

**First Children's Embassy in the World
Megjashi**

Financial Statements
For the year ended
31 December 2006
With the Independent Auditor's
Report thereon

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Auditor's Report

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Auditor's Report to the founders of the First Children's Embassy in the World Megjashi

We have audited the accompanying financial statements of the First Children's Embassy in the World Megjashi ("the Organisation"), which comprise the balance sheet as at 31 December 2006, and statement of income and expenditures for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Organisation's management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Law for the not for profit organisations. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Organisation's preparation and fair presentation of the financial statements 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 Organisation's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Organisation as at 31 December 2006, and of its financial performance for the year then ended in accordance with Accounting Law for the not for profit organisations.

17 July 2007

KPMG

Skopje

A handwritten signature of the KPMG firm, written in black ink.

Statement of income and expenditures

For the year ended 31 December

<i>In denars</i>	Note	2006	2005
Income from intended for a special purpose donations	1	4.335.683	6.601.843
Income from not-intended for a special purpose donations and self-financing income	2	<u>2.532.366</u>	<u>827.071</u>
Total income		<u>6.868.049</u>	<u>7.428.914</u>
Project's expenditures	3	4.423.725	6.676.502
Day-to-day expenses	4	1.990.412	1.490.598
Depreciation charge	5	<u>350.600</u>	<u>287.471</u>
Total expenses		<u>6.764.737</u>	<u>8.454.571</u>
Surplus/(deficit) for the year		<u>103.312</u>	<u>(1,025.657)</u>

The notes set out on pages 3-11 form an integral part of these financial statements.

Balance Sheet

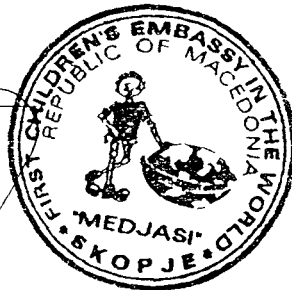
As at 31 December

<i>In denars</i>	Note	2006	2005
Assets			
Property and equipment	5	1,342,977	1,350,008
Total non current assets		<u>1,342,977</u>	<u>1,350,008</u>
Trade and other receivables	6	56,916	40,716
Cash and cash equivalents	7	444,161	7,650
Total current assets		<u>501,077</u>	<u>48,366</u>
Total assets		<u>1,844,054</u>	<u>1,398,374</u>
Liabilities and fund balance			
Fund balance	8	1,827,755	1,380,874
Total fund balance		<u>1,827,755</u>	<u>1,380,874</u>
Payables		16,299	17,500
Total current liabilities		<u>16,299</u>	<u>17,500</u>
Total liabilities and fund balance		<u>1,844,054</u>	<u>1,398,374</u>

The notes set out on pages 3-11 form an integral part of these financial statements.

The financial statements set out on pages 1 to 11 were approved by the Organization's Collegiums on 17 July 2007 and signed on its behalf by:


M.Sc. Dragi Zmijanac
Executive Director



Notes to the financial statements

The First Children's Embassy of the World – Megjashi ("the Organisation") was established in Skopje, Republic of Macedonia, on 29 April 1992. It was registered as a not for profit organisation in accordance with the Law for Citizens Associations and Foundations. It operates on national level with funds received from various donors. The address of the Organization's registered office is Kosta Novakovik 22a, Skopje. The main activities relate to protection of children's rights.

Significant accounting policies

(a) Statement of compliance

The financial statements are prepared in accordance with the Accounting Law for not for profit organisations.

(b) Basis of preparation

The financial statements are presented in Macedonian Denars (denars). Functional currency of the Organization is denar. The financial statements are prepared in accordance with the accounting policies set out below.

The accounting policies have been applied consistently to all periods presented in these financial statements.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to denars at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on retranslation are recognised in the statement of income and expenditures.

The foreign currency deals of the Organization are Euro (EUR) based. The exchange rates used for translation at 31 December 2006 and 31 December 2005 were as follows:

	2006	2005
		Denars
1 EUR	61.17	61.18
1 USD	46.45	51.86

Notes to the financial statements

Significant accounting policies (continued)

(d) Property and equipment

(i) Own assets

Items of property and equipment are stated at cost less accumulated depreciation.

Additions of property and equipment paid in cash during the year are recorded as assets and liability to the supplier and at the same time as expense and increase of fund balance.

Additions of property, plant and equipment donated as contribution in kind to the Organization are recorded as increase of assets and fund balance.

(ii) Depreciation

Depreciation is charged to the statement of income and expenditures on a straight-line basis over the estimated useful lives of items of property and equipment.

The estimated annual rates of depreciation are as follows:

	2006	2005
	%	%
Furniture and equipment	12-20	12-20

The depreciation of property and equipment paid in cash is recorded as decrease of fund balance and increase of the accumulated depreciation. The depreciation of donated property and equipment in kind is recorded as expense and increase of accumulated depreciation.

Items of property and equipment are not depreciated until they are brought into use.

(e) Trade and other receivables

Trade and other receivables are stated at cost.

(f) Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and cash at bank.

(g) Payables

Payables are stated at cost.

Notes to the financial statements

Significant accounting policies (continued)

(h) Revenue recognition

Income is recognized in the reporting period when incurred according to the criteria of measurability and availability. The income is measurable when it can be expressed in value. The income is available if collected within the reporting period, or collected within 30 days after the reporting period end to which it relates, and are being used for settlement of liabilities related to the reporting period.

(i) Expenses

Expense is recognized in the reporting period when incurred and paid within the reporting period, or paid within 30 days after the reporting period, subject to the liability incurred related to the reporting period.

(j) Corporate tax

The corporate tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date. As a not for profit organization the Organization is not liable to the corporate tax.

Notes to the financial statements

1. Income from intended for a special purpose donations

<i>In denars</i>	2006	2005
Macedonian Centre for International Cooperation	1.992.367	989.876
International Development Agency (IDA)	1.036.640	241.539
Commission of the European Communities	550.203	2.214.067
Companies supporting SOS phone for children and young	259.500	122.800
Australian Embassy	188.516	179.493
South African Democratic Teachers	151.791	-
Ministry of Labour and Social Policy	116.666	1.627.200
Agency for Youth and Sports of the Republic of Macedonia	40.000	80.000
Companies supporting EIDHR project	-	531.863
Child Helpline International	-	276.165
OXFAM	-	181.893
Global March Against Child Labour	-	92.256
Balkan Children and Youth Foundation	-	64.691
	<u>4,335,683</u>	<u>6,601,843</u>

2. Income from not -intended for a special purpose donations and self-financing income

<i>In denars</i>	2006	2005
Donations from employees	592.025	334.327
Diplomatic corps	463.530	77.452
ISPCC Street-Ireland	368.280	-
Government of the Republic of Macedonia	250.000	150.000
Income from sale of greeting cards	245.770	119.099
Citizens donations	124.113	-
South African Democratic Teachers	110.467	-
Ministry of Culture	100.000	-
Jugoreklam	98.115	-
Donations on Cosmofon phone number	66.450	-
Membership fee in children workshops	30.000	14.050
Makedonski Telekomunikacii	-	62.000
Income from indemnities	-	53.244
Other	83.616	16.899
	<u>2,532,366</u>	<u>827,071</u>

Notes to the financial statements

3. Project expenditures

<i>In denars</i>	2006	2005
Psychosocial and educational support of children without parental care	1,108,338	58,308
Program for development and consolidation of the FCEWM	726,527	818,832
SOS phone for children and young	686,698	1,105,187
Internally displaced persons	395,616	1,068,314
Fellowship through multi-ethnic cooperation (EIDHR)	365,972	2,867,331
Global action week (GAW)	343,359	339,210
Children's workshops	238,160	419,320
Civic Platform Macedonia (CPM)	202,507	-
Balkan Civil Society Development Network (BNT)	184,518	-
Promotion of positive examples	104,359	-
Promotion of volunteerism	67,671	-
	4,423,725	6,676,502

The main project activities implemented by the Organisation during 2006 and 2005 were as follows:

Psychosocial and educational support of children without parental care is project that implements activities as computers workshops, workshops for English language, culinary workshops, individual and group counselling of youth below 18 years of age that leave in a Foster Home without parental care. The project's objective is to support and strengthen the possibility for independent life of youth. Funds are provided by Community Development Project financed by the International Development Agency (IDA) loan.

SOS Phone for Children and Youth is the first free of charge phone for children and young in the Republic of Macedonia. It operates since 1993. During 2006 the Project is financed by Stopanska Banka AD Skopje, Agency for Youth and Sports of the Republic of Macedonia and Pexim Computers. In 2005 the project is financed by the Child Helpline International, Balkan Children and Youth Foundation, Netherlands Embassy, Agency for Youth and Sports of the Republic of Macedonia and several enterprises. In June 2005, the SOS Phone for Children and Young received new free of charge number 0800 1 2222, and the SOS helpline becomes more accessible for the children and youth, especially for the ones with a lower social status. Most common reasons for the calls are family problems and problems related to violence of various types (sexual abuse, psychic and physical abuse, abuse of child labour). The volunteer's team of SOS Phone is consisted of students, psychologists, social workers, sociologists and pedagogues. Since 2004 the SOS Phone for Children and Young is a member of the Child Helpline International.

Notes to the financial statements

3. Project expenditures (continued)

Internally displaced persons - Shelter for children in crisis. Since June 2001, 16 displaced persons from the village Arachinovo, out of which eight are children, have been sheltered with financial support of the Ministry of Labour and Social Policy. According to the Decision of the Government of the Republic of Macedonia on 18 session in 2005, the status of internally displaced persons has been lost starting from September 2005. Despite the Government's decision they stayed in the Organization's Shelter until the construction of new homes in the Skopje city area was completed. During 2006 the displaced persons moved to their new homes.

Fellowship through multi-ethnic cooperation in the five multiethnic clubs in high schools in Skopje, Kumanovo and Tetovo (EJDHR project) is a project implemented during the period January – December 2005. The main objective of the Project was to develop interethnic dialogue and improve cooperation between teachers and high school students with different ethnical backgrounds. The project is financed by the Commission of the European Communities, Macedonian Centre for International Cooperation, Mermeren Kombinat – Prilep, Intrakom - Skopje and Mr. Antonio Dilleto – the First Children's Embassy in the World - Megjashi Ambassador in Italy and Switzerland.

Global action week – Campaign for participation of all children in school – organized to increase the public conscience about the fact that more than 18,000 children in the Republic of Macedonia don't go to school as a result of various reasons and to take measures for decrease of this number. During 2006 the campaign is financed by the South African Democratic Teachers, and during 2005 the campaign was financed by the OXFAM.

Children's workshops are one of the first Organization activities. They represent the opportunity for children of various religions and economic status to associate each other, and to express its creativity through different activities. The following workshops were implemented during 2005 and 2006: Fine art creations, computer workshops, English language workshop, Albanian language workshop, German language workshop, French language workshop, Origami, Human values education, ecology workshop, sports workshop and Theatre workshop. The project is financed by the Australian Embassy;

The Civic Platform Macedonia (CPM) – the Organization is a member of CPM. The activities aimed in the work program of CPM are focused on: improvement of communication, coordination and cooperation in the civil sector, development of the home support system, creating a civil sector working according to the highest ethical standards of responsibility and transparency. Within the frames of the CPM the Organization is coordinator of the program for dialogue and cooperation with the civil organizations, the government, the business sector, the media and the public. The program is financed by the Macedonian Centre for International Cooperation.

Notes to the financial statements

3. Project expenditures (continued)

Beside the coordination, the Organization implements the project "Promotion of positive examples" which is focused on improvement of the visibility of the results from the work of the Civic Organizations through publishing of their most successful activities and the project "Promotion of volunteerism" whose goal is to promote and motivate the broader civic participation and support of the civic organizations through strengthening of the volunteerism. The projects are financed by the Macedonian Centre for International Cooperation.

Besides the above mentioned activities the Organization realized its regular activities such as legal representation and lobbying, social and humanitarian aid, publication of activities bulletins, participation on international seminars, trainings and conferences.

4. Day-to-day expenses

<i>In denars</i>	2006	2005
<i>Expenses by nature</i>		
Intellectual services	506,744	326,554
Salaries and contribution	366,000	516,665
Expenses for materials	269,455	22,419
Transportation services	213,420	111,238
Maintenance services	80,509	161,292
Expenses for business trip	77,737	98,534
Rent	68,238	-
Entertainment	66,083	13,227
Allowances to the employees	60,032	4,795
Membership fee	48,973	13,120
Insurance	47,844	47,773
Utility expenses	20,100	3,531
Bank charges	18,028	7,592
Property and equipment	-	111,533
Other	147,249	52,325
	<u>1,990,412</u>	<u>1,490,598</u>

Property and equipment in amount of 111,533 denars in 2005 are additions of property and equipment paid by the Organisation in cash and according to the accounting policy for property and equipment is recognised as expense in period in which they occur.

Notes to the financial statements

5. Property and equipment

<i>In denars</i>	Furniture and equipment
Cost	
At 1 January 2005	3,159,589
Additions	111,533
Write off	<u>(264,542)</u>
At 31 December 2005	<u>3,006,580</u>
At 1 January 2006	3,006,580
Additions	459,123
At 31 December 2006	<u>3,465,703</u>
Depreciation	
At 1 January 2005	1,527,721
Depreciation of property and equipment contributed in-kind by donors	287,471
Depreciation of property and equipment paid in cash	105,922
Write off	<u>(264,542)</u>
At 31 December 2005	<u>1,656,572</u>
At 1 January 2006	1,656,572
Depreciation of property and equipment contributed in-kind by donors	350,600
Depreciation of property and equipment paid in cash	115,554
At 31 December 2006	<u>2,122,726</u>
Carrying amount	
At 1 January 2005	<u>1,631,868</u>
At 31 December 2005	<u>1,350,008</u>
At 1 January 2006	<u>1,350,008</u>
At 31 December 2006	<u>1,342,977</u>

As at 31 December 2006 carrying amount of property and equipment paid in cash is MKD 302,143 (2005: MKD 407,937), and the carrying amount of property and equipment contributed in-kind by donors is MKD 1,040,834 (2005: MKD 942,071).

Notes to the financial statements

6. Trade and other receivables

<i>In denars</i>	2006	2005
Trade receivables	25,000	11,800
Receivables for advances given	31,916	6,470
Ministry of Labour and Social Policy	-	10,000
VAT recoverable	-	12,446
	56,916	40,716

7. Cash and cash equivalents

<i>In denars</i>	2006	2005
Cash at bank	441,193	6,940
Cash on hand	2,968	710
	444,161	7,650

8. Fund Balance

<i>In denars</i>	Fund Balance
At 1 January 2005	2,400,920
Additions of property and equipment contributed in-kind by donors	111,533
Depreciation of property and equipment contributed in-kind by donors	(105,922)
Deficit for the year	(1,025,657)
At 31 December 2005	1,380,874
At 1 January 2006	1,380,874
Additions of property and equipment contributed in-kind by donors	459,123
Depreciation of property and equipment contributed in-kind by donors	(115,554)
Surplus for the year	103,312
At 31 December 2006	1,827,755

7. Subsequent events

No material events subsequent to the balance sheet date have occurred which require disclosure in the financial statements.