



CENTER FOR
THE STUDY OF
DEMOCRACY

Center for the Study of Democracy (The Group)

Consolidated Annual Financial Statements

31 December 2017

Independent Auditor's Report

To the General Assembly
of the Center for Study of Democracy

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of the Center for the Study of Democracy, Sofia and its subsidiaries ("the Group") which comprise the consolidated statement of the Group's financial position as of 31 December 2017 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for expression of opinion

We have performed our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities as per these standards are further described in the Auditor's Responsibility section of our report. We are independent from the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (The IESBA Code) along with the ethical requirements of the Law on the Independent Financial Audit (LIFA), applicable to our audit of consolidated financial statements in Bulgaria. We have also complied with our other ethical responsibilities as per the requirements of LIFA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information, different from the consolidated financial statements and the auditor's report

The Group's management is responsible for other information. Other information comprises the report on the activity prepared by the management in accordance with Chapter Seven of the Law on Accountancy, but excludes the consolidated financial statements and our auditor's report.

Our opinion regarding consolidated financial statements does not comprise this other information and we do not express any form of conclusion about its reliability, unless it is explicitly stated in our report and to the extent to which it is stated.

In auditing consolidated financial statements, our responsibility is to read the other information and thus to assess whether this other information is substantially inconsistent with consolidated financial statements or with our knowledge obtained during the audit, or in another way appears to contain material misstatement. If, based on the work we have performed, we conclude there is material misstatement in this other information, we are required to report this fact.

We have nothing to report in this respect.

Supplementary reporting requirements laid down in the Law on Accountancy

In addition to our responsibilities and reporting in compliance with ISA, in reference to the report on the activity we have followed the procedures supplementing ISA requirements as per the Instructions of the professional organisation of certified public accountants and registered auditors in Bulgaria – Institute of Certified Public Accountants (ICPA) – issued on 29 November 2016 and endorsed by its Managing Board on 29 November 2016. These are procedures on verification whether such other information is present and on examination of its form and content, designed to assist us in forming an opinion on whether this other information contains the disclosures and reports laid down in Chapter Seven of the Law on Accountancy.

Opinion in reference to Art. 37, Para. 6 of the Law on Accountancy

On the grounds of the procedures implemented, our opinion is that:

- a) The information included in the report on the activity for the financial year for which consolidated financial statements were prepared corresponds to the consolidated financial statements.
- b) The report on the activity was prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.
- c) The report on payment to governments for the financial year for which consolidated financial statements was prepared, was presented and prepared in compliance with the requirements of Chapter Seven of the Law on Accountancy.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

During the preparation of consolidated financial statements the management is responsible for evaluating the ability of the Group to continue its existence as an operating enterprise, disclosing, when applicable, issues related to the assumption about an operating enterprise and using the accounting basis on the grounds of the assumption about an operating enterprise, unless the management has the intention to liquidate the Group or to suspend its activity, or has no other alternative but to take such action.

Auditor's Responsibility

We aim to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report containing our auditor's opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit performed in accordance with ISA shall in all cases reveal material misstatement if such misstatement is present. Misstatements may arise as a result of fraud or error and are considered material if it would be reasonable to expect that, independently or in aggregate, they could impact the economic decisions of consumers taken on the basis of these financial statements.

As part of the audit complying with IAS, we use professional judgment and keep professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures in response to these risks and we obtain sufficient and appropriate audit evidence, so as to provide basis for our opinion. The risk of not revealing material misstatement which is due to fraud, is higher than the risk of not revealing material misstatement which is due to error, as fraud could vary from secret arrangement, through forgery, intentional omissions, and statements aiming to deceive the auditor, to internal control neglect or circumvention;
- consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and the related statements made by management;
- make a conclusion about the appropriateness of the accounting basis used by management on the grounds of the assumption for a going concern and the audit evidence obtained about whether material uncertainty is present concerning events or circumstances which could cause significant doubts about the ability of the Group to continue operation as a going concern. In case of finding such material uncertainty, we are obliged to draw attention in our auditor's report to the disclosures in the consolidated financial statements relevant to that uncertainty, or, in case these disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, due to future events or circumstances the Group could suspend its operation as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including disclosures, and whether consolidated financial statements present the fundamental transactions and events in a reliable manner.



0509 Стоян Донеv
Регистриран одитор

Stoyan Donev
Registered Auditor
16 July 2018
Sofia

Center for the Study of Democracy (The Group)
Consolidated Statement of Financial Position, 31 December 2017

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2017	31 December 2016
Assets			
Property, plant and equipment	5	2,063	2,112
Intangible assets	6	236	385
Investment property	7	358	362
Total non-current assets		2,657	2,859
Short-term loan	8	122	116
Trade and other receivables	8	603	567
Cash and cash equivalents	9	1,280	669
Deferred expenses		116	452
Total current assets		2,121	1,804
Total assets		4,778	4,663
Equity		2,745	2,733
Liabilities			
Long term liabilities	10	200	200
Payables to partners and suppliers	10	489	429
Deferred financing	11	1,344	1,301
Total current liabilities		1,833	1,730
Total liabilities		2,033	1,930
Total equity and liabilities		4,778	4,663

These financial statements set out on pages 5-30 were approved by the Governing Board on 16 July 2018. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
16 July 2018




Initialed for identification purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 July 2018



0509 Стоян Донеv
Регистриран одитор

Center for the Study of Democracy (The Group)
Consolidated Statement of Comprehensive Income, 31 December 2017

(all amounts in BGN thousand)	Note	For the year ending:	
		31 December 2017	31 December 2016
Revenues from grants financing	12	2,178	1,937
Cost of Sales	13	(2,061)	(1,818)
Gross Profit		<u>117</u>	<u>119</u>
Other operating income		945	674
Administrative expenses	13	(990)	(709)
Impairment losses		-	-
Revenue from operating activities		<u>72</u>	<u>84</u>
Financial income		7	2
Financial expenses		(57)	(27)
Net financing costs	14	<u>(50)</u>	<u>(25)</u>
Profit before income tax		22	59
Extraordinary expenses		-	-
Income tax expense	16	(6)	(7)
Net profit for the period		<u><u>16</u></u>	<u><u>52</u></u>
Other comprehensive income		-	-
Total comprehensive income		<u><u>16</u></u>	<u><u>52</u></u>

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16 July 2018




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Registered Auditor
16 July 2018




Center for the Study of Democracy (The Group)
Consolidated Cash Flow Statement, 31 December 2017

(all amounts in BGN thousand)	Note	Year ended 31 December	
		2017	2016
Cash generated from operations			
Profit before income tax		16	52
Adjustments for:			
Depreciation		<u>159</u>	<u>94</u>
Changes in working capital:			
Trade and other receivables		385	(87)
Trade and other payables		<u>126</u>	<u>115</u>
Net cash from operating activities		<u>686</u>	<u>174</u>
Income tax paid		<u>(6)</u>	<u>(7)</u>
Net cash generated from operating activities		<u>680</u>	<u>167</u>
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		<u>(18)</u>	<u>(62)</u>
Net cash used in investing activities		<u>(18)</u>	<u>(62)</u>
Cash flows from financing activities			
Loans received			
Interest and commissions paid		<u>(51)</u>	<u>(22)</u>
Net cash used in financing activities		<u>(51)</u>	<u>(22)</u>
Net increase/(decrease) in cash and cash equivalents		<u>611</u>	<u>83</u>
Cash and cash equivalents at the beginning of the year		<u>669</u>	<u>586</u>
Cash and cash equivalents at the end of the year	9	<u><u>1,280</u></u>	<u><u>669</u></u>

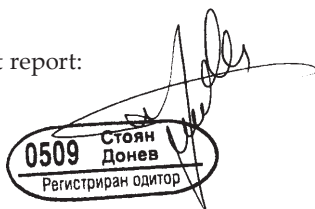
These consolidated statements of changes in e cash flow statement set out on pages 5-30 were approved by the Governing Board on 16 July 2018. They are signed on behalf of the Governing Board by:

Vladimir Yordanov
Executive Director
16 July 2018



Initialled for identification
purposes in reference to the audit report:

Stoyan Donev
Registered Auditor
16 July 2018



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Стоян
Донев
Регистриран одитор



Center for the Study of Democracy (The Group)
Consolidated Statement of Changes in Equity, 31 December 2017

(all amounts in BGN thousand)	Note	Retained earnings
Balance as of 1 January 2016		2,704
Net profit for the year		52
Other changes		(23)
Balance as of 31 December 2016		2,733
Balance as of 1 January 2017		2,733
Net profit for the year		12
Balance as of 31 December 2017		2,745

These consolidated statements of changes in equity set out on pages 5-30 were approved by the Governing Board on 16 July 2018. They are signed on behalf of the Governing Board by:



Vladimir Yordanov
 Executive Director
 16 July 2018



Initialed for identification purposes in reference to the audit report:

Stoyan Donev
 Registered Auditor
 16 July 2018



1. Group background activities

The Center for the Study of Democracy (CSD) is a non-profit organization domiciled in Bulgaria. The consolidated financial statements of CSD for the year ended 31 December 2017 comprise CSD and its subsidiaries, Vitoshka Research EOOD and Project 1 EOOD (together referred to as the "Group").

Founded in late 1989, the Center for the Study of Democracy (CSD) is a European 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 and Europe through impact on policy and civil society.

CSD objectives are:

- to provide an enhanced institutional and policy capacity for a successful European integration process, especially in the area of justice and home affairs;
- to promote institutional reform and the practical implementation of democratic values in legal and economic practice;
- to monitor public attitudes and serve as a watchdog of the institutional reform process.

The Center for the Study of Democracy owns 100 % of its subsidiaries Vitoshka Research EOOD and Project 1 EOOD.

Vitoshka Research EOOD, established in 2000, is specialized in wide range of research and consulting fields: social and economic policy; assessment and evaluation studies; economic and political behaviour; political attitudes and value systems; market, media and audience research; and others.

Project 1 EOOD was established in 2003. Its main activity is managing real estate investments of the Group and project management of the contract research of the Group.

As of 31 December 2017 the Group has 27 employees.

The financial statements were approved by the Governing Board on 16 July 2018.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The consolidated financial statements comprise the financial statements of the Center for the Study of Democracy and its subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent Group, using consistent accounting policies. For consolidation purposes, the financial information of the Group has been combined on a line-by-line basis by adding together like items of assets, liabilities, income and expenses.

All intra-group balances, income and expenses and unrealised gains resulting from intragroup transactions are eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Transactions with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in

the consolidated balance sheet, separately from parent shareholders' equity. Disposals of non-controlling interests result in gains and losses for the Group that are recognised in the income statement. Acquisitions of non-controlling interests are accounted for whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised in goodwill.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions. The management relied on their own judgment when applying the accounting policy of the Group. The elements of the financial statements whose presentation includes higher degree of judgment or subjectivity and for which the assumptions and judgments have higher influence are separately disclosed in Note 4.

New and amended standards, adopted by the Group:

New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2017 are not early adopted by the Group because management of the Group believes that they are not currently relevant to the Group, although they may affect accounting for future transactions and events.

2.2. Foreign currency translations

2.2.1. Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional and presentation currency is "Bulgarian lev" or "BGN".

2.2.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.3. Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation, less impairment losses, if any. Historical cost includes all expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation commences from the date the asset is available for use. Land is not depreciated as it is deemed to have an indefinite life. Assets under construction are not depreciated as not yet available for use.

The Group uses straight-line depreciation method. Depreciation rates are based on the useful life of the different types of property, plant and equipment as follows:

Buildings	100 years
Machinery and equipment	3.33 years
Vehicles	6.67 years
Fixtures and fittings	2 – 6.67 years

Property, plant and equipment is depreciated from the month following the acquisition date and for internally generated assets – from the month following the date of entering into use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.4. Intangible assets

Intangible assets acquired by the Group are presented at cost, less accumulated amortisation and impairment.

Subsequent expenditures

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite.

2.5. Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

For the purposes of these financial statements short term means a period within 12 months. During the year, the Group did not hold any investments in this category. The Group does not possess such financial assets as at 31 December 2017.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest rate.

Held-to-maturity

Held-to-maturity investments are fixed-maturity investments that the Group's management has the positive intention and ability to hold to maturity. These securities are included as non-current assets except for securities, reaching maturity within 12 months from the balance sheet date and which are recognised as current during the reporting period. During the year, the Group did not hold any investments in this category.

Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are investments acquired with the purpose to be owned for non-fixed period of time and which can be sold when the Group needs recourses or at change of interest rates. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date or to use them as a source of working capital. In this case the investments are classified within current assets. During the year, the Group did not hold any investments in this category.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.7.

2.6. Inventory

Inventories are stated at the lower of cost and net realisable value. Inventories are expensed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.7. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost (using effective interest method) less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "selling and marketing costs". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and marketing costs" in the income statement.

2.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less as well as bank overdrafts. Bank overdrafts are shown within current borrowings in current liabilities on the balance sheet.

2.9. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

2.10. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.11. Deferred tax

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.12. Employee benefits on retirement

In accordance with article 222, para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to a compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Group for at least 10 years. As at 31 December the Group has not accounted for those potential obligations.

2.13. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services

Revenue from time and material contracts, typically from delivering certain services, is recognised under the percentage of completion method. Revenue is generally recognised at the contractual rates. For time contracts, the stage of completion is measured on the basis of labour hours delivered as a percentage of total hours to be delivered.

Revenue from fixed-price contracts for delivering certain services is also recognised under the percentage-of-completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases

or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management.

Revenue from grants and contributions

Grants from financing bodies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.14. Dividend distribution

The Group does not distribute dividends.

3. Financial risk management

3.1. Global financial crisis

Impact of the ongoing global financial and economic crisis

In 2017 and 2018, the Bulgarian economy continued its moderate recovery with easing of consumer and business credit. At the same time, due to the rise in global political uncertainty fears have increased that Bulgaria might be left out of the EU policy-making core. So far, these risks have not materialized as the country has applied to join the Eurozone in 2018 but remain potent for the future development of the country and of the particular sector of operation of the Group.

The future economic direction of Bulgaria is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government of Bulgaria, together with tax, legal, regulatory and political developments.

The management is unable to predict all developments which could have an impact on the sector and wider economy, and consequently what effect, if any, they could have on the future financial position of the Group. But the management analysis shows that for the short to mid-term the risks are balanced and the general environment is likely to remain largely favorable for the development of the group.

The Bulgarian economy is particularly vulnerable to market downturns and economic slowdowns elsewhere in the world. A particular, rising risk are the global trade tensions, which might affect adversely the EU and Bulgaria's economy. The management is unable to determine with precision the longer-term effects on the Group's future financial position of any further changes in the economic environment in which the Group operates.

The management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current circumstances.

3.2. Financial risk factors

The risk exposures of the Group could be determined as follows: market risk (including currency risk, price risk and risk of future cash flow changes as a result of changes in market interest rate), credit risk and liquidity risk. The Group's management focuses on the financial risk and seeks to minimise potential adverse effects on the Group's financial performance.

3.2.1. Market risk

a) Currency risk

The Group is not exposed to serious foreign exchange risk as most of its activities are denominated in EUR. The exchange rate of the BGN is currently pegged to the EUR. In 2017 the group had minor exposure to USD and CHF projects and although the negative trend of the exchange rate USD/BGN and CHF/BGN resulted in foreign exchange loss it did not affect significantly the financial position of the group.

The Group's management does not believe that the peg will change within the next 12 months and therefore no sensitivity analysis has been performed.

b) Price risk

The Group's management considers the price risk in the context of the future revenues that are expected to be generated in the operating activity of the Group.

3.2.2. Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group analyses its interest rate exposure on a dynamic basis and addresses the underlying risk.

3.2.3. Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions.

3.2.4. Liquidity risk

In the context of its underlying activities, the Group is able to maintain flexibility in funding and to use credit lines, overdrafts and other credit facilities, if necessary.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As of 31 December 2016	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	352	-	-	200
As of 31 December 2017	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	489	-	-	200

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The authenticity of accounting estimates and judgments is monitored regularly.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Useful life of property, plant and equipment

The presentation and valuation of property, plant and equipment requires the Management to estimate their useful life and remaining value. The Management assesses at the end of each accounting period the determined useful life of the property, plant and equipment.

Impairment of loans and receivables

Impairment of receivables is determined based on Management's expectations for the collectability of the loans and receivables. As at the date of preparation of the financial statements, the Management reviews and assesses the existing receivables' balances for collectability.

Center for the Study of Democracy (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

5. Property, plant and equipment

Cost	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Buildings	1,135	-	-	1,135
Computers	270	3	-	273
Vehicles	243	-	-	243
Fixtures & Fittings	111	-	-	111
Other assets	12	-	-	12
Assets under construction	911	-	-	911
Total	2,682	3	-	2,685

Depreciation	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Buildings	29	-	-	29
Computers	218	39	-	257
Vehicles	223	7	-	230
Fixtures & Fittings	99	3	-	102
Other assets	3	-	-	3
Assets under construction	-	-	-	-
Total	572	49	-	621

Carrying amount	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Buildings	1,106	-	-	1,106
Computers	52	-	36	16
Vehicles	20	-	7	13
Fixtures & Fittings	12	-	3	9
Other assets	9	-	-	9
Assets under construction	911	-	-	911
Total	2,110	-	46	2,064

6. Intangible assets

Cost	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Software	98	-	-	98
Others	687	6	-	693
Total	785	6	-	791

Depreciation	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Software	92	1	-	93
Others	308	154	-	462
Total	400	155	-	555

Carrying amount	As of 1 January 2017	Additions	Disposals	As of 31 December 2017
Software	6	(1)	-	5
Others	379	(148)	-	231
Total	385	(149)	-	236

7. Investment property

	2017	2016
As of 1 January		
Carrying amount at the beginning of the period	362	365
Depreciation charge	(4)	(3)
Carrying amount at the end of the period	358	362
As of 31 December		
Cost	508	508
Accumulated depreciation	(150)	(146)
Carrying amount	358	362

Investment properties of the Group consist of land and buildings acquired in the period 2005 – 2006. Investment property is presented at cost less accumulated depreciation and impairment losses.

Center for the Study of Democracy (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

8. Trade and other receivables

	As of 31 December	
	2017	2016
Short-term loan	122	116
Trade receivables	552	520
Trade receivables, net	<u>674</u>	<u>636</u>
Other	51	47
	<u><u>725</u></u>	<u><u>683</u></u>

The carrying amount of trade and other receivables approximates their fair value.

9. Cash and cash equivalents

	As of 31 December	
	2017	2016
Cash at hand	18	23
Cash in bank current accounts	1,262	646
	<u><u>1,280</u></u>	<u><u>669</u></u>

10. Trade and other payables

	As of 31 December	
	2017	2016
Long-term liabilities		
Long-term loans	<u>200</u>	<u>200</u>

	As of 31 December	
	2017	2016
Short-term liabilities		
Payables to partners and suppliers	243	225
Salaries and social securities payables	50	49
Tax	4	1
Other	192	154
	<u><u>489</u></u>	<u><u>429</u></u>

Loans liabilities represent a loan granted in 2009 by IR Communication EOOD to Project 1 EOOD. According to the loan contract the interest rate is 3.5 %.

11. Deferred financing

	As of 31 December	
	2017	2016
EC – Love Moves: The rights of recognized same-sex partners moving across the EU	77	
EC – Innovative Methods to Investigate Fraud and Corruption in EU funding for agriculture	52	
European Climate Foundation – SEERMAP Regional Report	15	
Delegation of the European Union to Montenegro – Initiative for Open Judiciary	3	
European Climate Foundation – SEERMAP Regional Report	20	
Smith Richardson Foundation – The Kremlin Playbook 2	80	
UNODC/Transparency International – Anti-Corruption Southeastern Europe Regional Platform Follow Up	8	
Open Society Foundations – Mind the gap! – Facilitating access to and take up of Youth Guarantee measures by Roma youth in Bulgaria, Romania and Romania	15	
EC – Pro Victims Justice through an Enhanced Rights Protection and Stakeholders Cooperation	16	
EC – Preventing and Combatting Racism and Xenophobia through Social Orientation of Non-Nationals	116	
Smith Richardson Foundation – The Wind That Blows from the East: Understanding Russian Influence in Europe	7	
Ministry of Interior – Development and Implementation of Unified Standards for Forced Return Monitoring (RETURN 2)	4	
EC – Enhancing the Integration of Women, Beneficiaries of International Protection by Development and Implementation of Multifaceted Integration Trainings	67	
EC – Financing Organised Crime Activities – focus on Human Trafficking	129	
German Marshall Fund of the US – Russian Economic Influence and Media Capture in the Black Sea Region	55	
Ministry of Interior of Bulgaria – Strengthening Law Enforcement Responses to Transnational Organised Crime in the Context of the Migrants Crisis	25	
EC – Assessing the risk of isolation of suspects and accused	76	

Center for the Study of Democracy (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

	As of 31 December	
	2017	2016
Central Finance and Contracts Unit (CFCU) – Strengthening the EU-Turkey Energy Dialogue in the Context of Persistent Energy Security and Governance Risks in the Black Sea Region		17
European Climate Foundation – SEERMAP		21
EC – Countering Radicalisation in Southeast and Central Europe Through Development of (Counter-) Radicalisation Monitoring Tool		157
EC – Developing Directive-compatible practices for the identification, assessment and referral of victims		5
EC – Enabling the Energy Union through understanding the drivers of individual and collective energy choices in Europe – ENABLE.EU	138	345
EC – ON-THE-MOVE – The Reality of Free movement for Young European Citizens Migrating in Times of Crisis		10
EC – The Private Corruption Barometer – Drafting and piloting a model for comparative business victimization survey on private corruption in the EU	6	138
EC – Towards a EU Data Management System for Seized Assets	126	202
EC – Understanding the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-line-practitioners and Professionals	38	31
EC – Improving and Sharing Knowledge on the Internet Role in the Human Trafficking Process		123
Foundation Open Society Institute (FOSI) Budapest – State Capture Risks in Europe: Monitoring and Policy Options	128	75
Ministry of Interior – National Study on Domestic and Gender Based Violence and Elaboration of Victims Support Model		34
UNODC/Transparency International – Anti-Corruption South-eastern Europe Regional Platform		9
EC – Out of the Shadows: Developing Capacities and Capabilities for Tackling Underclared Work in Bulgaria, Croatia and FYR Macedonia		114

	As of 31 December	
	2017	2016
PMI IMPACT – The ITTP along the Balkan Route: Addressing Institutional Gaps and Corruption	133	
Other		3
Total deferred financing related to projects	1,334	1,284
Financing for acquisition of fixed assets	10	17
Total deferred financing	1,344	1,301

12. Revenues from grants financing

Revenues from grants financing and other project for respective periods are as follows:

	As of 31 December	
	2017	2016
EC – Countering Radicalisation in Southeast and Central Europe Through Development of (Counter-) Radicalisation Monitoring Tool	221	
Ministry of Interior – National Study on Domestic and Gender Based Violence and Elaboration of Victims Support Model	76	
EC – Improving and sharing knowledge on the Internet role in the human trafficking process	140	
EC – ON-THE-MOVE – The Reality of Free movement for Young European Citizens Migrating in Times of Crisis	18	
EC – Developing Directive-compatible practices for the identification, assessment and referral of victims	21	
EC – Towards a EU Data Management System for Seized Assets	76	
EC – The Private Corruption Barometer – Drafting and piloting a model for comparative business victimization survey on private corruption in the EU	131	
European Climate Foundation – SEERMAP	24	
EC – Enabling the Energy Union through understanding the drivers of individual and collective energy choices in Europe – ENABLE.EU	207	

Center for the Study of Democracy (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

	As of 31 December	
	2017	2016
UNODC/Transparency International – Anti-Corruption South-eastern Europe Regional Platform	15	
EC – Enhancing the Integration of Women, Beneficiaries of International Protection by Development and Implementation of Multifaceted Integration Trainings	102	
EC – Financing Organised Crime Activities – focus on Human Trafficking	136	
EC – Pro Victims Justice through an Enhanced Rights Protection and Stakeholders Cooperation	23	
CIPE – From Kleptocracy to State Capture: Understanding Russian Influence in the Western Balkans	112	
Ministry of Interior of Bulgaria – Strengthening Law Enforcement Responses to Transnational Organised Crime in the Context of the Migrants Crisis	97	
Regional Cooperation Council – SEE Platform for Cooperation against Corruption and its Links to Organised Crime	63	
EC – Assessing the Risk of Isolation of Suspects and Accused	23	
The German Marshall Fund of the United States – Russian Economic Influence and Media Capture in the Black Sea Region	15	
Open Society Foundations – Mind the gap! – Facilitating access to and take up of Youth Guarantee measures by Roma youth in Bulgaria, Romania and Romania	17	
European Climate Foundation – SEERMAP Regional Report	14	
Smith Richardson Foundation – The Kremlin Playbook 2	23	
EC – Anticorruption Policies Revisited. Global Trends and European Responses to the Challenge of Corruption		86
EC – Building a Platform for Enhanced Societal Research Related to Nuclear Energy in Central and Eastern Europe		45
EC – Countering Extortion Racketeering in the EU		233
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring, Advocacy and Awareness Raising (SELDI)	28	230

Center for the Study of Democracy (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

	As of 31 December	
	2017	2016
EC – Law, Economy, Competition and Administration – Developing an Interdisciplinary Approach in the Fight against Public Procurement Criminality		82
Bulgarian – Swiss Cooperation Programme – Overcoming Institutional Capacity Gaps to Counter Corruption and Organized Crime in Bulgaria	256	345
EC – New European Crimes and Trust-Based Policy		12
DCAF – Private Security Companies in the Western Balkans	12	41
EC – Civil Society Organizations as Guarantors for the Rights of Vulnerable Groups		21
U.S. Department of State – The Media as an Instrument for State Capture		60
Foundation Open Society Institute – Impact Metrix: Towards Designing a State Capture Index		18
EC – Civil Society for Good Governance and Anti-Corruption in Southeast Europe: Capacity Building for Monitoring SOE Governance in the Energy Sector		59
EC – Promoting Good Governance and Economic Rights through Empowering Civil Society to Monitor and Tackle the Hidden Economy in the FYR of Macedonia		60
U.S. Department of State – The Wind that Blows from the East: Understanding Russian Influence in Europe		270
EC – Augmenting Demand for Anti-Corruption and Organised Crime		31
Foundation Open Society Institute – Streamlining NGO registration		53
EEA FM and NFM 2009 – 2014 – Punishment vs. Treatment: The Situation of Drug Users in Prison		31
Central Finance and Contracts Unit (CFCU), Turkey – Strengthening the EU-Turkey Energy Dialogue in the Context of Persistent Energy Security and Governance Risks in the Black Sea Region	43	44
EU Strategy for the Danube Region – START – Roma integration across the Danube: Best practices and social entrepreneurship models exchange between Romania and Bulgaria	1	13

Center for the Study of Democracy (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

	As of 31 December	
	2017	2016
EC – Understanding the Dimensions of Organized Crime and Terrorist Networks for Developing Effective and Efficient Security Solutions for First-line-practitioners and Professionals	82	46
Ministry of Interior – Development and Implementation of Unified Standards for Forced Return Monitoring (RETURN 2)	39	20
Foundation Open Society Institute Budapest – State Capture Risks in Europe: Monitoring and Policy Options	134	20
Other projects	29	117
Total Revenues from grants financing	2,178	1,937
Revenue from unconditional donations	7	10
Other revenues	8	23
Total Revenues	2,193	1,970

13. Cost of sales and administrative expenses

Cost of sales and administrative expenses of the Group include:

	As of 31 December	
	2017	2016
Expenses for materials	16	15
Hired services	1,256	733
Depreciation and amortisation	159	94
Salaries and wages	919	1,083
Social securities	133	146
Other expenses	568	456
Total Expenses	3,051	2,527

14. Finance costs, net

	As of 31 December	
	2017	2016
Interest income	-	-
Interest, net	<u>-</u>	<u>-</u>
Foreign exchange income	7	2
Foreign exchange expense	(44)	(19)
Foreign exchange, net	<u>(37)</u>	<u>(17)</u>
Other financial expenses	(13)	(8)
Other financial, net	<u>(13)</u>	<u>(8)</u>
Finance costs, net	<u><u>(50)</u></u>	<u><u>(25)</u></u>

15. Income tax

The major components of income tax expense for the year ended 31 December 2016 and the period ended 31 December 2017 are:

	As of 31 December	
	2017	2016
Current tax	7	10
Income expense	<u><u>7</u></u>	<u><u>10</u></u>

The official rate stated in Corporate Tax Law for 2017 was set to 10 % (2016:10 %). Deferred taxes are calculated on all temporary differences under the balance method using this effective tax rate.

Movement in deferred tax

	Balance as of 1 January 2017	Movement	Balance as of 31 December 2017
Property, plant and equipment	-	-	-
Trade payables	-	-	-
Net deferred tax asset/liability	<u>-</u>	<u>-</u>	<u>-</u>

Center for the Study of Democracy (The Group)
Notes to the Consolidated Annual Financial Statements, 31 December 2017
(all amounts in BGN thousand, unless otherwise stated)

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Groups' management is not aware of any circumstances which may give rise to a potential material liability in this respect.

There have been no tax checks performed in recent years.

16. Related parties

The Group is related party to the Applied Research and Communication Fund and its subsidiaries.

The following transactions occurred during the year:

Related party	Transactions during the year	January-December		31 December		31 December	
		2017	2016	2017	2016	2017	2016
		<i>Transactions</i>		<i>Receivables</i>		<i>Payables</i>	
Applied Research and Communication Fund	Rental contract	48	45				
ARC Consulting EOOD	Consulting services/ Rental contract	15	12			226	226
IR Communications	Loan agreement					200	200
Bulgarian Association for Policy Evaluation	Loan agreement	6	16	142	136		
		69	73	142	136	426	426

Transactions with directors and other members of the management

Total amount of the remunerations and social contributions included in the expenses for external services is as follows:

	2017	2016
Board of Trustees and Executive Directors	251	305

17. Events after the balance sheet date

There were no events after balance date requiring corrections of the financial statements or disclosures.