accountant and VP of Finance again attaching SFAS 144

Gary Skibicki

From: "Gary Skibicki" <skibicki@brightok.net>
To: "Don Robbins" <csmg@sbcglobal.net>; "Gordon Allison" <EEdsi@aol.com>; "John Creedon" <jcree56682@aol.com>
Sent: Monday, July 12, 2004 11:32 AM
Attach: CSMG - CO2 equipment letter.doc
Subject: CO2 Equipment & FASB 144

Attached is a letter in regards to CSMG's CO2 equipment and FAS 144.

July 12, 2004

Dear Don Robbins, Gordon Allison, John Creedon:

Subject: CO_2 Equipment & FASB 144

The accounting standard essentially states if future cash flows are inadequate to recover the cost of an asset or assets then it has to be written down to match whatever, if any, cash flows are or can be generated. Changes in legal circumstances are specifically cited to mandate a write-down and as I read FAS 144 it doesn't matter what the legal problems are; all that matters is if they impede cash flow. With the equipment in place and operational prior to March 31 as RTC contends it is very understandable to test for impairment per the standard when as of July 12, 2004 no cash has been generated.

All of this will need to be disclosed in the 10 QSB because with any litigation no outcome is certain and time frames can be prolonged as evidenced by the over 14 months per the above. There are also assertions in the legal proceedings that the end product does not meet Mobile Gas standards so to fairly test for impairment it ultimately comes down to will Mobile Gas buy the methane once the legal dispute is over. There should be a formal commitment from Mobile Gas to do so because then investors will know the carrying amounts for the CO_2 equipment have not been impaired assuming the quantity and quality of the methane gas meets Mobile's standards. This commitment will then meet the standard for testing impairment and if obtained the CO_2 equipment passes the test and if not it fails.

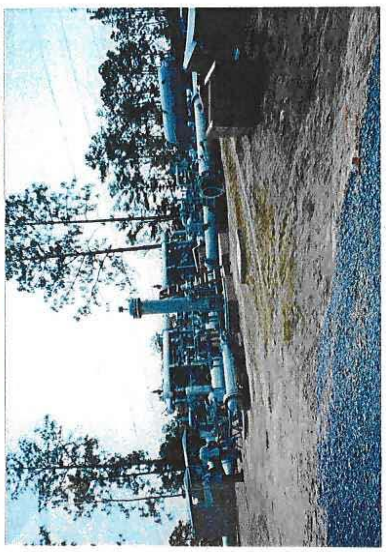
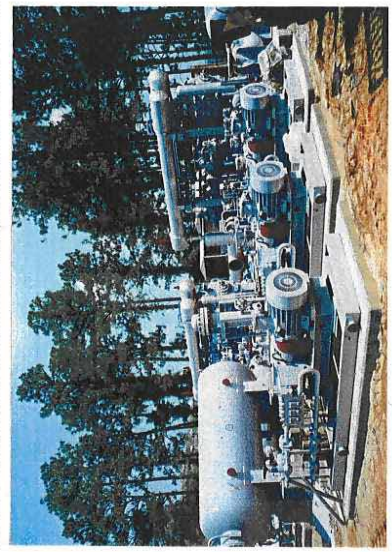
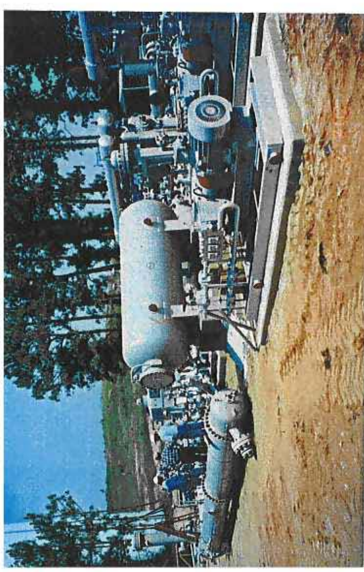
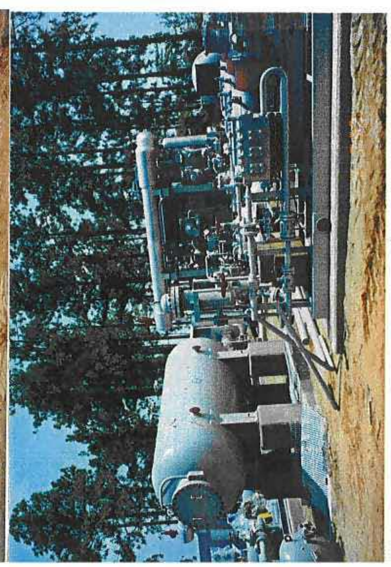
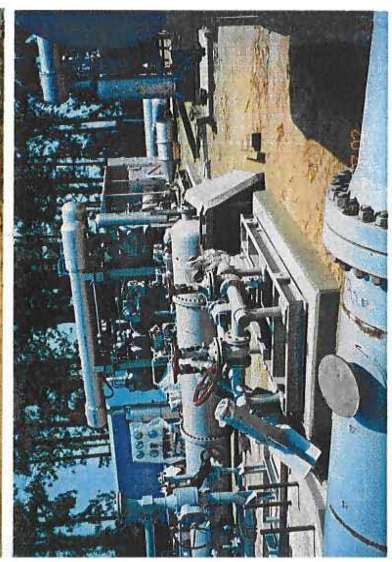
I didn't author the standard but under the circumstances testing for impairment has to be made because no one can argue that with no cash flows FAS 144 with all its disclosure requirements has to be addressed. If CSMG can get such a commitment large enough so that future cash flows can pay for the equipment it will have met its testing responsibility and be justified in leaving the CO_2 equipment on the financial reports at its present carrying value. If not the CO_2 equipment will be impaired and a write down appears inevitable.

Very truly yours,
Gary Skibicki

Attachment

7. CO_2 equipment photos

D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