
Part Three

Financial Review

Center for the Study of Democracy
Organisation's Financial Statements
For the period ended 31 December 1999
With Independent Auditors' Report Thereon

kpmgBulgaria

Report of the auditor to the General Assembly of the Center for the Study of Democracy

Scope

We have audited the accompanying balance sheet the related statements of income and expenditure account and cash flows for the year then ended of the Center for the study of democracy as of 31 December 1999.

Respective responsibilities of directors and auditors

The organization's management is responsible for the preparation of the 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. 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 the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Center for the study of democracy as at 31 December 1999, and the excess of income over expenditure in accordance with International Accounting Standards.

18 February 2000

KPMG Bulgaria OOD
13 Slavyanska Str.
1000 Sofia
Bulgaria

Center for the Study of Democracy
 STATEMENT OF NET CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 1999
Financial statements

<i>In BGN</i>	Note	1999	1998
Revenue from grants, contributions and projects	2	1,493,530	1,222,918
Expenses on grants, contributions and projects	3	(1,116,569)	(1,153,263)
General and administrative expenses		(27,982)	(34,269)
Gross excess of revenue over expenditure		348,979	35,386
Foreign exchange gains – net	4	116,633	86,199
Interest income		31,011	52,589
Other financial expenses		(6,083)	(7,065)
Other income		289	
Extraordinary income - net	5	(914)	32,941
Provisions		(20,873)	
Net excess of revenue over expenditure		469,042	200,050
Gain on net monetary position		–	(7,975)
Excess of revenue over expenditure for the year		469,042	192,075
Accumulated excess of revenue over expenditure brought forward		<u>1,349,861</u>	<u>1,157,786</u>
Unrestricted fund balances at 31 December 1999		<u>1,818,903</u>	<u>1,349,861</u>

The accompanying notes on pages 68 to 72 form an integral part of these financial statements.

Center for the Study of Democracy
BALANCE SHEET AS AT 31 DECEMBER 1999
Financial statements

<i>In BGN</i>	Note	1999	1998
Current Assets		2,520,863	1,474,018
Inventories		164	–
Receivables	6	148,456	237,525
Cash and cash equivalents	7	1,581,004	1,153,411
Deferred expenses	8	791,239	83,082
Non-current assets		577,819	156,730
Property, plant and equipment	9	572,311	150,548
Intangible fixed assets	10	502	1,176
Investments	11	5,006	5,006
Total Assets		3,098,682	1,630,748
Liabilities			
Payables	12	45,343	58,940
Deferred revenue	13	1,234,436	221,947
Total Liabilities		1,279,779	280,887
Unrestricted fund balance	14	<u>1,818,903</u>	<u>1,349,861</u>

The fund's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 68 to 72.



Ognian Shentov
 President

Center for the Study of Democracy
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999
Financial statements

<i>In BGN</i>	1999
OPERATING ACTIVITIES	
Gross excess of revenue over expenditure	469,042
Adjustments for:	
Depreciation	52,322
Foreign exchange loss from revaluation assets and liabilities denominated in foreign currency	(34,556)
Increase/(decrease) of provisions	<u>20,873</u>
Cash flow from operating activities before changes in working capital	507,681
(Increase)/decrease in assets from operating activities	(642,482)
Increase/(decrease) liabilities from operating activities	<u>1,035,805</u>
Cash flows from operating activities	901,004
INVESTING ACTIVITIES	
Purchase of tangible fixed assets	<u>(473,411)</u>
Net cash used in investing activities	(473,411)
Net increase in cash and cash equivalents	427,593
Cash and cash equivalents at beginning of year	<u>1,153,411</u>
Cash and cash equivalents at end of year	<u>1,581,004</u>

A comparative cashflow statement for the year ended 31 December 1998 is not presented due to the fact that the financial statements for the period ended 31 December 1997 have not been audited by KPMG Bulgaria.

Center for the Study of Democracy

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

(a) Activity 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.

Hyperinflation adjustments have been made in order to show the effect of inflation on the purchasing power of the equity interest. This is achieved by stating the current year non monetary assets of the Center, which operated in a hyperinflationary economy in 1996 and 1997, in terms comparable to the previous year balances of these items.

All items in the statement of changes in net assets for the year ended 31 December 1999 are expressed in terms of the measuring unit current at 31 December 1999.

(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. Other liabilities denominated in foreign currencies are carried at their historical values. The BNB official exchange rates of the USD as at 31 December 1999 and the average for 1999 are 1.95 BGN/USD and 1.84 BGN/USD respectively.

(d) Property, plant and equipment

Tangible and intangible fixed were inflated for the year ended 31 December 1998 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 have been 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 for the year ended 31 December 1999 have not been inflated. Their inflated values as at 31 December 1998 have been depreciated using the straight line method. The inflation rate for the twelve months ended 31 December 1999 of 6.2 % is considered insignificant, and no restatement of the financial statements as of and for the year ended 31 December 1999 have been made.

The rates of depreciation used are as follows:

Buildings	4%
Machinery and equipment	20%
Fixtures and fittings	25%
Vehicles	15%
Intangible assets	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

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

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 income 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 instalments and the rates at which expenses incurred in BGN are to be translated into the respective foreign currency. The respective amount of BGN 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 in the income and expenditure account on the basis of completed stage as reported by the SCD 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 BGN. Expenses as revalued in foreign currency correspond to the revenues in the same foreign currency.

(g) **Cash and cash equivalents**

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

(h) **Taxation**

SCD 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.

2. **Revenue from grants, contributions and projects**

<i>In BGN</i>		1999
IDLI		517,420
ETF		197,906
CE		103,276
CIPE 98		40,441
SOCO		35,341
European Commission		97,469
Santander group - Phare Democracy Program		50,533
LMFI (Pension funds)		19,240
World bank		28,956
UNDP training		46,327
Other projects		356,621
		<u><u>1,493,530</u></u>

3. **Expenses on grants, contributions and projects**

<i>In BGN</i>	1999	1998
Salaries and benefits	411,213	441,653
Hired services	284,065	344,010
Depreciation	52,322	66,651
Supplies and consumable	44,141	51,870
Other expenses	324,828	249,079
	<u><u>1,116,569</u></u>	<u><u>1,153,263</u></u>

4. **Foreign exchange gains – net**

<i>In BGN</i>	1999	1998
Exchange rate gains from operations	244,154	224,604
Exchange rate losses from operations	(127,521)	(138,405)
	<u><u>116,633</u></u>	<u><u>86,199</u></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.

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

5. **Extraordinary income and expenses**

<i>In BGN</i>	1999	1998
Extraordinary income	15	34,768
Extraordinary expenses	(929)	(1,598)
Write down of investment	-	(229)
	<u>(914)</u>	<u>32,941</u>

6. **Receivables**

<i>In BGN</i>	1999	1998
Completed Projects	49,257	32,822
Receivables from ARC Fund	75,613	134,008
Other receivables	44,459	70,695
Provision	(20,873)	-
	<u>148,456</u>	<u>237,525</u>

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.

7. **Cash and cash equivalents**

<i>In BGN</i>	1999	1998
At bank	1,555,498	1,107,152
In local currency	9,042	4,709
In foreign currency	1,546,456	1,102,443
In hand	25,506	46,259
In local currency	9,877	15,563
In foreign currency	15,629	30,696
	<u>1,581,004</u>	<u>1,153,411</u>

8. **Deffered expenses**

<i>In BGN</i>	1999	1998
CIPE'98	-	39,837
CIPE'99	72,562	-
SOCO	-	9,651
ETF	-	7,240
Interrights	103	103
COLPI	8,756	2,747
CE edition	-	798
OSF	356	157
Phare Democracy (Santander)	85,601	22,549
Coalition 2000	563,747	-
McArthur Foundation	22,464	-
European commission	35,797	-
ICEG	1,853	-
	<u>791,239</u>	<u>83,082</u>

Since revenue 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.

9. **Property, plant and equipment**

<i>In BGN</i>	Land	Plant & equipment	Vehicles	Fixtures & fittings	Assets in construction	Total
Cost or valuation						
At 1 January 1999	-	158,502	184,484	101,918	-	444,904
Additions	<u>115,769</u>	<u>19,197</u>	<u>1,597</u>	<u>925</u>	<u>335,923</u>	473,411
Disposals						
At 31 December 1999	<u>115,769</u>	<u>177,699</u>	<u>186,081</u>	<u>102,843</u>	<u>335,923</u>	918,315

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

Accumulated depreciation					
At 1 January 1999	78,330	130,214	85,812		294,356
Disposals	–	–	–		–
Charge for year	30,306	9,276	12,066		51,648
At 31 December 1999	<u>108,636</u>	<u>139,490</u>	<u>97,878</u>		<u>346,004</u>

Net book value as at 31 December 1999	<u>115,769</u>	<u>69,063</u>	<u>46,591</u>	<u>4,965</u>	<u>335,924</u>	<u>572,311</u>
Net book value as at 31 December 1998	<u>–</u>	<u>80,172</u>	<u>54,270</u>	<u>16,106</u>	<u>–</u>	<u>150,548</u>

10. Intangible fixed assets				
<i>In BGN</i>		Software	Patents and licenses	Total
Cost or valuation				
At 1 January 1999		9,639	412	10,051
Additions				
At 31 December 1999		9,639	412	10,051
Accumulated depreciation				
At 1 January 1999		8,614	261	8,875
Charge for year		591	83	674
At 31 December 1999		9,205	344	9,549
Net book value as at 31 December 1999		<u>434</u>	<u>68</u>	<u>502</u>
Net book value as at 31 December 1998		<u>1,025</u>	<u>151</u>	<u>1,176</u>

11. Investments			
<i>In BGN</i>		1999	1998
Agency Vitosha EOOD		5,006	5,006
Radio Vitosha		229	229
Provisions		(229)	(229)
		<u>5,006</u>	<u>5,006</u>

Investments have not been consolidated. 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			
<i>In BGN</i>		1999	1998
Payables to the budget		17,377	6,225
Salaries, benefits and social security payable		7,145	10,843
Payables to suppliers		–	8,873
Other payables		20,821	32,999
		<u>45,343</u>	<u>58,940</u>

13. Deferred revenue			
<i>In BGN</i>		1999	1998
For project activities		1,165,368	167,188
For fixed assets		69,068	54,759
		<u>1,234,436</u>	<u>221,947</u>

14. Unrestricted fund balance			
<i>In BGN</i>		1999	1998
Balance at 1 January 1999		1,349,861	1,146,323
Revaluation for the period		–	11,463
Excess of revenue over expenditure for the year		469,042	192,075
Balance at 31 December 1999		<u>1,818,903</u>	<u>1,349,861</u>

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

15. **Related parties**

Related party receivables	Nature of the related party relationship	Transaction during the year	Outstanding balance 31 December 1999	
Agency Vitosha	100% of the capital owned by CSD	none	BGN	19,120.95
Radio Vitosha	Significant influence	none	USD	2,007.00
			BGN	504.43
			USD	3,522.61
			GBP	399.00
ARC Fund	CSD and ARC Fund are both represented by the Chairman of the Board of Trustees		USD	38,838.00
Related party payables				
Agency Vitosha	100% of the capital owned by CSD	none	USD	273.92

16. **Events subsequent to the balance sheet date**

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 1999.

17. **Contingencies**

There are no contingencies to report on.

18. **Reconciliation of IAS result**

<i>In BGN</i>	1999
Description	
NAS result	511,895
Write off of revaluation from 1997	(794)
Write off of statutory depreciation charge	31,136
Depreciation charge on inflated assets	(52,322)
Bad debt provisions	(20,873)
IAS result	<u><u>469,042</u></u>