

Auditors' report to the General Assembly of the Center for the Study of Democracy

We have audited the financial statements of the Center for the Study of Democracy for the year ended 31 December 1998 set out on pages 63 to 71.

Respective responsibilities of directors and auditors

The organisation's management is responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the organisation's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Neither an income statement for the year ended 31 December 1997 nor a balance sheet at that date were prepared in BGL under the International Accounting Standard No 29, namely Financial Reporting in Hyperinflationary Economics. Therefore no audit of the financial statements, prepared in BGL in accordance with the International Accounting Standard No 29, for the year ended 31 December 1997 has been undertaken. No corresponding figures for the year ended 31 December 1997 and no cash flow statement for the year ended 31 December 1998 have been audited or presented as required by IAS 5 Information to be Disclosed in Financial Statements and IAS 7 "Cash Flow Statements. An audit of the financial statements has been performed by another auditor (Price Waterhouse Coopers) for the financial period ended 1997 and these financial statements have been prepared in USD.

No consolidation of the investment has been made as stated in note 1.

In our opinion, except for the matters referred to above and the adjustments, if any, to the opening balances on reserves at 1 January 1998 which we might have determined had we undertaken audit work on the financial statements for the year ended 31 December 1997, the financial statements give a true and fair view of the state of affairs of the Center for the Study of Democracy at 31 December 1998 and the excess of income over expenditure in accordance with International Accounting Standards.

	Notes	For the year ended 31 December 1998
Revenue from grants, contributions and projects	2	1,222,918
Expenses on grants, contributions and projects	3	(1,153,263)
General and administrative expenses		<u>(34,269)</u>
Gross excess of revenue over expenditure		35,386
Foreign exchange gains – net	4	86,199
Interest income		52,589
Other financial expenses		(7,065)
Extraordinary income-net	5	<u>32,941</u>
		200,050
Gain on net monetary position		(7,975)
Excess of revenue over expenditure for the year		192,075
Accumulated excess of revenue over expenditure brought forward		<u>1,157,786</u>
Unrestricted fund balances at 31 December 1998		<u>1,349,861</u>

Center for the Study of Democracy
BALANCE SHEET AS OF 31 DECEMBER 1998
Financial statements are prepared in thousands of BGL

		For the year ended 31 December 1998
Current Assets		1,474,018
Receivables	6	237,525
Cash and cash equivalents	7	1,153,411
Deferred expenses	8	83,082
Non-current assets		156,730
Property, plant and equipment	9	150,548
Intangible fixed assets	10	1,176
Investments	11	<u>5,006</u>
Total Assets		1,630,748
Liabilities		
Payables	12	58,940
Deferred revenue	13	<u>221,947</u>
Total liabilities		<u>280,887</u>
Unrestricted fund balances	14	<u>1,349,861</u>

The CSD financial statements are to be read in conjunction with the notes to them and form an integral part of the CSD financial statements set out on pages 65 to 71.



Ognian Shentov
President

Center for the Study of Democracy
NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

(a) 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 BGL, after taking into consideration the fact that during the last several years the fund has operated in a hyper-inflationary environment. The officially published inflation indices for 1996, 1997 and 1998 are 410.8%, 678.6% and 101% respectively. For the financial period ended 31 December 1997 no financial statements in accordance with IAS 29, "Financial reporting in hyperinflationary economies", have been prepared. Since this is the first financial year that such audited financial statements are prepared, no comparative figures are presented.

(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. Deferred revenue and other liabilities denominated in foreign currencies are carried at their historical values. The exchange rate as of 31 December 1998 was BGL 1675.10 = USD 1. (Closing rate for 1997 - BGL 1765,5 = USD 1).

(d) Property, plant and equipment

Tangible and intangible fixed assets are inflated 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 are 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 have then been depreciated using the straight line method over their estimated useful lives. The accumulated depreciation and the charge for the current year have been inflated using the above described method.