

Part Three: Financial Review



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 of 31 December 1994 and the related statements of income and expenditure and changes in financial position 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 statements 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 subject to 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 1994 and the result of its operations and its changes in financial position stated in Bulgarian Leva for the year then ended in conformity with International Accounting Standards and the CSD accounting policy and statutes.

Price Waterhouse

Sofia, Bulgaria, 5 May 1995

CENTER FOR THE STUDY OF DEMOCRACY
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEARS ENDED 31 DECEMBER 1994 AND 1993
Leva '000

	1994	1993
Support and Revenue	3,349	944
Grants, Contributions and Donations	22,839	11,259
Projects	97	1,207
Publications	26,285	13,410
Expenses		
Projects	17,684	8,111
Publications	79	1,148
General and administrative	2,821	855
	20,584	10,114
Other income (Note 3)	8,154	504
Excess of Support and Revenue over Expenses	13,855	3,800
Fund balance at beginning of the year	5,704	3,303
Total fund balance before transfers to reserve	19,559	7,103
Transferred to Endowment fund	(10,000)	-
Fund balance at the end of the year	9,559	7,103

CENTER FOR THE STUDY OF DEMOCRACY
BALANCE SHEET – 31 DECEMBER 1994 AND 1993

Leva '000

ASSETS	Note	1994	1993
Current Assets			
Cash at bank and in Hand	4	16,813	4,118
Prepayments		590	1,034
Receivables	5	4,688	1,505
		22,091	6,657
Tangible assets (net)	6	3,458	2,745
Investments	3	168	45
	3,626	2,790	
Total assets		25,717	9,447
LIABILITIES AND FUND BALANCES			
Current liabilities			
Accounts payable		488	171
Deferred revenue		5,075	2,173
		5,563	2,344
Long-term liabilities	7	595	1,399
Total liabilities		6,158	3,743
Fund balances			
Unrestricted		9,559	5,704
Restricted		10,000	-
Total fund balances		19,559	5,704
Total liabilities and fund balances		25,717	9,447

CENTER FOR THE STUDY OF DEMOCRACY

**STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED 31 DECEMBER 1994 AND 1993**
Leva '000

	1994	1993
Excess of Support and Revenue over Expenses	13,855	3,800
Adjustments to reconcile excess of support and revenue over expenses for the year to net cash inflow from operating activities:		
Depreciation	1,978	
Increase in receivables and prepayments	(2,739)	(1,291)
Increase in liabilities	2,415	894
Net cash inflow from operating activities	15,509	3,403
Investing activities		
Payments for tangible fixed assets	(2,691)	(1,017)
Purchase of investments	(123)	(45)
Net cash outflow from investing activities	(2,814)	(1,062)
Increase in cash at bank and in hand	12,695	2,341

CENTER FOR THE STUDY OF DEMOCRACY

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 1994

1. Principal activities

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

Its main activities are concentrated in the organization and operation of programs including economic, law reform, sociological, information resources and ethnic relations aiming at speeding up the market oriented development of the Bulgarian economy and democratization of the Bulgarian society. The programs are financed by West European and American not for profit organizations, 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, Manns Seidel Foundation (Germany), International Center for Economic Growth, International Development Law Institute (Italy), 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 Accountancy Act, the 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 recognized based upon stipulations and duration of the contract with the organization requesting the project. Project revenue can be recognized upon completion of a stage in the project or upon completion of the project and submission of the final report.

At the end of the 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 estimate of work performed in excess of the amounts received are recorded as project receivables and disclosed as part of prepayments at the balance sheet date.

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

Taxation

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

2. Principal Accounting Policies

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 manually using the FIFO method.

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

At 31.12.1993	32,711
At 31.12.1994	66,015
Average for 1993	27,5
Average for 1994	55

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 annualized rate of inflation for 1994 was 121.9% (1993 63.9%).

Reclassifications

Certain balances and amounts in 1993 have been reclassified to conform with the disclosures in the 1994 accounts.

3. Other income

Other income for the period included the following:

	Realized	Unrealized	Total
Foreign exchange gains	6,795	2,506	9,301
Foreign exchange losses	(51)	(1,109)	(1,160)
Interest income	291	-	291
Interest expense	(83)	-	(83)
Investment income	230	-	230
Other	(425)	-	(425)
Total	6,757	1,397	8,154

Investment income primarily represents amounts received from its activity with Radio Vitosha. The Center participates in the ownership of Radio Vitosha and had the following activity:

- Initial contribution for a radio licence;
- Payments of annual government and licence fees;

The transactions are accounted for as long term investments with the exception of advances for the payment of some current expenses which are recorded as receivables. As a result of the Center's involvement in the radio's operations, the Center received a contribution of Leva 230,000 which has been accounted for as revenue.

4. Cash at bank and in hand

	1994 Leva '000	1993 Leva '000
Deposits-foreign currency	6,677	-
Deposits-Leva	54	-
Cash at bank-foreign currency	8,820	3,880
Cash at bank-Leva	962	195
Cash in hand-foreign currency	243	31
Cash in hand-Leva	57	12
	16,813	4,118

Deposits represent amounts held by utility entities and other institutions which can be converted to cash in a relatively short period of time.

5. Receivables

	1994 Leva '000	1993 Leva '000
Advances to suppliers	1,438	1,505
Investment receivable	230	-
Project receivable	3,020	-
	4,688	1,505

6. Tangible 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 fixed assets for 1994 is as follows:

	1994 Leva '000
Cost or valuation	
At 1 January 1994	2,745
Additions	2,691
At 31 December 1994	5,436
Depreciation	
Charge for the year	1,978
At 31 December 1994	1,978
Net book value	
At 31 December 1994	3,458

7. Long-term liabilities

	1994 Leva '000	1993 Leva '000
Deferred capital subsidies	595	1,399

8. Reconciliation between local statutory reporting and these financial statements

	Leva '000
Surplus for the year per local statutory reporting	12,910
Adjustments for recognition of unrealized gains (losses) on amounts held in foreign currency as follows:	
Cash	2,381
Receivables	125
Liabilities	(1,109)
Other	(452)
Surplus per IAS financial statements	13,855