

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

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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>1,493,530</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>1,116,569</u> | <u>1,153,263</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>116,633</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.

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| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| 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 | 115,769 | 19,197 | 1,597 | 925 | 335,923 | 473,411 |
| Disposals | – | – | – | – | – | – |
| At 31 December 1999 | 115,769 | 177,699 | 186,081 | 102,843 | 335,923 | 918,315 |

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|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|-----------------------------|---------------|------------------|
| 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 | 108,636 | 139,490 | 97,878 | | 346,004 |
| Net book value as at 31 December 1999 | 115,769 | 69,063 | 46,591 | 4,965 | 335,924 |
| Net book value as at 31 December 1998 | – | 80,172 | 54,270 | 16,106 | 150,548 |
| 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 | | 434 | 68 | | 502 |
| Net book value as at 31 December 1998 | | 1,025 | 151 | | 1,176 |
| 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 | | | 1,818,903 | | 1,349,861 |

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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 USD 2,007.00 |
| Radio Vitosha | Significant influence | none | 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 | 469,042 |