

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

I. 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.

The financial statements are presented in BGN. In the last several years the CSD has operated in a hyper-inflationary environment. The officially published by National Institute of Statistics inflation indices for 1996, 1997, 1998, 1999 and 2000 are 410.8%, 678.6%, 101%, 106.4% and 111.4% respectively. 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 years ended 1999 and 2000, the Statement of Revenues, Expenditure and Changes in Fund Balances for that years and the Balance Sheet as at 31 December 1999 and 31 December 2000 have not been adjusted according the official inflation index.

(c) 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 the average exchange rate for the year 2000 is 2.10610 BGN/USD.

(d) Property, plant and equipment

Items of Property plant and equipment and intangible fixed assets are stated at a cost less accumulated depreciation. They are reported in the Balance Sheet applying International Accounting Standard 29 Financial reporting in hyperinflationary economies. The monthly inflation indices (refer to 1.b) have been used. Their cost have been inflated as at 31 December 1998. Property plant and equipment and intangible fixed assets have not been inflated for the years ended 31 December 1999 and 31 December 2000. The inflation rate for the twelve months ended 31 December 1999 and 31 December 2000 of 6.4 % and 11.4% are considered insignificant, and no restatement of the financial statements as of and for the year ended 31 December 1999 and 31 December 2000 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%
Machinery and equipment	20%
Fixtures and fittings	25%
Vehicles	15%
Intangible assets	20%

(e) Investments

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 management of the CSD intends to release these

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investments as attracting new investors for the purpose of sale of these subsidiaries. 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 no information presented for the activities of these subsidiaries in order their assets and financial results to be disclosed.

(f) **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 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 installments 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 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.

(g) **Cash and cash equivalents**

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

(h) **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 there are no trade operations on which tax is due. Therefore International Accounting Standard 12 Income Taxes is not applied.

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

<i>In BGN</i>	31 December 2000	31 December 1999
IDLI - Coalition 2000	1,943,758	517,420
ETF	-	197,906
CE	104,475	103,276
CIPE 1998	-	40,441
SOCO	-	35,341
Legal reform - European Commission	-	97,469
Santander group - Phare Democracy Program	-	50,533
LMFI (Pension funds)	-	19,240
World bank	-	28,956
UNDP training	5,388	46,327
SELDI	236,547	-
CIPE 1999	79,809	14,592
GMF	53,350	-
McArthur Foundation	137,433	-
Other projects	520,108	333,388
Income from financing NCA	17,472	8,656
	3,098,340	1,493,545

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

<i>In BGN</i>	31 December 2000	31 December 1999
Salaries and benefits	106,481	411,213
Hired services	1,416,144	284,065
Depreciation	43,335	52,322
Supplies and consumable	142,529	44,141
Other expenses	659,350	325,757
	2,367,839	1,117,498

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4. Foreign exchange gains – net		
<i>In BGN</i>	31 December 2000	31 December 1999
Exchange rate gains	350,723	244,154
Exchange rate losses	(187,844)	(127,521)
	<u>162,879</u>	<u>116,633</u>
5. Provisions		
<i>In BGN</i>	31 December 2000	31 December 1999
Balance at the beginning of the year	(20,873)	-
Increase/ (Decrease) in provisions	11,306	(20,873)
Write off receivable against provisions incurred in previous years	9,567	-
Balance at the end of the year	-	(20,873)
Total increase/(decrease) of the provisions	<u>11,306</u>	<u>(20,873)</u>
6. Receivables		
<i>In BGN</i>	31 December 2000	31 December 1999
Completed Projects	579,075	49,257
Receivables from ARC Fund		75,613
Other receivables	34,247	44,459
Provision	-	(20,873)
	<u>613,322</u>	<u>148,456</u>
7. Cash and cash equivalents		
<i>In BGN</i>	31 December 2000	31 December 1999
At bank	1,523,083	1,555,498
In local currency	49,228	9,042
In foreign currency	1,473,055	1,546,456
Deposits	800	-
In hand	21,778	25,506
In local currency	12,406	9,877
In foreign currency	9,372	15,629
	<u>1,544,861</u>	<u>1,581,004</u>
8. Deferred expenses		
<i>In BGN</i>	31 December 2000	31 December 1999
CIPE 1999	-	72,562
CIPE 2000	43,468	-
Urban Institute	16,892	-
Interrights	-	103
COLPI	8,729	8,756
OSF	5,198	356
OSF Book Donation	15,237	-
Phare Democracy (Santander)	85,601	85,601
GMF	49,971	-
IDLI Coalition 2000	-	563,747
McArthur Foundation	-	22,464
European Commission	-	35,797
ICEG	-	1,853
IMSI	787	-
Other projects	352	-
	<u>226,235</u>	<u>791,239</u>

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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 2000	115,769	177,699	186,081	102,843	335,923	918,315
Additions	-	92,476	-	1,591	-	94,067
Disposals	-	(91,962)	(37,054)	(13,699)	-	(142,715)
At 31 December 2000	<u>115,769</u>	<u>178,213</u>	<u>149,027</u>	<u>90,735</u>	<u>335,923</u>	<u>869,667</u>
Accumulated depreciation						
At 1 January 2000	-	108,636	139,490	97,878	-	346,004
Charge for year	-	32,006	6,752	3,638	-	42,396
Disposals	-	(91,962)	(37,054)	(13,699)	-	(142,715)
At 31 December 2000	<u>-</u>	<u>48,680</u>	<u>109,188</u>	<u>87,817</u>	<u>-</u>	<u>245,685</u>
Net book value as at 31 December 2000	<u>115,769</u>	<u>129,533</u>	<u>39,839</u>	<u>2,918</u>	<u>335,923</u>	<u>623,982</u>
Net book value as at 31 December 1999	<u>115,769</u>	<u>69,063</u>	<u>46,591</u>	<u>4,965</u>	<u>335,923</u>	<u>572,311</u>
10. Intangible fixed assets <i>In BGN</i>		Software	Patents and licenses			Total
Cost or valuation						
At 1 January 2000		9,639		412		10,051
Additions		12,123		-		12,123
Disposals		(8,534)		-		(8,534)
At 31 December 2000		<u>13,228</u>		<u>412</u>		<u>13,640</u>
Accumulated depreciation						
At 1 January 2000		9,205		344		9,549
Charge for year		871		68		939
Disposals		(8,534)		-		(8,534)
At 31 December 2000		<u>1,542</u>		<u>412</u>		<u>1,954</u>
Net book value as at 31 December 2000		<u>11,686</u>		<u>-</u>		<u>11,686</u>
Net book value as at 31 December 1999		<u>434</u>		<u>68</u>		<u>502</u>
11. Investments <i>In BGN</i>			31 December 2000		31 December 1999	
Agency Vitosha EOOD			5,006		5,006	
Radio Vitosha			-		229	
Vitosha Research EOOD			5,000		-	
Provisions			-		(229)	
			<u>10,006</u>		<u>5,006</u>	

Investments have not been consolidated due to not presented information for the nature of the activities performed, the assets and the financial results of the subsidiaries. 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

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12. Payables					
<i>In BGN</i>					
Payable to the budget		31 December 2000		31 December 1999	
Salaries, benefits and social security payable		16,391		17,377	
Payable to suppliers		16,047		7,145	
Payable related to VISA credit cards		1,441		-	
Other payable		3,095		-	
		23,693		20,821	
		<u>60,667</u>		<u>45,343</u>	
13. Deferred revenue					
<i>In BGN</i>		31 December 2000		31 December 1999	
For project activities		135,922		1,165,368	
For fixed assets		156,458		69,068	
		<u>292,380</u>		<u>1,234,436</u>	
14. Unrestricted fund balance					
<i>In BGN</i>		31 December 2000		31 December 1999	
Balance at 1 January 1999		1,818,903		1,349,861	
Revaluation for the period		-		-	
Excess of revenue over expenditure for the year		858,271		469,042	
Balance at 31 December 1999		<u>2,677,174</u>		<u>1,818,903</u>	
15. Related parties					
Related party receivables	Nature of the related party relationship	Transaction during the year	Amount	Outstanding balance	31 December, 2000
Agency Vitosha	100% of the capital owned by CSD	paid off	1,715 USD	-	
		financing	26,177 BGN	-	
Radio Vitosha	Significant influence	written off	229.73 BGN	-	
		investment	504.43 BGN	-	
			3,522.61 USD	-	
			399 GBP	-	
ARC Fund	CSD and ARC Fund are both represented by the Chairman of the Board of Trustees	paid off		-	
		financing	69,838 USD	-	
		project financing for Coalition 2000	21,000 USD	-	
Related party payables					
ARC Fund		paid off liability	1,411.35 BGN	-	
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 2000.				
17. Contingencies	There are no contingencies to report on.				