
Part Three

Financial Review



Center for the Study of Democracy
Organization's Financial Statements
For the period ended 31 December 2001
With Independent Auditors' Report Thereon



Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended 31 December 2001

<i>In BGN</i>	Note	2001	2000
Revenue from grants, contributions and projects	2	1,894,707	3,098,340
Expenses on grants, contributions and projects	3	(1,520,860)	(2,367,839)
General and administrative expenses		<u>(109,072)</u>	<u>(91,122)</u>
Gross excess of revenue over expenditure		264,775	639,379
Foreign exchange gains/(loss) - net	4	6,335	162,879
Interest income		47,099	44,139
Other financial expenses		(7,036)	(6,862)
Other income		7,542	7,430
Impairment losses	5	<u>(19,611)</u>	<u>11,306</u>
Excess of revenue over expenditure for the year		299,104	858,271
Accumulated excess of revenue over expenditure brought forward		2,677,174	1,818,903
Unrestricted fund balances at 31 December 2001		<u><u>2,976,278</u></u>	<u><u>2,677,174</u></u>

The financial statements of the Center for the Study of Democracy are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.



Unrestricted fund balance

As at 31 December 2001

<i>In BGN</i>	2001	2000
Balance at 1 January 2001	2,677,174	1,818,903
Revaluation for the period	-	-
Excess of revenue over expenditure for the year	<u>299,104</u>	<u>858,271</u>
Balance at 31 December 2001	<u><u>2,976,278</u></u>	<u><u>2,677,174</u></u>

The Center's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.



Balance Sheet
As at 31 December 2001

<i>In BGN</i>	Note	2001	2000
Property, plant and equipment	6	727,963	623,982
Intangible fixed assets	7	9,061	11,686
Investments	8	10,006	10,006
Total non-current assets		747,030	645,674
Inventories		135	129
Receivables	9	55,029	613,322
Cash and cash equivalents	10	2,386,608	1,544,861
Deferred expenses	11	41,733	226,235
Total current assets		2,483,505	2,384,547
Total assets		3,230,535	3,030,221
 Liabilities			
Payables	12	54,699	60,667
Deferred revenue	13	199,558	292,380
Total Liabilities		254,257	353,047
Unrestricted fund balance		2,976,278	2,677,174

The Center's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.

Ognian Shentov
President

2 April 2002



Statement of cash flows
For the year ended 31 December 2001

<i>In BGN</i>	Note	2001	2000
Operating activities			
Gross excess of revenue over expenditure		299,104	858,271
Adjustments for:			
Depreciation		48,375	25,863
Foreign exchange loss from revaluation assets and liabilities denominated in foreign currency		4,709	9,651
Impairment losses	5	19,611	(11,306)
Cash flow from operating activities before changes in working capital		371,799	882,479
 (Increase)/ decrease in assets from operating activities		 718,763	 103,389
Increase/(decrease) liabilities from operating activities		(99,084)	(910,821)
Cash flows from operating activities		991,478	75,047
Investing activities			
Purchase of tangible fixed assets		(149,731)	(111,190)
Cash flows from investing activities		(149,731)	(111,190)
Net increase in cash and cash equivalents		841,747	(36,143)
Cash and cash equivalents at beginning of year		1,544,861	1,581,004
Cash and cash equivalents at end of year 7		2,386,608	1,544,861

The Center's financial statements are to be read in conjunction with the notes to them and form an integral part of these statements set out on pages 6 to 13.



Notes to the financial statements

I. Significant accounting policies

The Center for the Study of Democracy (CSD) is a non profit organization domiciled in Bulgaria. The financial statements were authorized for issue by the President on 2 April 2002.

(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) Statement of compliance

The financial statements of the Center for the study of democracy (CSD) have been prepared in accordance with the international accounting standards (IAS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB, and the requirements of the Bulgarian law.

(c) 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, 2000 and 2001 are 410.8%, 678.6%, 101%, 106.4%, 111.4% and 104.8% 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, 2000 and 2001, the Statement of Revenues, Expenditure and Changes in Fund Balances for that years and the Balance Sheet as at 31 December 1999, 31 December 2000 and 31 December 2001 have not been adjusted according the official inflation index.

(d) Foreign currencies

Monetary assets and liabilities in foreign currencies have been revalued on a monthly basis. The resulting translation difference is recognised in Statement of revenues, expenditures and changes in fund balances. 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 as at 31 December 2001 is 2.21926 BGN/USD and the average exchange rate for the year 2001 is 2.18467 BGN/USD.

(e) Property, plant and equipment

Items of Property, plant and equipment and intangible fixed assets are stated at a cost less accumulated depreciation and are presented at 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 and 31 December 2001. The inflation rate for the twelve months ended 31 December 1999, 31 December 2000 and 31 December 2001 of 6.4 %, 11.4% and 4.8% respectively are considered insignificant, and no restatement of the financial statements as of and for the year ended 31 December 1999, 31 December 2000 and 31 December 2001 have been made.



Notes to the financial statements

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	20%
Intangible assets	20%

(f) 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 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 an information disclosed (refer to note 8) for the activities of these subsidiaries concerning their net assets and financial results.

(g) Receivables

Receivables are stated at their cost less impairment losses.

(h) Cash and cash equivalents

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

(j) Impairment

The carrying amount of the Center's assets are reviewed at each balance sheet to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. 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.

(k) Payables

Payables are stated at their cost.

(l) 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 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 installments and the rates at which expenses incurred in BGN are to be translated into the respective foreign currency.

Reports are issued 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.

(m) Taxation

CSD is a non profit organization. No corporate tax is levied in accordance with current Bulgarian legislation. For the period ended 31 December 2001 there are no trade operations on which tax is due. Therefore International Accounting Standard 12 Income Taxes is not applied.



Notes to the financial statements

2. Revenue from grants, contributions and projects

<i>In BGN</i>	2001	2000
IDLI - Coalition 2000	65,594	1,943,758
SELDI phase I	553,454	236,547
SELDI phase II	307,826	-
Council of Europe	113,970	104,475
InfoDev - World Bank	159,677	-
MSI	66,630	-
CIPE 2000	63,046	-
Santander group - Phare Democracy Program	80,986	-
CIPE Mass Media	34,597	-
USAID conference	56,658	-
UNDP training	-	5,388
CIPE 1999	-	79,809
The German Marshall Fund	49,412	53,350
McArthur Foundation	-	137,433
Other projects	301,925	520,108
	<u>1,853,775</u>	<u>3,080,868</u>
 Income from financing for assets	 <u>40,932</u>	 <u>17,472</u>
	<u><u>1,894,707</u></u>	<u><u>3,098,340</u></u>

3. Expenses on grants, contributions and projects

<i>In BGN</i>	2001	2000
Salaries and benefits	71,741	106,481
Hired services	928,492	1,416,144
Depreciation	48,375	43,335
Supplies and consumable	92,873	142,529
Other expenses	379,379	659,350
	<u>1,520,860</u>	<u>2,367,839</u>

Expenses for hired services include expenses for honoraria of external personnel and the related social security and health insurance contributions, courier and printing services, telephone expenses, utilities.

4. Foreign exchange gains or loss

<i>In BGN</i>	2001	2000
Exchange rate gains	328,576	350,723
Exchange rate losses	(322,241)	(187,844)
	<u>6,335</u>	<u>162,879</u>

5. Impairment losses

<i>In BGN</i>	2001	2000
Balance at the beginning of the year	-	20,873
Impairment losses incurred / (reversed) during the period	19,611	(11,306)
Write off receivable against impairment loss incurred in previous years	-	(9,567)
Balance at the end of the year	<u>19,611</u>	<u>-</u>
Total increase/ (decrease) of impairment losses	<u><u>19,611</u></u>	<u><u>(11,306)</u></u>



Notes to the financial statements

6. Property, plant and equipment

<i>In BGN</i>	Land and buildings	Plant and equipment	Vehicles	Fixtures & fittings	Under construc- tion	Total
Cost						
Balance at 1 January 2001	115,769	178,213	149,027	90,735	335,923	869,667
Acquisitions	<u>113,893</u>	<u>4,664</u>	<u>26,089</u>	<u>5,085</u>	-	<u>149,731</u>
Balance at 31 December 2001	<u>229,662</u>	<u>182,877</u>	<u>175,116</u>	<u>95,820</u>	<u>335,923</u>	<u>1,019,398</u>
Depreciation and impairment losses						
Balance at 1 January 2001	-	48,680	109,188	87,817	-	245,685
Depreciation charge for the year	<u>1,433</u>	<u>35,927</u>	<u>7,466</u>	<u>924</u>	-	<u>45,750</u>
Balance at 31 December 2001	<u>1,433</u>	<u>84,607</u>	<u>116,654</u>	<u>88,741</u>	-	<u>291,435</u>
Carrying amount						
At 1 January 2001	<u>115,769</u>	<u>129,533</u>	<u>39,839</u>	<u>2,918</u>	<u>335,923</u>	<u>623,982</u>
At 31 December 2001	<u>228,229</u>	<u>98,270</u>	<u>58,462</u>	<u>7,079</u>	<u>335,923</u>	<u>727,963</u>

7. Intangible fixed assets

<i>In BGN</i>	Software	Patents and licenses	Total
Cost			
Balance at 1 January 2001	13,228	412	13,640
Acquisitions	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 2001	<u>13,228</u>	<u>412</u>	<u>13,640</u>
Amortisation and impairment losses			
Balance at 1 January 2001	1,542	412	1,954
Amortisation charge for the year	<u>2,625</u>	<u>-</u>	<u>2,625</u>
Balance at 31 December 2001	<u>4,167</u>	<u>412</u>	<u>4,579</u>
Carrying amount			
At 1 January 2001	<u>11,686</u>	<u>-</u>	<u>11,686</u>
At 31 December 2001	<u>9,061</u>	<u>-</u>	<u>9,061</u>



Notes to the financial statements

8. Investments

<i>In BGN</i>	2001	2000
Agency Vitosha EOOD	5,006	5,006
Vitosha Research EOOD	5,000	5,000
	<u>10,006</u>	<u>10,006</u>

CSD is a non-profit organisation which has invested in two companies in prior accounting periods. For the financial year 2001 the subsidiaries that perform business activities in line with the overall goals and the mission of CSD have received no further financial support. Their financial statements have been audited by certified chartered accountants according to Bulgarian legislation, for which some details are presented below:

<i>In thousands of BGN</i>	Net Assets	Profit after tax
Agency Vitosha EOOD	43	4
Vitosha Research EOOD	26	18

9. Receivables

<i>In BGN</i>	2001	2000
Completed Projects	50,777	579,075
Other receivables	23,863	34,247
Impairment losses	(19,611)	-
	<u>55,029</u>	<u>613,322</u>

10. Cash and cash equivalents

<i>In BGN</i>	2001	2000
In local currency	50,050	49,228
In foreign currency	2,280,695	1,473,055
Deposits	800	800
At bank	<u>2,331,545</u>	<u>1,523,083</u>
In local currency	14,779	12,406
In foreign currency	40,284	9,372
In hand	<u>55,063</u>	<u>21,778</u>
	<u>2,386,608</u>	<u>1,544,861</u>

11. Deferred expenses

<i>In BGN</i>	2001	2000
German Marshall Fund	24,431	-
Euro barometer	10,799	-
Office of Research	6,150	-
CIPE 2000	-	43,468
Urban Institute	-	16,892
COLPI	-	8,729
OSF	-	5,198
OSF Book Donation	-	15,237
Stander group - Phare Democracy Program	-	85,601
GMF	-	49,971
IMSI	-	787
Other projects	353	352
	<u>41,733</u>	<u>226,235</u>

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 that have not been completed arise.



Notes to the financial statements

12. Payables

<i>In BGN</i>	2001	2000
Payable to the budget	11,577	16,391
Salaries, benefits and social security payable	13,350	16,047
Payable to suppliers	14,893	1,441
Payable related to VISA credit cards	-	3,095
Other payable	14,879	23,693
	<u>54,699</u>	<u>60,667</u>

13. Deferred Revenue

<i>In BGN</i>	2001	2000
For project activities	79,369	135,922
For fixed assets	120,189	156,458
	<u>199,558</u>	<u>292,380</u>

14. Related Parties

Related party receivables	Nature of the related party relationship	Transaction during the year	Amount	Outstanding balance 31 December 2001
Vitosha Research EOOD	100% of the capital owned by CSD	Paid off financing	BGN 5,889.17	-

15. 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 2001.

16. Contingencies

As expenses under project InfoDev are included VAT expenses for the amount of BGN 2,751 and expenses for social security and health insurance contributions on salaries for the amount of BGN 8,319. According to the terms of the agreement for financing it is possible for those expenses not to be approved, and as a result a contingent liability could arise for the amount of BGN 11,070.



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

Scope

We have audited the financial statements of the Center for the Study of Democracy as at 31 December 2001 set out on pages 1 to 13 in accordance with International Standards on Auditing. The financial statements have been prepared in conformity with International Accounting Standards.

Responsibilities of management and auditors

The financial statements have been prepared by, and are the sole responsibility of the management of the Center for the Study of Democracy. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

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

Opinion

1. As at 31 December 2001 the Center for the Study of Democracy has reported investments which are carried at a cost for the total of BGN 10,006. The financial statements of the subsidiaries are not consolidated as per requirements of IAS 27 Consolidated Financial Statements and Accounting for Investment in Subsidiaries.

In our opinion, except for the effect on the financial statements of the matters referred to paragraph 1, the accompanying financial statements give a true and fair view of the financial position of the Center for the Study of Democracy as of 31 December 2001 and the excess of revenue over expenditure in accordance with International Accounting Standards adopted by the International Accounting Standards Board.

2 April 2002

A handwritten signature in black ink that reads 'KPMG Bulgaria'. The signature is written in a cursive, flowing style.

KPMG Bulgaria OOD
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