

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

Financial Statements
For the year ended
31 December 2005
With the Independent Auditor's
Report thereon

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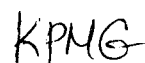
Independent Auditor's Report to the First Children's Embassy in the World MEGJASHI

We have audited the accompanying balance sheet of the First Children's Embassy in the World MEGJASHI ("the Organisation") as at 31 December 2005, and the related statement of income and expenditures for the year then ended. These financial statements are the responsibility of the Organisation's management. 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 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 management as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Organisation as at 31 December 2005, and of the results of its operations for the year then ended in accordance with the Macedonian Accounting Law for the not for profit organisations.

10 April 2006
Skopje

 KPMG

Statement of income and expenditures

For the year ended 31 December 2005

<i>In MKD</i>	Note	2005	2004
Income from donations	1	7,229,349	11,088,188
Income from self-financing		<u>199,565</u>	<u>296,608</u>
Total contribution income		<u>7,428,914</u>	<u>11,384,796</u>
Expenses	2	<u>8,454,571</u>	<u>12,861,211</u>
Total expenses		<u>8,454,571</u>	<u>12,861,211</u>
Deficit for the year		<u>(1,025,657)</u>	<u>(1,476,415)</u>

Balance Sheet

As at 31 December 2005

<i>In MKD</i>	Note	2005	2004
Assets			
Property, plant and equipment	3	<u>1,350,008</u>	<u>1,631,868</u>
Total non current assets		<u>1,350,008</u>	<u>1,631,868</u>
Receivables	4	40,716	208,400
Cash and cash equivalents	5	<u>7,650</u>	<u>596,138</u>
Total current assets		<u>48,366</u>	<u>804,538</u>
Total assets		<u><u>1,398,374</u></u>	<u><u>2,436,406</u></u>
Liabilities and fund balance			
Fund balance	6	<u>1,380,874</u>	<u>2,400,920</u>
Total fund balance		<u>1,380,874</u>	<u>2,400,920</u>
Payables		<u>17,500</u>	<u>35,486</u>
Total current liabilities		<u>17,500</u>	<u>35,486</u>
Total liabilities and fund balance		<u><u>1,398,374</u></u>	<u><u>2,436,406</u></u>

The financial statements set out on pages 1 to 13 were approved by the Organization's Collegium on 10 April 2006 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 main activities relate to protection of children's rights.

Significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

The financial statements are presented in Macedonian Denars (MKD). They are prepared on modified cash basis.

The accounting policies are consistent with those used in the previous years.

(c) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below).

Additions of property, plant 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.

Depreciation of property, plant and equipment is designed to write off the cost of property, plant and equipment on a straight-line basis over their prescribed useful lives:

	2005	2004
	%	%
Furniture and equipment	12-20	12-20

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

Assets are not depreciated until they are brought into use.

Notes to the financial statements

(d) Receivables

Receivables are stated at cost.

(e) Cash and cash equivalents

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

(f) Payables

Payables are stated at cost.

(g) Income from donations and self-financing income

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, i.e. up to 31 December, or collected within 30 days after the reporting period end to which it relates, i.e. 31 January next year and are being used for settlement of liabilities related to the reporting period.

(h) Expenses

Expense is recognized in the reporting period when incurred and paid within the reporting period, i.e. up to 31 December or paid within 30 days after the reporting period, i.e. 31 January next year subject to the liability incurred related to the reporting period.

(i) Corporate tax

The corporate tax is fixed for all taxpayers at the rate of 15% on taxable profit but as a not for profit organization the Organization is not liable to the corporate tax.

Notes to the financial statements

1. Income from donations

<i>In MKD</i>	2005	2004
Commission of the European Communities	2,214,067	-
Ministry of Labour and Social Policy	1,627,200	2,342,400
Macedonian Centre for International Cooperation	989,876	639,115
Companies supporting EIDHR project	531,863	-
Donations from employees	334,327	258,545
Child Helpline International	276,165	-
Community Development Project	241,539	-
OXFAM	181,893	363,260
Australian Embassy	179,493	-
Government of the Republic of Macedonia	150,000	150,000
Companies supporting SOS phone for children and young	122,800	-
Global March Against Child Labour	92,256	-
Agency for Youth and Sports of the Republic of Macedonia	80,000	-
Balkan Children and Youth Foundation	64,691	626,060
Makedonski Telekomunikacii	62,000	-
USAID – Community Self-Help Initiative	-	3,730,473
PRiSMa	-	1,924,000
Institute for Sustainable Communities	-	412,861
USAID – World Learning	-	253,031
OSCE	-	229,729
Other	81,179	158,714
	<u>7,229,349</u>	<u>11,088,188</u>

The main project activities implemented by the Organisation during 2005 and 2004 were as follows:

Fellowship through inter-ethnic cooperation in the five multiethnic clubs in high schools in Skopje, Kumanovo and Tetovo (EIDHR 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 ;

Notes to the financial statements

1. Income from donations continued

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 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;

SOS Phone for Children and Young is the first free of charge phone for children and young in the Republic of Macedonia. It operates since 1993. 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. Most common reasons for the calls were 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;

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. Fourteen volunteers were included in workshops: Fine art creations – two groups, Computers – three groups, Think deeper, English language – three groups, Origami, Human values education, French language and Theatre workshop. The project is financed by the Australian Embassy;

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.

Global action week 2005 – 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. The Campaign is financed by the OXFAM;

Notes to the financial statements

1. Income from donations continued

Macedonian Volunteers in Action - Mac Action is the project that was undertaken by the Organization in 2004. Its mission was to stimulate volunteerism and aid in the community through informal training and minimum financial support to the volunteers. The USAID – Community Self-Help Initiative, PRiSMa and OSCE were the donors of the project;

Non-Violent Conflict Resolution - Initiative for better mutual understanding was a project for improvement of the communication between the high school students of Macedonian and Albanian ethnic origin. The project was financed by the Institute for Sustainable Communities and was realized during the year 2004;

Action plan – was the project for improving protection of the children, sponsored by the USAID – World Learning. Brochure was prepared with suggestions and recommendations regarding social and other rights of the children in the Republic of Macedonia. The project was realised during 2004;

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.

2. Expenses

<i>In MKD</i>	2005	2004
<i>Expenses by nature</i>		
Expenses for materials	856,189	2,059,307
Utility expenses	139,917	245,536
Maintenance services	199,157	67,145
Other services	241,014	1,312,194
Transportation services	639,469	1,022,128
Representation	13,227	22,696
Rent	522,204	83,778
Bank charges	28,420	51,367
Insurance	47,773	37,595
Expenses for business trip	101,534	601,842
Allowances to the employees	40,355	9,915
Membership fee	13,120	27,720
Intellectual and personnel services	3,000,762	3,328,464
Property plant and equipment	111,533	330,495
Salaries and contribution	1,827,652	2,170,279
Depreciation of property, plant and equipment contributed in-kind	287,471	289,392
Other	384,774	1,201,358
	<u>8,454,571</u>	<u>12,861,211</u>

Notes to the financial statements

2. Expenses continued

In MKD

<i>Expenses by projects 2005</i>	Program for development and consolidatio n of the FCEWM	Psychologi cal and education al support of children without parental care	SOS Phone	GAW	Internally displaced person	EIDHR	Childre n's worksho ps	Own Participat ion in the total expenditu res	TOTAL
Food	8,444	593	3,711	565	535,416	31,284	2,530	5,100	587,64
Office materials	45,066	135	31,714	10,965	-	85,722	4,127	729	178,45
Used materials for hygienic	-	-	-	-	21,041	-	-	294	21,33
Used materials	-	-	-	-	8,375	-	-	-	8,37
Written off petty inventory	-	-	-	-	2,890	6,361	-	2,660	11,9
Used medicines	-	-	-	396	15,586	18,286	565	13,636	48,46
Expenses for materials	53,510	728	35,425	11,926	583,308	141,653	7,222	22,419	856,18
Fuel	-	4,002	9,752	-	5,033	117,599	-	3,532	139,91
Utility expenses	-	4,002	9,752	-	5,033	117,599	-	3,532	139,91
Repair of vehicles, computer equipment and canalization	5,288	-	5,500	-	27,077	-	-	161,292	199,15
Maintenance services	5,288	-	5,500	-	27,077	-	-	161,292	199,15
Cleaning services	-	-	-	-	-	-	-	6,570	6,57
Printing services	96,284	-	46,032	25,038	3,581	33,892	25,221	489	230,53
Other non productional services	-	-	-	-	3,908	-	-	-	3,90
Other services	96,284	-	46,032	25,038	7,489	33,892	25,221	7,059	241,01
Postal expenses	-	-	3,908	5,683	85	14,333	-	2,065	26,07
Phone/fax expenses	58,839	-	69,804	11,676	72,271	38,302	34,131	11,324	296,34
Transportation services	130	1,010	103,468	4,820	-	82,584	27,190	97,848	317,05
Transportation services	58,969	1,010	177,180	22,179	72,356	135,219	61,321	111,237	639,46
Representation	-	-	-	-	-	-	-	13,227	13,22
Representation	-	-	-	-	-	-	-	13,227	13,22
Court and administrative taxes	-	-	-	-	-	-	-	2,900	2,90
Expenses for professional literature	-	-	-	-	-	-	-	10,000	10,00
Registration of vehicles	-	18,268	9,100	-	-	-	-	10,456	37,82
Other expenses	-	-	-	-	3,940	9,597	3,847	3,828	21,2
Other expenses	-	18,268	9,100	-	3,940	9,597	3,847	27,184	71,93
Rent of business premises	-	-	-	-	-	1,037	-	-	1,03
Rent of vehicles	-	-	-	-	-	521,167	-	-	521,16
Rent	-	-	-	-	-	522,204	-	-	522,20
Stopanska Banka fees	-	-	-	-	-	20,829	-	7,592	28,42
Bank charges	-	-	-	-	-	20,829	-	7,592	28,42

Notes to the financial statements

2. Expenses continued

In MKD

<i>Expenses by projects 2005</i>	Program for developm ent and consolida tion of the FCEWM	Psycholog ical and education al support of children without parental care	SOS Phone	GAW	Internally displaced person	EIDHR	Children's workshop s	Own Participat ion in the total expenditu res	TOTAL
Insurance	-	-	-	-	-	-	-	47,773	47,773
Insurance	-	-	-	-	-	-	-	47,773	47,773
Per diems travel in the country	-	-	-	-	-	-	-	5,600	5,600
Per diems travel abroad	-	-	-	-	-	-	-	29,811	29,811
Expenses for lodging	-	-	-	-	-	-	-	17,039	17,039
Other expenses for business trips	-	-	-	-	-	3,000	-	46,084	49,084
Expenses for business trips	-	-	-	-	-	3,000	-	98,534	101,534
Transportation allowances	5,525	-	10,425	-	-	-	10,673	4,795	31,418
Other allowances	-	-	-	-	8,937	-	-	-	8,937
Allowances to the employees	5,525	-	10,425	-	8,937	-	10,673	4,795	40,355
Other types of membership fees	-	-	-	-	-	-	-	13,120	13,120
Membership fees	-	-	-	-	-	-	-	13,120	13,120
Contracts by deed	393,132	34,300	473,006	31,733	-	1,473,047	70,462	244,409	2,685,789
Other intellectual services	206,125	-	-	803	-	25,200	700	82,145	314,973
Intellectual and personnel services	599,257	34,300	473,006	32,536	-	1,498,247	71,162	326,554	3,000,762
Other expenses	-	-	33,800	-	3,000	257,956	-	7,682	302,438
Other expenses	-	-	33,800	-	3,000	257,956	-	18,082	312,838
Property, plant and equipment	-	111,533	-	-	-	-	-	-	111,533
Property, plant and equipment	-	111,533	-	-	-	-	-	-	111,533
Salaries	-	-	-	-	-	119,154	-	1,677,557	1,796,711
Personal income tax	-	-	17,444	540	-	7,983	4,870	104	30,941
Salaries and contributions	-	-	17,444	540	-	127,137	4,870	1,677,661	1,827,652
Total before depreciation	818,832	169,841	783,364	92,219	711,139	2,867,331	184,315	2,540,061	8,167,100
Depreciation of property plant and equipment contributed in-kind	-	-	-	-	-	-	-	287,471	287,471
Total after depreciation	818,832	169,841	783,364	92,219	711,139	2,867,331	184,315	2,827,532	8,454,571

Notes to the financial statements

2. Expenses continued

<i>In MKD</i>	Program for development and consolidation of the FCEWM	Initiative for better and mutual understan ding	SOS Phone	Macedonian Volunteers in Action	Action Plan	Expenses by sources of funds of the FCEWM	TOTAL
<i>Expenses by projects 2004</i>							
Food	-	21,925	866,057	237,444	2,246	-	1,127,672
Office materials	32,029	39,299	43,459	359,150	23,255	23,003	520,195
Used materials for hygienic	-	-	8,288	44,745	-	-	53,033
Used materials	-	-	45,476	33,848	-	-	79,324
Written off petty inventory	-	-	-	18,456	11,425	32,918	62,799
Used medicines	7,824	-	90,566	117,894	-	-	216,284
Material expenses	39,853	61,244	1,053,846	811,537	36,926	55,921	2,059,307
Electricity	-	-	-	60,384	-	-	60,384
Fuel	14,020	17,951	1,000	62,669	35,425	49,126	180,191
Water	-	-	-	4,961	-	-	4,961
Utility expenses	14,020	17,951	1,000	128,014	35,425	49,126	245,536
Repair of vehicles, computer equipment and canalisation	-	-	-	-	-	67,145	67,145
Maintenance services	-	-	-	-	-	67,145	67,145
Cleaning services	-	-	-	-	-	6,116	6,116
Other non productional services	31,474	4,555	-	467,369	-	4,047	507,445
Printing services	60,008	26,658	34,184	556,557	102,617	18,509	798,633
Other services	91,482	31,213	34,184	1,023,926	102,617	28,772	1,312,194
Postal expenses	-	-	200	315	4,920	10,545	15,980
Phone/fax	87,494	22,637	67,743	337,568	40,186	53,260	608,888
Transportation services	2,700	23,325	111,597	201,364	2,856	55,418	397,260
Transportation services	90,194	45,962	179,540	539,247	47,962	119,223	1,022,128
Representation	-	-	-	8,221	-	14,475	22,696
Representation	-	-	-	8,221	-	14,475	22,696
Court and administrative taxes	-	-	-	-	-	48,156	48,156
Expenses for professional literature	-	-	-	58,081	-	845	58,926
Expenses for participation on seminars	2,300	-	-	-	-	1,900	4,200
Registration of vehicles	-	-	-	-	-	38,288	38,288
Other functional expenses	-	35,494	-	689,111	350	5,879	730,834
Other expenses	2,300	35,494	-	747,192	350	95,068	880,404
Rent	-	-	-	83,778	-	-	83,778
Rent	-	-	-	83,778	-	-	83,778

Notes to the financial statements

2. Expenses continued

In MKD

<i>Expenses by projects 2004</i>	Program for development and consolidatio n of the FCEWM	Initiative for better and mutual understan ding	SOS Phone	Macedonian Volunteers in Action	Action Plan	Expenses by sources of funds of the FCEWM	TOTAL
Bank charges	882	-	-	25,321	-	17,744	43,947
Infotel	-	-	-	-	-	7,420	7,420
Bank charges	882	-	-	25,321	-	25,164	51,367
Insurance	-	-	-	5,940	-	31,655	37,595
Insurance	-	-	-	5,940	-	31,655	37,595
Per diems travel in the country	-	-	-	-	-	11,200	11,200
Per diems travel abroad	-	-	-	-	-	74,474	74,474
Expenses for lodging	33,020	111,134	40,354	271,800	27,340	21,240	504,888
Other expenses for business trips	-	-	-	-	-	11,280	11,280
Expenses for business trips	33,020	111,134	40,354	271,800	27,340	118,194	601,842
Transportation allowance	-	1,050	-	-	-	4,265	5,315
Food allowance	4,600	-	-	-	-	-	4,600
Allowances to the employees	4,600	1,050	-	-	-	4,265	9,915
Other types of membership fees	-	-	-	-	-	27,720	27,720
Membership fees	-	-	-	-	-	27,720	27,720
Royalties	-	-	-	9,620	-	-	9,620
Contracts by deed	379,959	200,310	632,614	1,534,427	-	252,033	2,999,343
Notary services	-	-	-	-	-	36,490	36,490
Translation services	-	-	-	-	-	14,160	14,160
Other intellectual services	219,008	-	-	46,020	-	3,823	268,851
Intellectual and personnel services	598,967	200,310	632,614	1,590,067	-	306,506	3,328,464
Other expenses	-	-	-	194,236	-	126,718	320,954
Other expenses	-	-	-	194,236	-	126,718	320,954
Salaries	-	-	-	-	-	2,079,058	2,079,058
Personal income tax	1,695	4,708	17,598	66,405	815	-	91,221
Salaries and contributions	1,695	4,708	17,598	66,405	815	2,079,058	2,170,279
Property plant and equipment	317,000	-	-	13,495	-	-	330,495
Property plant and equipment	317,000	-	-	13,495	-	-	330,495
Total before depreciation	1,194,012	509,046	1,959,136	5,509,180	251,435	3,149,010	12,571,819
Depreciation of property, plant and equipment contributed in-kind	-	-	-	-	-	289,392	289,392
Total after depreciation	1,194,012	509,046	1,959,136	5,509,180	251,435	3,438,402	12,861,211

Notes to the financial statements

3. Property, plant and equipment

<i>In MKD</i>	Furniture and equipment
Cost	
At 1 January 2005	3,159,589
Additions (paid in cash)	111,533
Write off	(264,542)
At 31 December 2005	<u>3,006,580</u>
Depreciation	
At 1 January 2005	1,527,721
Charge for the year in the income statement	287,471
Depreciation of property, plant and equipment paid in cash	105,922
Write off	(264,542)
At 31 December 2005	<u>1,656,572</u>
Carrying amount	
As at 1 January 2005	<u>1,631,868</u>
As at 31 December 2005	<u>1,350,008</u>

As at 31 December 2005 carrying amount of property, plant and equipment paid in cash is MKD 407,937 (2004: MKD 402,326), and the carrying amount of property, plant and equipment contributed in-kind by donors is MKD 942,071 (2004: MKD 1,229,542)

4. Receivables

<i>In MKD</i>	2005	2004
Ministry of Labour and Social Policy	10,000	198,400
Trade receivables	11,800	10,000
Receivables for advances given	6,470	-
VAT recoverable	12,446	-
	<u>40,716</u>	<u>208,400</u>

5. Cash and cash equivalents

<i>In MKD</i>	2005	2004
Cash at bank	6,940	565,720
Cash on hand	710	30,418
	<u>7,650</u>	<u>596,138</u>

Notes to the financial statements

6. Fund Balance

<i>In MKD</i>	Fund Balance
At 1 January 2004	4,315,958
Additions of property, plant and equipment paid in cash	330,495
Carrying amount of returned to donors property, plant and equipment purchased in cash	(659,744)
Depreciation of property, plant and equipment paid in cash	(109,374)
Deficit for the year	<u>(1,476,415)</u>
At 31 December 2004	<u><u>2,400,920</u></u>
At 1 January 2005	2,400,920
Additions of property, plant and equipment paid in cash	111,533
Depreciation of property, plant and equipment paid in cash	(105,922)
Deficit for the year	<u>(1,025,657)</u>
At 31 December 2005	<u><u>1,380,874</u></u>

7. Subsequent events

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