

*Price Waterhouse*



## **REPORT OF THE AUDITORS TO CENTER FOR THE STUDY OF DEMOCRACY**

We have audited the accompanying balance sheet of Center for the Study of Democracy (hereafter "CSD") as at 31 December 1996 and the related statements of income and expenditure and cash flow statement for the year then ended. These financial statements are the responsibility of CSD management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit based upon International Standards on Auditing which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As explained in note 2 and consistent with other entities in Bulgaria, International Accounting Standard No 29 "Financial Reporting in Hyper-inflationary Economies" has not been applied despite the hyper-inflationary environment in Bulgaria.

In our opinion, except for the matter discussed in the third paragraph of this report the accompanying financial statements present fairly in all material respects, the financial position of CSD at 31 December 1996 and the result of its operations and cash flows stated in Bulgarian Leva for the year then ended in conformity with International Accounting Standards and the CSD accounting policy and statutes.

A handwritten signature in dark ink, appearing to read 'Price Waterhouse' in a cursive style.

Price Waterhouse  
Sofia, Bulgaria

19 May 1997

**CENTER FOR THE STUDY OF DEMOCRACY**

**INCOME AND EXPENDITURE ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 1996**

	<u>Note</u>	1996 Leva'000	1995 Leva'000
<b>Support and Revenue</b>			
Grants, Contributions and Donations		9,856	6,147
Projects		72,793	44,233
Publications		<u>1,668</u>	<u>247</u>
		84,317	50,627
<b>Expenses</b>			
Projects		52,458	36,207
Publications		1,670	246
General and administrative		<u>7,408</u>	<u>4,430</u>
		61,536	40,883
Other income	3	<u>154,601</u>	<u>2,762</u>
<b>Excess of income over expenditure</b>		177,382	12,506
Fund balance at the beginning of the year		7,683	17,177
Transferred to Endowment fund		<u>(185,065)</u>	<u>(22,000)</u>
Unrestricted fund balance at the end of the year			7,683

The accompanying notes are an integral part of these financial statements.

## CENTER FOR THE STUDY OF DEMOCRACY

### BALANCE SHEET 31 DECEMBER 1996

	<u>Note</u>	1996 Leva'000	1995 Leva'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash at bank and in hand	4	206,653	20,771
Prepayments		214	69
Receivables	5	<u>35,676</u>	<u>7,139</u>
		<u>242,543</u>	<u>27,979</u>
Fixed assets	6	8,557	8,735
Investments		<u>286</u>	286
		<u>8,843</u>	<u>9,021</u>
Total assets		251,386	37,000
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Current liabilities</b>			
Accounts payable		35,805	2,016
Deferred revenue		<u>6,969</u>	<u>4,906</u>
		42,774	6,922
Long-term liabilities	7	<u>1,547</u>	<u>395</u>
Total liabilities		44,321	7,317
<b>Fund balances</b>			
Unrestricted			7,683
Restricted		<u>207,065</u>	<u>22,000</u>
Total fund balances		207,065	29,683
Total liabilities and fund balances		<u>251,386</u>	<u>37,000</u>

The accompanying notes are an integral part of these financial statements.

## CENTER FOR THE STUDY OF DEMOCRACY

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 1996

	Note	1996 Leva'000	1995 <u>Leva'000</u>
Net cash in\outflow from operating activities	9	187,407	11,358
<b>Net cash from investing activities</b>			
Net purchase of tangible fixed assets		(2,676)	(7,260)
Proceeds on sale of fixed assets			60
<b>Net cash from financing activities</b>			
Increase\ (decrease) in deferred capital subsidies		<u>1,151</u>	<u>(200)</u>
Increase in cash and cash equivalents		185,882	3,958
Cash at the beginning of the year		<u>20,771</u>	<u>16,813</u>
Cash at the end of the year	4	206,653	<u>20,771</u>

The accompanying notes are an integral part of these financial statements.

## CENTER FOR THE STUDY OF DEMOCRACY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

#### 1 Principal activities

The Center for the Study of Democracy (hereafter "CSD" or the "Center") is an independent not for profit, public policy research organisation founded in late 1989.

Its main activities are concentrated in the organisation and operation of programs including economic, law reform, sociological and information resources aiming at speeding up the market oriented development of the Bulgarian economy and democratisation of the Bulgarian society. The programs are financed by West European and American not for profit organisations, governmental institutions and private companies such as American Bar Association, Center for International Private Enterprise (U.S.A.), Commission of the European Communities, Council of Europe, C. S. Mott Foundation, Hanns Seidel Foundation (Germany), International Center for Economic Growth, US Agency for International Development and World Bank.

Other activities include publishing of materials and distribution.

#### 2 Principal Accounting Policies

CSD's accounting policies are established in compliance with the Bulgarian Accountancy Act, the Bulgarian National Accounting Standards, and the United States Circular A-133 Standard concerning "grants and agreements with Institutions of Higher Education, Hospitals and other Nonprofit Organizations", as well as with the requirements set under Standard A-122 (Cost Principles for Nonprofit Organizations).

##### Revenue recognition

The Center's revenue arises from its activities relating to projects financed by third parties. The activity can be divided into the following types:

- restricted funds, representing funding for specific projects; and
- unrestricted funds for general expenditures and maintenance.

Project revenue is recognised based upon stipulations and duration of the contract with the organisation requesting the project. Project revenue can be recognised upon completion of a stage in the project or upon completion of the project and submission of the final report.

At the end of each year a review of each project is performed. Amounts received in excess of the estimated work performed are deferred and disclosed in the balance sheet as part of deferred revenue. The estimated value of work

## CENTER FOR THE STUDY OF DEMOCRACY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

performed in excess of the amounts received is recorded as project receivables thus matching concept is being observed.

Revenue earned from the act of publishing and distributing of books is recognised at the point of sale.

#### **Taxation**

The CSD is a not for profit organisation and is exempt from corporate taxation and VAT on its not for profit activities.

#### **Foreign currency**

Transactions in other currencies have been translated into Bulgarian Leva at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Bulgarian Leva at the exchange rate ruling at that date. All resulting exchange differences are recognised in arriving at the result for the year and are disclosed in other income (expense). Foreign currency accounts are maintained by using the FIFO method.

USD to Leva foreign exchange rates were the following for the respective periods:

At 31.12.1995	70,704
At 31.12.1996	487,350
Average for 1995	68
Average for 1996	178

#### **Inflation accounting**

Consistent with other entities operating in Bulgaria, International Accounting Standard No 29 "Financial Reporting in Hyper-inflationary Economics" has not been applied despite the hyper-inflationary environment, as defined by IAS 29, in Bulgaria. The annualised rate of inflation for 1996 was 311% (1995 32.9%).

The effect of performing hyperinflation adjustments would be to increase the value of the non-monetary balances of the organisation to account for the loss in purchasing power as a result of inflation. However the majority of the organisations funds are received in foreign currency and converted to local currency only as required. The loss of purchasing power caused by inflation is therefore substantially avoided.

## CENTER FOR THE STUDY OF DEMOCRACY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

#### 2 Principal Accounting Policies (Continued)

##### Related party transactions

The Center for the Study of Democracy has had transactions with the Applied Research and Communications Fund (ARC) during 1996. The two have different members of the Board of Directors, different operational employees but occupy the same premises. Amounts receivable from and payable to the ARC as at 31 December 1996 are Nil.

#### 3 Other income

Other income in Leva'000 for the period included the following:

	<b>Realized</b>	<b><u>Unrealized</u></b>	<b>Total 1996</b>	<b>Total 1995</b>
Foreign exchange gains	32,484	146,457	178,941	5,215
Foreign exchange losses	(170)	(24,673)	(24,843)	(3,185)
Interest income	1,725		1,725	698
Other income (expense)	<u>(1,223)</u>	—	<u>(1,221)</u>	34
Total	<u>32,816</u>	<u>121,784</u>	<u>154,601</u>	<u>2,762</u>

#### 4 Cash at bank and in hand

	<b>1996</b>	<b>1995</b>
	<b><u>Leva'000</u></b>	<b><u>Leva'000</u></b>
Deposits-foreign currency	16,115	7,682
Deposits-Leva	247	50
Cash at bank-foreign currency	180,824	11,125
Cash at bank-Leva	436	1,400
Cash in hand-foreign currency	8,010	389
Cash in hand-Leva	1,021	125
	<u>206,653</u>	<u>20,771</u>

## CENTER FOR THE STUDY OF DEMOCRACY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

#### 5 Receivables

	<b>1996</b>	<b>1995</b>
	<b>Leva'000</b>	<b><u>Leva'000</u></b>
Other receivables	14,376	3,015
Investment receivable	230	230
Project receivable	<u>21,070</u>	<u>3 894</u>
	<u>35,676</u>	<u>7,139</u>

#### 6 Fixed assets

The Center acquires its fixed assets through purchases with its own funds or by obtaining the fixed assets upon the completion of projects. Assets are valued on the basis of acquisition cost and are shown at cost less accumulated depreciation. Depreciation is charged on a straight-line basis and the following rates are applied:

Machinery and equipment	20%
Vehicles	20%
Office furniture and equipment	25%
Software	20%

The activity for tangible assets for 1996 is as follows:

	<b>1996</b>
	<b><u>Leva'000</u></b>
Cost or valuation	
At 1 January 1996	12,416
Additions	2,676
Disposals	<u>(880)</u>
At 31 December 1996	<u>14,212</u>
Accumulated Depreciation	
At 1 January 1996	3,681
Charge for the year	2,793
Less disposal	<u>(819)</u>
At 31 December 1996	<u>5,655</u>
Net book value	
At 31 December 1996	<u>8,557</u>



**CENTER FOR THE STUDY OF DEMOCRACY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)**

**7 Long-term liabilities**

	<b>1996</b>	<b>1995</b>
	<b><u>Leva'000</u></b>	<b><u>Leva'000</u></b>
Deferred capital subsidies	1,547	

Deferred capital subsidies consist of the remaining balance of funds received for specific projects.

**8 Reconciliation between local statutory reporting and these financial statements**

	<b><u>Leva'000</u></b>
Surplus for the year per local statutory reporting	55,598

Adjustments for recognition of unrealised gains (losses) on amounts held in foreign currency as follows:

Cash	131,144
Receivables and deferred expenses	(958)
Liabilities	<u>(8,402)</u>
Surplus per IAS financial statements	<u>177,382</u>

**9 Reconciliation of excess of income over expenditure to net cash outflow from operating activities.**

	<b>1996</b>	<b>1995</b>
	<b><u>Leva'000</u></b>	<b><u>Leva'00</u></b>
Excess of income over expenditure	177,382	12,506
Depreciation	2,793	1,840
Loss on sale of fixed assets	62	52
Increase of receivables and deferred expenses	(28,682)	(2,017)
Increase\decrease) of payables	<u>35,852</u>	<u>(1,023)</u>
Net cash from operating activities	<u>187,407</u>	<u>11,358</u>