

## **I. Significant accounting policies**

The Center for the Study of Democracy (CSD) is a non profit organization domiciled in Bulgaria. The financial statements were authorized for issue by the Executive Director on 4 March 2003.

### **(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) Statement of compliance**

The financial statements of the Center for the Study of Democracy have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the Standing Interpretations Committee of the IASB.

### **(c) Basis of preparation**

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

Hyperinflation adjustments have been made in order to show the effect of inflation on the purchasing power of the equity interest as at 31 December 1998. Due to the insignificant inflation growth in the financial year 1999, 2000, 2001 and 2002, the Statement of Revenues, Expenditures and Changes in Fund Balances for that years and the Balance Sheet as at 31 December 1999, 31 December 2000, 31 December 2001 and 31 December 2002 have not been adjusted according the official inflation index.

## Significant accounting policies (continued)

### (d) Foreign currencies

Monetary assets and liabilities in foreign currencies have been revalued on a monthly basis. As a result foreign exchange differences have arisen. The BNB official exchange rates of the USD as at 31 December 1999 is 1.9469, as at 31 December 2000 is 2.1091 BGN/USD and as at 31 December 2001 is 2.21926 BGN/USD, the average exchange rate for the year 2001 is 2.18467 BGN/USD and as at 31 December 2002 is 2.06604 BGN/USD.

### (e) Property, plant and equipment

Items of Property plant and equipment and intangible assets are stated at a cost less accumulated depreciation and impairment losses. They are reported in the Balance Sheet applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices have been used. Their cost have been inflated as at 31 December 1998.

Property plant and equipment and intangible assets have not been inflated for the years ended 31 December 1999, 31 December 2000, 31 December 2001 and 31 December 2002. The inflation rate for the twelve months ended 31 December 1999, 31 December 2000, 31 December 2001, 31 December 2002 of 6.4 %, 11.4%, 4,8% and 3,8% respectively are considered insignificant, and no restatement of the financial statements as of and for the year ended 31 December 1999, 31 December 2000, 31 December 2001 and 31 December 2002 have been made.

Inflated values as at 31 December 1998 of property plant and equipment and of intangible fixed assets have been depreciated using the straight - line method. The rates of depreciation used are as follows:

Buildings	4%
Machines and equipment	20%, 25%
Fixtures and fittings	20%
Vehicles	20%
Computers and software	33%
Intangible assets	20%

### (f) Investments in associates

Investments classified as long-term assets are carried at cost, less any amounts written off to recognise a decline in the value of the investment. The subsidiaries perform economic activity which is different from the activities performed by the CSD. In relation to the stated above, the financial statements of the subsidiaries are not consolidated and the management carries the investments at cost. In the present report there is an information is disclosed (refer to note 8) for the activities of these subsidiaries concerning their net assets and financial results.

## Significant accounting policies (continued)

### (g) Other investments

As other investments are classified held-to-maturity assets measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

### (h) Receivables

Receivables are stated at cost less any amounts, which are not expected to be collected. The latter are presented as impairment losses on the basis of the calculated recoverable amount of trade receivables (refer to accounting policy (k)).

### (j) Cash and cash equivalents

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

### (k) Impairment

The carrying amount of the Center's assets is reviewed at each balance sheet to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

### (l) Payables

Payables are stated at their cost.

### (m) Revenue recognition and expense reporting

Revenue is recognized in the income and expenditure account on the basis of completed stage as reported by the CSD to the commissioning bodies. Revenue is recognized 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.

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 BGN are to be translated into the respective foreign currency.

### **Significant accounting policies (continued)**

Reports are prepared as contracted with financing organization. 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. Frequency is determined in the contract for the project assignment.

#### **(n) Taxation**

CSD is a non - profit organization. No corporate tax is levied in accordance with current Bulgarian legislation. For the period ended 31 December 2000 and 31 December 2001 there are no trade operations on which tax is due.

As at 31 December 2002 the Center has gained financial income from dealing with securities under agreement for trading of securities and bonds. Under Bulgarian tax legislation income and municipality tax is levied.

## Significant accounting policies (continued)

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

<i>In BGN</i>	2002	2001
Council of Europe – Information Centre on the Council of Europe	122,004	113,970
The German Marshall Fund – Illegal Trafficking and Corruption in Southeast Europe (2001-2002); Corruption Assessment in Southeast Europe (2002-2003)	60,460	49,412
Royal Norwegian Embassy – Trafficking and Corruption: Monitoring and Prevention	224,282	-
Royal Norwegian Embassy – Reforming the Judiciary in Bulgaria: Towards the Introduction of Modern Registration System	46,811	-
InfoDev World Bank – Country Development Gateway	-	159,677
SELDI phase I – Assessment and Introductory Training of Coalition Building and Monitoring	-	553,454
SELDI phase II – Coalition Building and Monitoring for Anti-Corruption	586,740	307,826
CIPE – Balkan/Black Sea Anti-Corruption Workshop	19,851	
Conflict Management Group – Conflict Vulnerability in Bulgaria	57,600	-
CIPE - Corporate Governance Reform and the Mass Media	-	34,597
IDLI - Implementing Anti-Corruption Action Plan for Bulgaria	-	65,594
USAID, American Embassy, Sofia – International Conference “Beyond Anticorruption Rhetoric”	-	56,658
CIPE – Transforming Business Practice through Corporate Governance	-	63,046
MSI – Support for Armenia Anti-Corruption Study Tour	-	66,630
Santander group - Phare Democracy Program – Citizen Participation and Public Hearings	-	80,986
Other projects	447,314	301,925
	<u>1,565,062</u>	<u>1,853,775</u>
 Income from financing for assets	 35,146	 40,932
	<u>1,600,208</u>	<u>1,894,707</u>

### Significant accounting policies (continued)

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

<i>In BGN</i>	2002	2001
Salaries and benefits	92,002	71,741
Hired services	747,313	928,492
Depreciation	51,604	48,375
Supplies and consumable	58,729	92,873
Other expenses	360,253	379,379
	<u>1,309,901</u>	<u>1,520,860</u>

Hired services are related particularly to undertaking of the projects activities and reported to the grantors to the amount of BGN 747,313. They include expenses for honoraria, communication and printing services. Substantial amount of honoraria consist of payment for consulting services to outside and local consultants and experts.

#### 4. Foreign exchange gains or losses

<i>In BGN</i>	2002	2001
Exchange rate gains	128,527	328,576
Exchange rate losses	(400,501)	(322,241)
	<u>(271,974)</u>	<u>6,335</u>

#### 5. Impairment of assets

<i>In BGN</i>	2002	2001
<b>Balance at the beginning of the year</b>	(19,611)	-
Losses on impairment of receivables incurred during the period	-	(19,611)
Write off receivable against provisions incurred in previous years	-	-
<b>Balance at the end of the year</b>	<u>(19,611)</u>	<u>(19,611)</u>
<b>Total (increase)/ decrease of bad debt allowance</b>	<u>-</u>	<u>(19,611)</u>

## Significant accounting policies (continued)

### 6. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Under construc- tion	Total
<i>Cost</i>						
Balance at 1 January 2002	229,662	182,877	175,116	95,820	335,923	1,019,398
Acquisitions	-	19,983	-	32,028	-	52,011
Disposals	-	(67,613)	-	(37,648)	-	(105,261)
Balance at 31 December 2002	<u>229,662</u>	<u>135,247</u>	<u>175,116</u>	<u>90,200</u>	<u>335,923</u>	<u>966,148</u>
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2002	1,433	84,607	116,654	88,741	-	291,435
Depreciation charge for the year	4,298	31,745	10,654	2,466	-	49,163
Depreciation of disposals	-	(58,096)	-	(32,410)	-	(90,506)
Balance at 31 December 2002	<u>5,731</u>	<u>58,256</u>	<u>127,308</u>	<u>58,797</u>	<u>-</u>	<u>250,092</u>
<i>Carrying amount</i>						
At 1 January 2002	<u>228,229</u>	<u>98,270</u>	<u>58,462</u>	<u>7,079</u>	<u>335,923</u>	<u>727,963</u>
At 31 December 2002	<u>223,931</u>	<u>76,991</u>	<u>47,808</u>	<u>31,403</u>	<u>335,923</u>	<u>716,056</u>

## Significant accounting policies (continued)

### 7. Intangible assets

<i>In BGN</i>	<b>Software</b>	<b>Total</b>
<i>Cost</i>		
Balance at 1 January 2002	13,228	13,228
Acquisitions	-	-
Balance at 31 December 2002	<u>13,228</u>	<u>13,228</u>
<i>Amortisation and impairment losses</i>		
Balance at 1 January 2002	4,167	4,167
Amortisation charge for the year	<u>2,441</u>	<u>2,441</u>
Balance at 31 December 2002	<u>6,608</u>	<u>6,608</u>
<i>Carrying amount</i>		
At 1 January 2002	<u>9,061</u>	<u>9,061</u>
At 31 December 2002	<u>6,620</u>	<u>6,620</u>



## Significant accounting policies (continued)

### 8. Investments in associates

<i>In BGN</i>	2002	2001
Agency Vitosha EOOD	5,006	5,006
Vitosha Research EOOD	5,000	5,000
	<u>10,006</u>	<u>10,006</u>

CSD is a non-profit organisation which has invested in two companies in prior accounting periods. For the financial year 2002 the subsidiaries that perform business activities in line with the overall goals and the mission of CSD have received no further financial support. Their financial statements have been audited by certified chartered accountants according to Bulgarian legislation, for which some details are presented below:

<i>In BGN</i>	Net Assets		Profit after tax	
	2002	2001	2002	2001
Agency Vitosha EOOD	49 740	43 061	6 766	3 787
Vitosha Research EOOD	67 525	27 016	40 609	18 222
	<u>117 265</u>	<u>70 077</u>	<u>47 375</u>	<u>22 009</u>

## Significant accounting policies (continued)

### 9. Other investments

<i>In BGN</i>	Maturity	Nominal value		Number of	Balance as at
		EUR	BGN	bonds	31 December 2002
					BGN
Bonds held-to-maturity issued by:					
Bulgarian - American Bank	28 March 2005	300,000	586,749	300	590,529
First Investment Bank	24 October 2003	300,000	586,749	300	601,525
					<u>1,192,054</u>

The financial assets held-to-maturity realise gains accounted for as financial income in the Statement of revenues, expenditures and changes in fund balances in the amount of BGN 30,433.

The Center has accrued income and municipality tax in the Statement of revenues, expenditures and changes in fund balances in the amount of BGN 7,151.

## Significant accounting policies (continued)

### 10. Receivables

<i>In BGN</i>	2002	2001
Completed Projects	107,219	50,777
Other receivables	66,394	23,863
Impairment of assets	(19,611)	(19,611)
	<u>154,002</u>	<u>55,029</u>

### 11. Cash and cash equivalents

<i>In BGN</i>	2002	2001
In local currency	5,114	50,050
In foreign currency	1,342,928	2,280,695
Deposits	2,560	800
<b>At bank</b>	<u>1,350,602</u>	<u>2,331,545</u>
In local currency	25,078	14,779
In foreign currency	29,269	40,284
<b>In hand</b>	<u>54,347</u>	<u>55,063</u>
	<u>1,404,949</u>	<u>2,386,608</u>

## Significant accounting policies (continued)

### 12. Deferred expenses

<i>In BGN</i>	2002	2001
USAID/DPK Consulting - Coalition 2000 Anti-Corruption Program	595,416	-
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	85,324	-
The German Marshall Fund - - Illegal Trafficking and Corruption in Southeast Europe (2001-2002); Corruption Assessment in Southeast Europe (2002-2003)	25,218	24,431
European Commission - The Informal Economy in the EU Accession Countries (Inforec)	38,117	-
British Embassy - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	20,299	-
InterMedia - International Audience Research Program	4,942	-
GVG - Study on the Social Protection Systems in the 13 Applicant Countries	5,412	-
EC/Gallup Hungary - Eurobarometer Surveys in Countries applying for EU Membership	-	10,799
US Department of State, Office of Research - Public Opinion Survey in Bulgaria	-	6,150
Other projects	2,587	353
	<u>777,315</u>	<u>41,733</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.

### Significant accounting policies (continued)

#### 13. Payables

<i>In BGN</i>	2002	2001
Payable to the budget	36,159	11,577
Salaries, benefits and social security payable	20,010	13,350
Payable to suppliers	10,595	14,893
Other payable	22,620	14,879
	<u>89,384</u>	<u>54,699</u>

#### 14. Deferred revenue

<i>In BGN</i>	2002	2001
For project activities	1,112,440	79,369
For fixed assets	123,702	120,189
	<u>1,236,142</u>	<u>199,558</u>

## Significant accounting policies (continued)

### 15. Financial instruments

#### *Effective interest rates and repricing analysis*

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

<i>In BGN</i>	Note	Effective Interest rate	Total	6 months or less
Cash and cash equivalents:				
Deposit in Bulgarian - American Bank - fixed rate per a.n.		4,05%	565,488	565,488
Cash in hand		-	25,078	25,078
Cash at bank	11	0,2 - 0,5%	814,383	814,383
			<u>1,404,949</u>	<u>1,404,949</u>
Bonds issued by the Bulgarian - American Bank		6,67%	590,529	590,529
Bonds issued by the First Investment Bank	9	4,61%	601,525	601,525
			<u>1,192,054</u>	<u>1,192,054</u>

## Significant accounting policies (continued)

### 16. Related parties

Related party payables	Nature of the related party relationship	Transaction during the year	Amount	Outstanding balance 31 December 2002
ARC Fund	Management control	Partner organization within Coalition 2000 initiative	35,772 USD	67,251 BGN

### 17. 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 2002.

### 18. Contingencies

There are no contingencies to report on.