
Part Three

Financial Review

Center for the Study of Democracy
Organisation's Financial Statements
For the year ended 31 December 1998
With Independent Auditors' Report Thereon

Auditors' report to the General Assembly of the Center for the Study of Democracy

We have audited the financial statements of the Center for the Study of Democracy for the year ended 31 December 1998 set out on pages 63 to 71.

Respective responsibilities of directors and auditors

The organisation's management is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the organisation's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Neither an income statement for the year ended 31 December 1997 nor a balance sheet at that date were prepared in BGL under the International Accounting Standard No 29, namely Financial Reporting in Hyperinflationary Economics. Therefore no audit of the financial statements, prepared in BGL in accordance with the International Accounting Standard No 29, for the year ended 31 December 1997 has been undertaken. No corresponding figures for the year ended 31 December 1997 and no cash flow statement for the year ended 31 December 1998 have been audited or presented as required by IAS 5 Information to be Disclosed in Financial Statements and IAS 7 "Cash Flow Statements. An audit of the financial statements has been performed by another auditor (Price Waterhouse Coopers) for the financial period ended 1997 and these financial statements have been prepared in USD.

No consolidation of the investment has been made as stated in note 1.

In our opinion, except for the matters referred to above and the adjustments, if any, to the opening balances on reserves at 1 January 1998 which we might have determined had we undertaken audit work on the financial statements for the year ended 31 December 1997, the financial statements give a true and fair view of the state of affairs of the Center for the Study of Democracy at 31 December 1998 and the excess of income over expenditure in accordance with International Accounting Standards.

Center for the Study of Democracy

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998*Financial statements are prepared in thousands of BGL*

	Notes	For the year ended 31 December 1998
Revenue from grants, contributions and projects	2	1,222,918
Expenses on grants, contributions and projects	3	(1,153,263)
General and administrative expenses		<u>(34,269)</u>
Gross excess of revenue over expenditure		35,386
Foreign exchange gains – net	4	86,199
Interest income		52,589
Other financial expenses		(7,065)
Extraordinary income-net	5	<u>32,941</u>
		200,050
Gain on net monetary position		(7,975)
Excess of revenue over expenditure for the year		192,075
Accumulated excess of revenue over expenditure brought forward		<u>1,157,786</u>
Unrestricted fund balances at 31 December 1998		<u>1,349,861</u>

The accompanying notes on pages 65 to 71 form an integral part of these financial statements.

Center for the Study of Democracy
BALANCE SHEET AS OF 31 DECEMBER 1998
Financial statements are prepared in thousands of BGL

		For the year ended 31 December 1998
Current Assets		1,474,018
Receivables	6	237,525
Cash and cash equivalents	7	1,153,411
Deferred expenses	8	83,082
Non-current assets		156,730
Property, plant and equipment	9	150,548
Intangible fixed assets	10	1,176
Investments	11	<u>5,006</u>
Total Assets		1,630,748
Liabilities		
Payables	12	58,940
Deferred revenue	13	<u>221,947</u>
Total liabilities		<u>280,887</u>
Unrestricted fund balances	14	<u>1,349,861</u>

The CSD financial statements are to be read in conjunction with the notes to them and form an integral part of the CSD financial statements set out on pages 65 to 71.



Ognian Shentov
President

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

(a) Background

Founded in late 1989, the Center for Study of Democracy (CSD) is an interdisciplinary public policy institute dedicated to the values of democracy and market economy. CSD is a non-partisan, independent organization fostering the reform process in Bulgaria through impact on policy and civil society.

CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European Integration process;
- to promote institutional reform and the practical implementation of democratic values in legal and economic practice;
- to monitor public attitudes and serve as well as to monitor the institutional reform process in the country;
- to strengthen the institutional and management capacity of NGOs in Bulgaria, and reform the legal framework for their operation.

CSD encourages an open dialogue between scholars and policy makers and promotes public-private coalition building. As a full-service think tank, the Center achieves its objectives through policy research, process monitoring, drafting of legislation, dissemination and advocacy activities, building partnerships, local and international networks.

(b) Basis of preparation

These financial statements have been drawn up in conformity with International Accounting Standards.

The financial statements are presented in BGL, after taking into consideration the fact that during the last several years the fund has operated in a hyper-inflationary environment. The officially published inflation indices for 1996, 1997 and 1998 are 410.8%, 678.6% and 101% respectively. For the financial period ended 31 December 1997 no financial statements in accordance with IAS 29, "Financial reporting in hyperinflationary economies", have been prepared. Since this is the first financial year that such audited financial statements are prepared, no comparative figures are presented.

(c) Foreign currencies

Monetary assets in foreign currencies have been revalued on a monthly basis as required by the Accountancy Act. As a result foreign exchange differences have arisen. Deferred revenue and other liabilities denominated in foreign currencies are carried at their historical values. The exchange rate as of 31 December 1998 was BGL 1675.10 = USD 1. (Closing rate for 1997 - BGL 1765,5 = USD 1).

(d) Property, plant and equipment

Tangible and intangible fixed assets are inflated in accordance with International Accounting Standard 29, "Financial reporting in hyperinflationary economies". The monthly inflation indices as officially published by the National Institute of Statistics are used. Since these are computed using the month of December of the previous year as a basis, chain indices from the month of purchase to the end of the year under review, have been used to measure the cumulative effect of inflation.

The tangible and the intangible fixed assets have then been depreciated using the straight line method over their estimated useful lives. The accumulated depreciation and the charge for the current year have been inflated using the above described method.

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

The following annual rates have been used:

Fixtures and fittings	25%
Machines and equipment	20%
Vehicles	20%
Software	20%

(e) Investments

Investments classified as long-term assets which are not considered to be material as compared to the overall balance sheet value of the CSD are carried at cost, less any amounts written off to recognise a decline in the value of the investment. As the subsidiaries perform economic activity the investments in them are not included in the parent's separate financial statements because if included the statements will not give a true and fair presentation of the activity of the CSD. Due to the above mentioned reason the investments have not been consolidated.

(f) Revenue recognition and expense reporting

The revenue of the Center for the Study of Democracy consists of funds extended by international financing bodies for the completion of accepted projects. The amounts are carried in the balance sheet as deferred revenue at their historic values. Every project is commenced with a signing of a contract where the financing body determines the budget, payment installments and the rates at which expenses incurred in BGL are to be translated into the respective foreign currency. The amount of BGL expenses are translated at the specified rate and an expense report in foreign currency is produced. It is used to report on the progress of the project before the financing organization. These reports are prepared at a frequency determined by the contract for the project assignment.

Revenue is recognised on the basis of completed stage as reported by the CSD to the commissioning bodies.

Revenue is recognised as income for the period to match the related costs, on a systematic basis. Project contracts are denominated in foreign currency, while the related expenses are incurred in BGL. Expenses as revalued in foreign currency correspond to the revenues in the same foreign currency.

(g) Change of the accounting policy

There has been a change in the principle of revenue recognition as compared to the previous financial period. In 1997 revenue has been recognized in the year of the project completion, although it may not be the year when all expenses have been incurred.

In 1998 income is recognized on accrual basis at the year end for completed and continuing projects. The maximum amount of revenue that can be recognised is the amount of expenses incurred. The deferred revenue is depreciated on a project basis. The relevant amounts are recognized as income. The difference to the total amount of BGL expenses is also recognised. Since this amount must correspond to the currency amount from the expense report, which is booked at another rate, an exchange rate difference occurs.

The effect of the change of the accounting policy could not be calculated.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks.

(i) Taxation

CSD is a non-profit organization Therefore it has no tax liabilities.

Deferred tax has not been incurred in the financial statements due to the fact that this tax could not be levied on grants.

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

2. Revenue from grants, contributions and donations	For the year ended 31 December 1998 BGL'000
IDLI	343,058
ETF	64,372
CE	90,503
CIPE 98	57,670
CED	57,008
IBF Pr. Str.	65,190
PHARE	50,452
IBF for Imp. Studies	67,204
NEI	48,754
GMF	40,794
BTC Institutional Development	34,882
Ministry of Foreign Affairs - European Integr.	33,857
Other projects	<u>269,174</u>
	<u>1,222,918</u>

The item Other projects includes revenue from 35 projects, and the revenue of each these projects does not exceed BGL 25 million.

3. Expenses on grants, contributions and projects	For the year ended 31 December 1998 BGL'000
Salaries and benefits	379,221
Hired services	295,381
Depreciation	66,651
Supplies and consumable	44,538
Other expenses	213,869
Decrease in deferred expenses	<u>153,603</u>
	<u>1,153,263</u>

4. Foreign exchange gains	For the year ended 31 December 1998 BGL'000
Exchange rate gains from operations	224,604
Exchange rate losses from operations	<u>(138,405)</u>
	<u>86,199</u>

Differences on exchange rates have arisen in the cases when debtors, cash and creditors denominated in foreign currencies have been revalued on a monthly basis.

Differences on exchange rates have arisen when income and expenses have been matched. Since deferred revenue is received in foreign currencies and expenses are incurred in BGL when they are matched at every reporting period foreign exchange rate differences occur.

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

5. Extraordinary income and expenses	For the year ended 31 December 1998
	BGL'000
Extraordinary income	34,768
Extraordinary expenses	(1,598)
Write down of investments	(229)
	<u>32,941</u>
6. Receivables	For the year ended 31 December 1998
	BGL'000
Completed Projects	32,822
Receivables from ARC Fund	134,008
Other receivables	70,695
	<u>237,525</u>
<p>Since revenue and expenses on projects are matched on a yearly basis to conform with the accruals principle, receivables consisting of expenses incurred on fully completed projects arise.</p>	
7. Cash and cash equivalents	For the year ended 31 December 1998
	BGL'000
At bank	1,107,152
In local currency	4,709
In foreign currency	1,102,443
In hand	46,259
In local currency	15,563
In foreign currency	30,696
	<u>1,153,411</u>
8. Deferred expenses	For the year ended 31 December 1998
	BGL'000
CIPE'98	39,837
SOCO	9,651
ETF	7,240
Interrights	103
COLPI	2,747
CE edition	798
OSF	157
Phare democracy (Santander)	22,549
	<u>83,082</u>
<p>Since income and expenses on projects are matched on a yearly basis to conform with the accruals principle, deferred expenses consisting of expenses incurred on projects that have not been completed yet, arise.</p>	

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

9. **Property plant and equipment**

	Plant and equipment BGL'000	Vehicles BGL'000	Fixtures and fittings BGL'000	Total BGL'000
Cost or valuation				
At 1 January 1998	345,696	122,477	193,932	662,105
Additions	41,798	62,407	664	104,869
Disposals	(230,068)	-	(93,680)	(323,748)
Inflationary adj. (+)	3,377	1,225	1,939	6,541
Inflationary adj. (-)	(2,301)	(1,625)	(937)	(4,863)
At 31 December 1998	158,502	184,484	101,918	444,904
Accumulated depreciation				
At 1 January 1998	272,958	122,191	156,017	551,166
Charge for the year	34,677	6,975	22,625	64,277
Disposals	(230,068)	-	(93,680)	(323,748)
Inflationary adj. (+)	3,010	1,222	1,771	6,003
Inflationary adj. (-)	(2,247)	(174)	(921)	(3,342)
At 31 December 1998	78,330	130,214	85,812	294,356
Net book value as at At 31 December 1998	80,172	54,270	16,106	150,548
Net book value as at 31 December 1997	72,738	286	37,915	110,939

10. **Intangible fixed assets**

	Patents, license, trade marks BGL'000	Software BGL'000	Total BGL'000
Cost or valuation			
At 1 January 1998	408	9,543	9,951
Additions	-	-	-
Disposals	-	-	-
Inflationary adj. (+)	4	96	100
At 31 December 1998	412	9,639	10,051
Accumulated depreciation			
At 1 January 1998	177	6,746	6,923
Charge for the year	81	1,782	1,863
Disposals	-	-	-
Inflationary adj. (+)	3	86	89
At 31 December 1998	261	8,614	8,875
Net book value as at At 31 December 1998	151	1,025	1,176
Net book value as at 31 December 1997	231	2,797	3,028

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

11. Investments	For the year ended 31 December 1998 BGL'000
Agency "Vitosha" EOOD	5,006
Radio "Vitosha"	229
Provisions	<u>(229)</u>
	<u>5,006</u>

Investments have not been inflated. CSD is a not-profit organization but the subsidiaries perform economic activity. Thus if their separate financial statements are included in the parent's separate financial statements, these will not give a true and fair presentation of the activity of the CSD

12 Payables	For the year ended 31 December 1998 BGL'000
Payables to the budget	6,225
Salaries, benefits and social security payable	10,843
Payables to suppliers	8,873
Other payables	<u>32,999</u>
	<u>58,940</u>

The payables to the budget consist of income tax levied on salaries for the month of December 1998.

13. Deferred revenue	For the year ended 31 December 1998 BGL'000
For project activities	167,188
For fixed assets	<u>54,759</u>
	<u>221,947</u>

14. Funds balance	Accumulated fund BGL'000
Balance at 1 January 1998	1,146,323
Revaluation for the period	11,463
Excess of revenue over expenditure for the year	<u>192,075</u>
Balance at 31 December 1998	<u>1,349,861</u>

15. Contingent liabilities

There are no contingent liabilities to report on.

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

16. Related parties

Related party	Nature of the related party relationship	Type of transaction	Transaction during the year	Outstanding balance 31 December 1998
Receivables Agency Vitosha	100% of the capital owned by CSD	Financing Financing	BGL 18,739,493	BGL 19,060,945 USD 2,007
Radio Vitosha	Significant influence	Financing Financing		USD 3,522 BGL 564,431 GBP 399
Center for the Study of Democracy	CSD and ARC Fund are both represented by the President of the Governing Board	Financing	USD 80,000	USD 80,000
Payables Agency Vitosha	100% of the capital owned by CSD	Financing		BGL 273,920

17. Post balance sheet events

There have been no material changes or transactions subsequent to the balance sheet date that require adjustment or disclosure in the financial statements prepared for the period ended 31 December 1998.