Notes to the consolidated financial statements

Legal status

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 2005 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 and Project 1 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 behaviour; 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 2006.

Significant accounting policies

(a) Statement of compliance

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) Commission. IAS 8 "Accounting policies, changes in accounting estimates and errors" requires the Group to disclose the fact that it has not applied standards and interpretations to published International Financial Reporting Standards that are not yet effective, as well as information about the possible effect from application of the respective standards and interpretations in the period of the first time application. The Group has disclosed the effects from application of published IFRS that are not effective as at the balance sheet date but may have an effect on the Croup's activities (see note 22).

(b) Basis of preparation

The consolidated financial statements are presented in BGN.

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 closing exchange rate of the USD as at 31 December 2005 is 1.6579 BGN/USD and as at 31 December 2004 is 1.43589. The average exchange rate for the year 2005 is 1.57482 BGN/USD. The official closing rate as at December 2005 of the EUR is 1.95583.

(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.

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

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

(i) 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.

(ii) 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) Trade and other receivables

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

(h) 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.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits.

(j) 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.

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.

(j) Impairment (continued)

(i) Calculation of recoverable amount

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 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

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.

(k) Trade and other payables

Trade and other payables are stated cost.

(l) 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.

(ii) Revenue from grants and contributions (continued)

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 instalments and the rates at which expenses incurred in BGN are to be translated into the respective foreign currency.

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.

(m) Expenses

(i) 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.

(n) 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.

(n) Income tax (continued)

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.

CSD is a not-for-profit organization. No corporate income tax is levied for not-for-profit activities in accordance with current Bulgarian legislation.

(o) 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.

(p) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up to date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even for assets measured at fair value, as are gains and losses on subsequent remeasurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned also may qualify.

Notes to the consolidated financial statements

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

In BGN	Note	Non-profit activities 2005	Non-profit activities 2004	Trading activities related to social and economic research 2005	Trading activities related to social and economic research 2004	Trading activities related to real estate property 2005	Trading activities related to real estate property 2004	Eliminations 2005	Eliminations 2004	Consolidated 2005	Consolidated 2004
Revenue from:	2										
grants and contributions		1,157,370	1,980,583		-		-	-	-	1,157,370	1,980,583
sale of services		-	-	364,731	405,645	126,554	68,371	-	-	491,285	474,016
sale of property, plant and equipment		-	-	-	-	1,508,679	-	-	-	1,508,679	-
financing for fixed assets		43,336	56,252	-	-	-	-	-	-	43,336	56,252
Total revenue		1,200,706	2,036,835	364,731	405,645	1,635,233	68,371	-	-	3,200,670	2,510,851
Inter-segment revenue		-	-	-	-	50,350	38,880	(50,350)	(38,880)	-	-
Total revenue		1,200,706	2,036,835	364,731	405,645	1,685,583	107,251	(50,350)	(38,880)	3,200,670	2,510,851
Expenses on grants and contributions	**3,(a)**	(1,176,304)	(1,870,563)	-	-	-	-	50,350	38,880	(1,125,954)	(1,831,683)
Operating expenses related to trading activities	**3,(b)**	-	-	(317,906)	(340,792)	(1,546,153)	(118,180)	-	-	(1,864,059)	(458,972)
Cost of sales	**3**	(1,176,304)	(1,870,563)	(317,906)	(340,792)	(1,546,153)	(118,180)	50,350	38,880	(2,990,013)	(2,290,655)
Other income		299	300	-	-	-	-		-	299	300
Administrative expenses	**4**	(189,896)	(141,041)	-	-	-	-	403	-	(189,493)	(141,041)
Impairment losses		-	-	(11,225)	-	-	-	-	-	(11,225)	-
Gross profit		(165,195)	25,531	35,600	64,853	139,430	(10,929)	403	-	10,238	79,455
Net financing income/(costs)	**6**	114,231	(176,232)	1,261	(7,810)	(19,881)	132,467	-	-	95,611	(51,575)
Profit before tax		(50,964)	(150,701)	36,861	57,043	119,549	121,538	403	-	105,849	27,880
Income tax expense		-	(3,390)	(5,531)	(10,991)	(14,722)	(15,630)	(2,926)	16,798	(23,179)	(13,213)
Profit for the period		(50,964)	(154,091)	31,330	46,052	104,827	105,908	(2,523)	16,798	82,670	14,667
Total assets		2,950,414	3,111,504	243,938	209,234	2,053,070	1,486,080	(1,758,386)	(1,498,803)	3,489,036	3,308,018
Total liabilities		349,432	459,559	30,760	27,386	927,771	1,316,860	(1,019,293)	(1,519,278)	288,670	284,527
Cash flows from operating activities		(389,715)	(432,490)	24,968	56,929	(15,271)	(224,077)	-	-	(380,018)	(599,638)
Cash flows from investing activities		3,970	602,227	(7,094)	(11,238)	248,949	(462,769)	-	-	245,825	128,220
Cash flows from financing activities		230,000	(839,051)	-	(5,018)	(230,000)	839,051	-	-	-	(5,018)

Notes to the consolidated financial statements

2. Revenue

In BGN	**2005**	**2004**
Revenue from grants, contributions and projects		
European Commission – Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	362,898	239,107
USAID/DPK Consulting – Coalition 2000 Anti-Corruption Program	157,125	1,045,552
Council of Europe – Information Centre on the Council of Europe	126,791	132,996
British Embassy – Establishment of a National Crime Prevention Council	84,912	-
British Embassy – Local Ombudsman:a new mechanism for human rights protection and good governance	77,699	14,312
European Community – Bulgarian Judiciary in the EU Accession Process: Reforming the Investigation and the Prosecution	64,597	-
British Embassy – Establishment and Promotion of Specialised Healthcare Ombudsman in Bulgaria with the purpose of tackling corruption in the Healthcare Service	57,144	-
CIPE – Democratic Governance in Bulgaria – Using Public-Private Partnerships to Advance Economic Reforms	46,689	-
Norway Embassy – Security Perceptions and Doctrinal Approaches – Designing and Implementing Security Strategies	29,337	-
Open Society Institute, New York – Ethnic Discrimination	29,224	-
Japan Foundation – The Perspectives for Security and Stability in Southeast Europe	25,074	-
IBRD – Global Development Learning Network	21,665	
UNDP – Gun Culture	16,054	-
Saferworld UK – Survey of the small arms and light weapons	14,785	-
Royal Ministry of Foreign Affairs, Norway – Prevention of Corruption in the Security Forces – Phase III	-	191,720
British Embassy – Trafficking and Corruption in Bulgaria	-	104,633
CIPE – Fostering Enterprise and Entrepreneurship though Good Governance at the Local Level	-	73,752
Other projects	43,376	178,511
	1,157,370	1,980,583
Revenue form sales of property, plant and equipment	1,508,679	-
Revenue from sales of services	491,285	474,016
Income from financing for fixed assets	43,336	56,252
	3,200,670	2,510,851

3. Cost of sales

In BGN	2005	2004
Net book value of property, plant and equipment sold	1,343,571	-
Hired services	989,077	1,216,326
Salaries and benefits	168,180	189,501
Depreciation	96,638	90,971
Supplies and consumables	42,127	90,448
Other expenses	350,420	703,409
	2,990,013	2,290,655

a) Expenses on grants, contributions and projects

In BGN	2005	2004
Hired services	583,774	886,990
Salaries and benefits	128,379	141,081
Depreciation	43,336	46,067
Supplies and consumables	34,051	72,010
Other expenses	336,414	685,535
	1,125,954	1,831,683

b) Expenses related to trading activities

In BGN	2005	2004
Net book value of property, plant and equipment sold	1,343,571	-
Hired services	405,303	329,336
Salaries and benefits	39,801	48,420
Depreciation	53,302	44,904
Supplies and consumables	8,076	18,438
Other expenses	14,006	17,874
	1,864,059	458,972

4. Administrative expenses

In BGN	**2005**	**2004**
Hired services	153,668	108,809
Salaries and benefits	5,738	227
Depreciation	18,812	25,996
Supplies and consumables	7,563	5,454
Other expenses	3,712	555
	189,493	141,041

5. Impairment losses

In BGN	**2005**	**2004**
Impairment losses on trade receivables	11,225	-
	11,225	

6. Net financing costs

In BGN	**2005**	**2004**
Interest income	14,749	9,460
Interest expense	(839)	(3,070)
Foreign exchange gains	111,003	80,705
Foreign exchange losses	(23,439)	(151,022)
Income for dealing with investments held-to-maturity	-	17,383
Other financial expenses	(5,863)	(5,031)
	95,611	(51,575)

7. Income tax expense

Recognised in the income statement

In BGN	**2005**	**2004**
Current tax expense		
Corporate tax	(23,114)	(17,898)
Deferred tax expense		
Origination and reversal of temporary tax differences	(65)	4,458
Reduction in tax rate	-	227
	(65)	4,685
Total income tax equipment	(23,179)	(13,213)

8. Property, plant and equipment

In BGN	**Land and buildings**	**Plant and equipment**	**Vehicles**	**Fixtures & fittings**	**Other assets**	**Assets under construction**	**Total**
Cost							
Balance at 1 January 2005	1,571,765	207,427	228,056	95,222	2,304	347,133	2,451,907
Acquisitions	1,287,056	16,265	-	6,991	-	-	1,310,312
Disposals	(1,392,705)	-	-	(6,375)	-	-	(1,399,080)
Transfers to assets held for sale	(205,423)	-	-	-	-	-	(205,423)
Balance at 31 December 2005	1,260,693	223,692	228,056	95,838	2,304	347,133	2,157,716
Depreciation and impairment losses							
Balance at 1 January 2005	54,749	140,158	164,923	71,588	547	11,210	443,175
Depreciation charge for the year	41,256	44,170	20,477	7,135	346	-	113,384
Disposals	(56,220)	-	-	(239)	-	-	(56,459)
Balance at 31 December 2005	39,785	184,328	185,400	78,484	893	11,210	500,100
Carrying amount							
At 1 January 2005	1,550,690	30,338	63,133	26,892	1,757	335,923	2,008,733
At 31 December 2005	1,220,908	39,364	42,656	17,354	1,411	335,923	1,657,616

9. Intangible assets

In BGN	Software	Patents and licenses	Other	Total
Cost				
Balance at 1 January 2005	14,422	412	590	15,424
Acquisitions	7,490	-	-	7,490
Balance at 31 December 2005	21,912	412	590	22,914
Amortisation and impairment losses				
Balance at 1 January 2005	11,533	412	143	12,088
Amortisation charge for the year	1,948	-	118	2,066
Balance at 31 December 2005	13,481	412	261	14,154
Carrying amount				
At 1 January 2005	2,889	-	447	3,336
At 31 December 2005	8,431	-	329	8,760

10. Assets held for sale

As at 31 December 2005 the carrying amount of the assets held for sale is BGN 205,423. Apartments are presented as assets held for sale following the commitment of the Group's management to a plan to sell the apartments. As at the date of the issuance of these consolidated financial statements the apartments have been sold for the amount of BGN 210,000.

11. Investments

In BGN	2005	2004
Agency Vitosha EOOD	-	5,006

In execution of the 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.

12. Deferred tax assets and liabilities

The recognised tax assets and liabilities as at 31 December 2005 and 31 December 2004 are attributable to the following balance sheet items:

	31 December 2005		31 December 2004		31 December 2005	31 December 2004
In BGN	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Net amount**	**Net amount**
Property, plant and equipment	-	(2,696)	2,905	(1,795)	2,696	1,110
Trade receivables	-	(1,403)	-	(785)	(1,403)	(785)
Deferred expenses	3,283	-	-	-	3,283	-
Trade payables	5,149	(698)	3,375	-	4,451	3,375
Net tax assets/(liabilities)	8,432	(4,797)	6,280	(2,580)	3,635	3,700

Movement in deferred tax during the year

In BGN	**Balance as at 31 December 2004**	**Recognised in the income statement**	**Recognised in equity**	**Balance as at 31 December 2005**
Property, plant and equipment	1,110	(3,806)	-	(2,696)
Trade receivables	(785)	(618)	-	(1,403)
Deferred expenses	-	3,283	-	3,283
Trade payables	3,375	1,076	-	4,451
Deferred tax assets/(liabilities)	3,700	(65)	-	3,635

The tax rate used for calculation of the deferred tax for 2005 is the rate defined by the Corporate Income Tax Act, which is 15% in force from 1 January 2006. At 31 December 2004 the deferred tax assets and liabilities were calculated using the tax rate for 2005 of 15%.

13. Trade and other receivables

In BGN	**2005**	**2004**
Completed projects	447,767	132,689
Trade receivables	72,414	25,434
Impairment losses	(11,225)	-
Tax receivables	5,543	5,394
Other	27,040	16,309
	541,539	179,826

14. Cash and cash equivalents

In BGN	**2005**	**2004**
In local currency	190,022	229,540
In foreign currency	180,226	359,824
Deposits in foreign currency	427,050	430,916
At bank	797,298	1,020,280
In local currency	129,229	32,193
In foreign currency	3,800	12,047
In hand	133,029	44,240
	930,327	1,064,520

15. Deferred expenses

In BGN	**2005**	**2004**
European Community – Regional Innovation Strategy	28,736	-
Open Society Institute, New York – Ethnic Discrimination	7,306	-
UNDP – Gun Culture	4,019	-
European Commission – Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	37,425
ACCESS Foundation – Internship Program for Roma Minority in Mass Media	-	1,000
	40,061	38,425
Insurances and others related to trading activities	2,778	1,656
	42,839	40,081

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.

16. Trade and other payables

In BGN	**2005**	**2004**
Trade payables	49,854	59,398
Salaries, benefits and social security payable	42,334	23,935
Other payables	11,021	618
	103,209	83,951

17. Deferred financing

In BGN	**2005**	**2004**
European Community – Regional Innovation Strategy	32,453	-
Global Governance, Regionalisation and Regulation: The Role of the EU – GARNET	34,114	-
Open Society – Ethnic Discrimination	2,262	
European Commission – Promoting European Standards in Human Rights: Establishment of Ombudsman Institution in Bulgaria	-	19,364
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
Deferred financing for project activities	68,829	102,371
Deferred financing for fixed assets	44,535	73,455
	113,364	175,826

18. 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 re-pricing 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.

In thousands of BGN	**Note**	**Effective interest rate**	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Cash at bank	**14**	0,1 -0,2%	370,248	370,248	-	-	-
Deposits at bank in foreign currency	**14**	2.5-3%	427,050	427,050	-	-	-
			797,298	797,298	-	-	-

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.

19. Related parties

The Group has related party relationships with ARC Fund and Bulgaria Online. During the year, the following transactions have taken place:

Related party	Relation	Transactions during the year	Balance as at 31 December 2005
ARC Fund	40% Management control	Partner organisation within Coalition 2000 Initiative – USD 46,338 equivalent to BGN 72,974	11,581
Bulgaria Online	Subsidiary of ARC Fund	Internet services provided – BGN 8,461	6,140

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:

In BGN	**2005**	**2004**
Management Board	93,164	183,307

20. Contingent liabilities

The Group has no contingent liabilities, which require disclosure.

21. Subsequent events

There are no significant subsequent events that would require adjustment or disclosure in the consolidated financial statements.

22. Application of published International Financial Reporting Standards that are not effective as at the balance sheet date but may affect the Group activities

Amendment to IAS 1 "Presentation of Financial Statements" – requirement for additional capital disclosures:

The amendment in IAS I "Presentation of Financial Statements" regarding disclosures of changes in each item of equity, resulting from the requirements of the Standard, does not affect the presentation of the Statement of changes in equity which reflect total net profit for the period as well as those revenues/expenses which are directly presented at the account of the capital considering the requirements of other IFRS.

Standards, interpretations and amendments to published International Financial Reporting Standards that are not effective as at the balance sheet date:

The following published standards and interpretations are not effective as at the balance sheet date which, following an analysis, the Group considers do not affect these financial statements or are inapplicable considering the Group activities:

- FRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006) – the standard is irrelevant to the Group activities;

- IFRS 7 "Financial Instruments: Disclosures" – effective from 1 January 2007;

- Amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources" (effective from 1 January 2006) – the amendments are irrelevant to the Group activities, also considering the fact that the Group does not prepare its financial statements under the IFRS 1;

- Amendment to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" (effective from 1 January 2006) – the Group does not have defined benefit plans which would be affected by this amendment;

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions" (effective from 1 January 2006);

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial Guarantee Contracts" (effective from 1 January 2006) – the Group considers issued financial guarantees as contingent liabilities until a guarantee payments opportunity appears and recognises a provision in case the requirements of IAS 37 regarding fair value are met;

- Amendment to IAS 21 "The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation" (effective from 1 January 2006);

22. Application of published International Financial Reporting Standards that are not effective as at the balance sheet date but may affect the Group activities (continued)

- IFRIC 4 "Determining whether an Arrangement contains a Lease" (effective from 1 January 2006) – irrelevant to the Group activities;

- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" (effective from 1 January 2006) – the interpretation is irrelevant with regard to the Group activities;

- IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment" (effective from 1 December 2005) – the interpretation is irrelevant with regard to the Group activities;

- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" (effective from 1 March 2006) – irrelevant to the Group;

- IFRIC 8 Scope of IFRS 2 (effective from 1 May 2006) – irrelevant to the Group;

- IFRIC 9 "Reassessment of Embedded Derivatives" (effective from 1 June 2006) – irrelevant to the Group.