

Notes to the consolidated financial statements

Significant accounting policies

The Center for the Study of Democracy (the "Organisation") is a non-profit organisation domiciled in Bulgaria. The consolidated financial statements of the Organisation for the year ended 31 December 2004 comprise the Organisation and its subsidiaries Vitosha Research EOOD and Project 1 EOOD (together referred to as the "Group").

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 organisation 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 to 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.

The Center for the Study of Democracy controls 100% of its subsidiaries Vitosha Research EOOD, Project 1 EOOD and Agency Vitosha EOOD.

The control of the Center for the Study of Democracy over the activities of Agency Vitosha EOOD has ceased in 2004 and the Center sold its investment in 2005. Therefore, Agency Vitosha EOOD is not included in the consolidation.

Vitosha Research EOOD, established in 2000, is specialised in wide range of research fields: social and economic policy; social assessment and evaluation studies; economic and political behavior; political attitudes and value systems; market, media and audience research; advertising studies, and others.

Project 1 EOOD was established in 2003. Its main activity is purchase, sale and rent of real estate property, project management and others.

The consolidated financial statements were authorised for issue by the directors on 30 April 2005.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The consolidated financial statements are presented in BGN. Hyperinflation adjustments have been made in the Organisation's financial statements 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 years ended 1999-2004, the financial statements for these years have not been adjusted according to the official inflation index.

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Organisation. Control exists when the Organisation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to BGN at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. The BNB official exchange rate of the USD as at 31 December 2003 is 1.54856 BGN/USD and as at 31 December 2004 is 1.43589. The average exchange rate for the year 2004 is 1.575112 BGN/USD. The official closing rate as at December 2004 of the EUR is 1.95583 and of the USD is 1.43589.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located.

(i) Owned assets (continued)

Items of property, plant and equipment are reported in the Organisation's financial statements applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices have been used. Their cost has been inflated as at 31 December 1998.

Property, plant and equipment and intangible assets have not been inflated for the period 1999-2004. The inflation rates for these periods are considered insignificant and no restatement of the financial statements has been made. The inflation rates for each period are presented below:

Year ended	Inflation rate
1999	6.4%
2000	11.4%
2001	4.8%
2002	3.8%
2003	5.6%
2004	4.0%

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings 25 years
- plant and equipment 4 – 5 years
- fixtures and fittings 2 – 7 years
- vehicles 7 years

The residual value, if not insignificant, is reassessed annually.

(f) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2003, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. The intangible assets are reported in the Organisation's financial statements applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices have been used. Their cost has been inflated as at 31 December 1998.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- software 4 - 5 years

(g) Investments

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

Other financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

(g) Investments (continued)

Other investments classified as held-to-maturity assets are 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.

Financial instruments classified as held for trading or available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

(h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy k).

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits.

(k) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and 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.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time

(i) Calculation of recoverable amount (continued)

value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Trade and other payables

Trade and other payables are stated cost.

(m) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

(ii) Revenue from grants and contributions

Revenue is recognized in the income statement on the basis of completed stage as reported by the Center for the Study of Democracy 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.

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.

(ii) Revenue from grants and contributions (continued)

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

(n) Expenses

(i) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement .

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Income tax (continued)

CSD is a non - profit organization. No corporate income tax is levied for non for profit activities in accordance with current Bulgarian legislation. As at 31 December 2003 and 31 December 2004 the Center has gained financial income from dealing with securities under agreement for trading of securities and bonds. The management has estimated that this is income from trading activities and has accrued the respective taxes due.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Notes to the consolidated financial statements

(1) Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

The Group comprises the following main business segments:

- Non-profit activities. Provision of an enhanced institutional and policy capacity for a successful European Integration process; promotion of institutional reform and the practical implementation of democratic values in legal and economic practice; monitoring public attitudes and the institutional reform process in Bulgaria.
- Trading activities related to social and economic research, social assessment and evaluation studies;
- Trading activities related to purchase, sale and rent of real estate property and project management.

1. Segment reporting (continued)
Business segments

<i>In BGN</i>	Note	Non-profit activities		Trading activities related to social and economic research		Trading activities related to real estate property		Eliminations		Consolidated	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue from:	2										
grants and contributions		1,980,583	3,196,672	-	-	-	-	-	-	1,980,583	3,196,672
sale of services		-	-	405,645	367,558	68,371	50,500	-	-	474,016	418,058
financing for fixed assets		56,252	40,606	-	-	-	-	-	-	56,252	40,606
Total revenue		2,036,835	3,237,278	405,645	367,558	-	-	-	-	2,510,851	3,655,336
Inter-segment revenue		-	-	-	-	38,880	-	(38,880)	-	-	-
Total revenue		2,036,835	3,237,278	405,645	367,558	107,251	50,500	(38,880)	-	2,510,851	3,655,336
Expenses on grants and contributions	3,(a)	(1,870,563)	(2,955,930)	-	-	-	-	-	38,880	(1,831,683)	(2,955,930)
Operating expenses related to trading activities	3,(b)	-	-	(340,792)	(265,974)	(118,180)	(50,233)	-	-	(458,972)	(316,207)
Cost of sales	3	(1,870,563)	(2,955,930)	(340,792)	(265,974)	(118,180)	(50,233)	38,880	-	(2,290,655)	(3,272,137)
Other income		300	287	-	-	-	-	-	-	300	287
Administrative expenses	4	(141,041)	(201,447)	-	-	-	-	-	-	(141,041)	(201,447)
Gross profit		25,531	80,188	64,853	101,584	(10,929)	267	-	-	79,455	182,039
Net financing income/(costs)	5	(176,232)	(195,198)	(7,810)	(8,595)	132,467	72,134	-	-	(51,575)	(131,659)
Profit before tax		(150,701)	(115,010)	57,043	92,989	121,538	72,401	-	-	27,880	50,380
Income tax expense		(3,390)	(14,539)	(10,991)	(21,554)	(15,630)	(14,089)	16,798	14,089	(13,213)	(36,093)
Profit for the period		(154,091)	(129,549)	46,052	71,435	105,908	58,312	16,798	14,089	14,667	14,287
Total assets		3,111,504	3,417,434	209,234	175,706	1,486,080	492,438	(1,498,803)	(497,305)	3,308,018	3,588,273
Total liabilities		459,559	611,397	27,386	39,909	1,316,860	429,127	(1,519,278)	(500,984)	284,527	579,449
Cash flows from operating activities		(432,490)	(139,809)	56,929	80,785	(224,077)	(411,254)	-	-	(599,638)	(470,278)
Cash flows from investing activities		602,227	593,796	(11,238)	(43,788)	(462,769)	5,040	-	-	128,220	555,048
Cash flows from financing activities		(839,051)	(413,543)	(5,018)	(16,907)	839,051	413,543	-	-	(5,018)	(16,907)

Notes to the consolidated financial statements

2. Revenue

<i>In BGN</i>	2004	2003
Revenue from grants, contributions and projects		
USAID/DPK Consulting – <i>Coalition 2000</i> Anti-Corruption Program	1,045,552	2,050,460
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	239,107	278,470
Royal Ministry of Foreign Affairs, Norway – Prevention of Corruption in the Security Forces - Phase III	191,720	-
Council of Europe – Information Centre on the Council of Europe	132,996	128,302
British Embassy – Trafficking and Corruption in Bulgaria	104,633	119,535
CIPE – Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	73,752	22,361
Royal Ministry of Foreign Affairs, Norway – Prevention of Corruption in the Security Forces	39,876	184,887
Saferworld UK – Implementing and Enforcing Arms Export Controls and Combating Small Arms Proliferation in Bulgaria	1,088	22,200
Embassy of USA – Measuring Crime in Bulgaria: a Way to Strengthen Crime-Fighting Capacity	37,353	-
NATO – NATO, EU and the New Risks: a Southeast Europe Perspective	29,307	-
CERGE - ‘Firms’ non-compliant behaviour do networks matter in Bulgaria	18,951	-
British Embassy - Local Ombudsman: a new mechanism for human rights protection and good governance	14,312	-
The German Marshall Fund – Illegal Trafficking and Corruption in Southeast Europe (2001-2002); Corruption Assessment in Southeast Europe (2002-2003)	-	53,615
British Embassy - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	126,692
European Commission - The Informal Economy in the EU Accession Countries (Inforec)	-	72,365
UNDP – Review of the Administrative and Commercial Justice Systems	-	42,800
British Embassy Sofia – Evaluation of Drugs Consumption in Bulgaria	-	45,274
Other projects	51,936	49,711
	1,980,583	3,196,672
Revenue from sales of services	474,016	418,058
Income from financing for fixed assets	56,252	40,606
	2,510,851	3,655,336

3. Cost of sales

<i>In BGN</i>	2004	2003
Hired services	1,216,326	1,936,164
Salaries and benefits	189,501	186,449
Depreciation	90,971	47,105
Supplies and consumables	90,448	145,501
Other expenses	703,409	956,918
	<u>2,290,655</u>	<u>3,272,137</u>

a) Expenses on grants, contributions and projects

<i>In BGN</i>	2004	2003
Hired services	886,990	1,695,810
Salaries and benefits	141,081	135,573
Depreciation	46,067	40,606
Supplies and consumables	72,010	142,317
Other expenses	685,535	941,624
	<u>1,831,683</u>	<u>2,955,930</u>

b) Expenses related to trading activities

<i>In BGN</i>	2004	2003
Hired services	329,336	240,354
Salaries and benefits	48,420	50,876
Depreciation	44,904	6,499
Supplies and consumables	18,438	3,184
Other expenses	17,874	15,294
	<u>458,972</u>	<u>316,207</u>

4. Administrative expenses

<i>In BGN</i>	2004	2003
Hired services	108,809	171,440
Salaries and benefits	227	-
Depreciation	25,996	21,101
Supplies and consumables	5,454	8,872
Other expenses	555	34
	<u>141,041</u>	<u>201,447</u>

5. Net financing costs

<i>In BGN</i>	2004	2003
Interest income	9,460	21,690
Interest expense	(3,070)	(1,312)
Foreign exchange gains	80,705	98,137
Foreign exchange losses	(151,022)	(306,414)
Income for dealing with investments held-to-maturity	17,383	61,870
Other financial expenses	(5,031)	(5,630)
	<u>(51,575)</u>	<u>(131,659)</u>

6. Income tax expense

Recognised in the income statement

In BGN **Note** **31 December 2004** **31 December 2003**

Current tax expense

Corporate tax (17,898) (35,109)

Deferred tax expense

Origination and reversal of temporary
tax differences 4,458 (985)

Reduction in tax rate 227 -

4,685

Total income tax expenses (13,213) (36,094)

7. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Other assets	Assets under construction	Total
<i>Cost</i>							
Balance at 1 January 2004	305,885	171,663	226,479	90,200	2,304	692,099	1,488,630
Acquisitions	920,914	32,507	1,577	8,280	-	-	963,278
Transfers	344,966	-	-	-	-	(344,966)	-
Balance at 31 December 2004	1,571,765	204,170	228,056	98,480	2,304	347,133	2,451,908
<i>Depreciation and impairment losses</i>							
Balance at 1 January 2004	11,649	96,844	144,012	64,909	202	11,210	328,826
Depreciation charge for the year	9,426	76,988	20,911	6,679	345	-	114,349
Balance at 31 December 2004	21,075	173,832	164,923	71,588	547	11,210	443,175
<i>Carrying amount</i>							
At 1 January 2004	294,236	74,819	82,467	25,291	2,102	680,889	1,159,804
At 31 December 2004	1,550,690	30,338	63,133	26,892	1,757	335,923	2,008,733

8. Intangible assets

<i>In BGN</i>	Software	Patents and licenses	Other	Total
<i>Cost</i>				
Balance at 1 January 2004	13,228	412	590	14,230
Acquisitions	1,194	-	-	1,194
Balance at 31 December 2004	14,422	412	590	15,424
<i>Amortisation and impairment losses</i>				
Balance at 1 January 2004	9,033	412	25	9,470
Amortisation charge for the year	2,500	-	118	2,618
Balance at 31 December 2004	11,533	412	143	12,088
<i>Carrying amount</i>				
At 1 January 2004	4,195	-	565	4,760
At 31 December 2004	2,889	-	447	3,336

9. Investments

<i>In BGN</i>	2004	2003
Agency Vitosha EOOD	5,006	5,006

In execution of decision of the Center's General Assembly of 2 December 2004 to sell Agency Vitosha EOOD, management of the Center has transferred its control to Vitosha FM EOOD. Due to the fact that some legally required permissions from the Communications Regulation Commission and the Council on Electronic Media had to be obtained prior to the transaction, the later was closed in April 2005.

10. Other investments

In 2004 the financial assets held-to-maturity at Bank A realise gains of BGN 17,383 accounted for as financial income in the consolidated income statement.

On 28 May 2004 the Organisation sold the bonds at Bulgarian-American Credit Bank before the maturity date (28 March 2005) for BGN 597,299 equivalent to EUR 305,394.

Bonds held-to-maturity issued by:	Maturity	Nominal value		Number of bonds	2004	2003
		EUR	BGN		BGN	BGN
Bank A	28 March 2005	300,000	586,749	300	-	588,862

11. Deferred tax assets and liabilities

The recognised tax assets and liabilities as at 31 December 2004 and 31 December 2003 are attributable to the following balance sheet items:

	31 December 2004		31 December 2003		31 December 2004	31 December 2003
	Assets	Liabilities	Assets	Liabilities	Net amount	Net amount
<i>In BGN</i>						
Property, plant and equipment	2,905	(1,795)	-	(985)	1,110	(985)
Trade receivables	-	(785)	-	-	(785)	-
Trade payables	3,375	-	-	-	3,375	-
Net tax assets/(liabilities)	6,280	(2,580)	-	(985)	3,700	(985)

11. Deferred tax assets and liabilities (continued)

Movement in deferred tax during the year

<i>In BGN</i>	Balance as at 31 December 2003	Recognised in the income statement	Recognised in equity	Balance as at 31 December 2004
Property, plant and equipment	(985)	2,095	-	1,110
Trade receivables	-	(785)	-	(785)
Payables	-	3,375	-	3,375
Deferred tax assets/(liabilities)	(985)	4,685	-	3,700

The tax rate used for calculation of the deferred tax for 2004 is the rate defined by the Corporate Income Tax Act, which is 15% in force from 1 January 2005. At 31 December 2003 the deferred tax assets and liabilities were calculated using the tax rate for 2004 of 19.5%.

12. Trade and other receivables

<i>In BGN</i>	2004	2003
Completed projects	132,689	131,679
Trade receivables	25,434	41,127
Tax receivables	5,394	62,293
Other	16,309	33,747
	<u>179,826</u>	<u>268,846</u>

13. Cash and cash equivalents

<i>In BGN</i>	2004	2003
In local currency	229,540	83,457
In foreign currency	359,824	1,410,600
Deposits in foreign currency	430,916	2,560
At bank	<u>1,020,280</u>	<u>1,496,617</u>
In local currency	32,193	30,756
In foreign currency	12,047	13,583
In hand	<u>44,240</u>	<u>44,339</u>
	<u>1,064,520</u>	<u>1,540,956</u>

14. Deferred expenses

<i>In BGN</i>	2004	2003
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	37,425	12,633
ACCESS Foundation - Internship Program for Roma Minority in Mass Media	1,000	-
CIPE – Fostering Enterprise and Entrepreneurship though Good Governance at the Local Level	-	4,143
	<u>38,425</u>	<u>16,776</u>
Insurances and others related to trading activities	1,656	3,071
	<u>40,081</u>	<u>19,847</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 or stage that have not been completed.

15. Trade and other payables

<i>In BGN</i>	2004	2003
Trade payables	59,398	21,220
Salaries, benefits and social security payable	23,935	20,809
Other payables	618	14,855
	<u>83,951</u>	<u>56,884</u>

16. Deferred financing

<i>In BGN</i>	2004	2003
European Commission - Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	19,364	258,471
British Embassy - Local Ombudsman: A New Mechanism for Human Rights Protection and Good Governance	20,875	-
ACCESS Foundation - Internship Program for Roma Minority in Mass Media	3,129	-
European Commission - Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution	59,003	-
USAID/DPK Consulting – <i>Coalition 2000</i> Anti-Corruption Program	-	94,256
CIPE – Fostering Enterprise and Entrepreneurship through Good Governance at the Local Level	-	8,742
Deferred financing for project activities	<u>102,371</u>	<u>361,469</u>
Deferred financing for fixed assets	73,455	102,258
	<u>175,826</u>	<u>463,727</u>

17. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

Foreign exchange risk

The Group is exposed to foreign currency risk on grants received from donors that are denominated in a currency other than BGN. The currencies giving rise to this risk are primarily U.S. Dollars and Pounds Sterling.

In respect of monetary assets and liabilities held in currencies other than BGN, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Interest rate risk

During the reporting period the Group has not been exposed to interest rate risk.

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.

<i>In thousands of BGN</i>	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years
Cash at bank	13	0,1 -0,2%	589,364	589,364	-	-	-
Deposits at bank in foreign currency	13	2.5-3%	430,916	430,916	-	-	-
			1,020,280	1,020,280	-	-	-
			1,020,280	1,020,280	-	-	-

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on a monthly basis. Credit evaluations are performed on all donors requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk.

18. Related parties

The Group has a related party relationship with ARC Fund. During the year, the following transactions have taken place:

Related party	Relation	Transactions during the year	Balance as at 31 December 2004
ARC Fund	40% Management control	Partner organisation within <i>Coalition 2000</i> Initiative – USD 114,409 equivalent to BGN171,613	-
Bulgaria Online	Subsidiary of ARC Fund	Internet services provided – BGN 28,425	-

Transactions with directors and executive officers

The Group is a related party with its executive director and management board.

The total amount of the paid remunerations, honoraria and social securities, included in salaries and benefits and expenses for hired services is as follows:

<i>In BGN</i>	2004	2003
Management Board	178,647	243,136

19. Contingent liabilities

The Group has no contingent liabilities, which require disclosure.

20. Subsequent events

In April 2005 the Center for the Study of Democracy has sold its investment in Agency Vitosha EOOD at cost.