

**FIRST CHILDREN'S EMBASSY IN THE WORLD
MEGJASHI**

**AUDIT OF FINANCIAL REPORTS FOR THE
YEARE ENDED 31.12.2011**

October 2012

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**TO
MANAGEMENT OF FIRST CHILDREN'S EMBASSY IN THE WORLD-
MEGJASHI Skopje**

INDEPENDENT AUDITOR'S REPORT

We have made audit of financial statements submitted by First Children's Embassy in the World –Megjashi-Skopje that includes Balance sheet for the year ended 31st of December 2011 as well as Balance of incomes and expenditures and Report on changes in capital and Cash flow statement for the year ended 31st of December 2011 and review of significant accounting policy and other Notes for explanation.

Management's Responsibility about the financial statements

Organization's Management is responsible to prepare and reasonably disclose the financial statements in compliance with the International Standards on audit. This responsibility includes: modeling, implementation and maintenance of internal audit relevant for preparation and reasonable disclosure of financial statements that are free of material misstatements, whether caused by fraud or error, selection and application of particular accounting policies and making reasonable accounting.

Auditor's responsibility

Our responsibility is to report to you our opinion about these financial statements on the basis of our audit. We have carried out our audit in compliance with the International Standards on Audit. According to these standards, we have to comply with ethic requirements and plan and carry out our audit to make sure that the financial statements are free of material misstatements.

Audit includes examination of evidence relevant to the amounts and disclosures in the financial statements. It also includes assessment of the significant estimates and judgments of auditor, including the assessment of risks of material misstatements of financial statements whether caused by fraud or error. While making these assessments of risk, the auditor takes into consideration the internal audit relevant to preparation and reasonable disclosure of financial statements to establish the audit procedures relevant to circumstances, but not for the purpose of reporting the opinion on the effectiveness of the internal audit.

Audit also includes and evaluation of appropriateness of applied accounting policies and reasonability of accounting estimates made by the Manager including the evaluation of total disclosure of the financial statements.

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

Auditor's opinion

In our opinion, the financial statements of First Children's Embassy in the World – Megjashi Skopje reasonably disclose all aspects of financial statement of the above said Association for the year ended 31st of December 2011 and the changes in the capital for the year ended the same day in compliance with the Law on accounting of non-profit organizations and generally accepted accounting principles for disclosure of financial statements in the Republic of Macedonia.

Skopje, 22.11.2012

Menka Markovikj
Authorized auditor
Manager

BALANCHE SHEET
at 31 st December 2011
(in MKD

		2011	2010
Current assets			
Cash assets	4	710.820	134.752
Receivables from operation	5	576.741	514.600
Stocks			
Active time appropriations	6	55.840	57.860
Total current asset		1.343.401	707.212
Real estate, facilities and equipment	7	258.389	158.133
Total non current assets		258.389	158.133
Outsanding expenditures from past years			
TOTAL ASSETS		1.601.790	865.345
LIABILITIES			
LIABILITIES AND CAPITAL			
Liabilities toward suppliers	9	49.997	124.768
Other short-term liabilities	9	864	516.696
PTA-Passive time appropriations	10	1.413.836	65.748
Short-term liabilities and PTA		1.464.697	707.212
RESOURCES OF FUNDS			
Business fund	11	137.093	158.133
Fund for common expenses			
Total resources of funds		137.093	158.133
TOTAL LIABILITIES AND RESOURCES		1.601.790	865.345

Notes to financial statements form part of the Financial Statements

Executive director
M. Sc. Dragi Zmijanac

BALANCE OF INCOMES AND EXPENDITURES
(for the year ended 31st of December 2011
(in MKD)

	Note	2011	2010
Total incomes	12	7.511.276	5.340.804
Total expenditures	13	6.162.324	5.275.056
Difference between incomes and expenditures	11	1.348.952	65.748
Other incomes			
Part of surplus of incomes from previous year brought forward		65.748	75.440
Surplus of incomes for next year	10	1.414.700	65.748
Taxes and contributions from profit			
Total surplus of incomes for next year	10	1.414.700	65.748

Notes to the financial statements form part of the Financial statements.

Executive director

M.Sc Dragi Zmijanac

REPORT ON CHANGES IN CAPITAL
for the year ended 31st of December 2011
(in MKD)

	Business fund	Fund for z.p.	Total
Opening balance on 01.01.2011	158.133	0	158.133
Purchase of fixed assets		-	
Covering the losses from previous year			
Depreciation	-24.610	-	-24.610
Revalorization of fixed assets	3.570	-	3.570
Closing balance on 31st of December 2011	137.093	0	137.093

Notes to the financial statements form consisting part of the Financial statements.

During 2011 new fixed assets in the amount of mkd 124.866 have been purchased. Business fund was not increased by their value. Correction was made throughout 2012. Business fund in 2011 was decreased by the value of calculated depreciation and increased by the value of revalorized original value.

REPORT ON CASH FLOWS
for the year ended 31st of December 2011
(in MKD)

	31st of December 2011
Cash flow from operating activities	
Corrected by	
Depreciation	24.610
Stocks	
Receivables from customers	(111.390)
Other receivables	49.249
Active time appropriations	
Financial investments	
Liabilities toward the suppliers	(74.771)
Liabilities for advance payments, deposits and bails	
Other short term liabilities	(515.832)
Passive time appropriations	1.348.088
Net cash from operating activities	721.974
Cash flow from investment activities	
Purchase of fixed assets	(124.866)
Investments	
Investments of owner	
Net cash from investment activities	(124.866)
Cash flow from financial activities	
Long term financial credits-net	
Business fund	(21.040)
Net cash from financial activities	(21.040)
Net increase (decrease) in cash and cash equivalents	576.068
Cash and cash equivalents at the beginning of the accounting period	134.752
Cash and cash equivalents at the end of the accounting period	710.820

NOTE 1. GENERAL INFORMATION ON THE ASSOCIATION

Organization First Children Embassy in the World-Megjashi hereinafter referred as to (Organization) was established on 29.04.1992 as non-profit organization in compliance with the Law on associations of citizens and foundations.

Address: Kosta Novakovikj no. 22a Skopje
Account no: 200000010722372
Tax no: 4030995179890

Activity of the above mentioned organization is protection of children's rights and enhancement of HBO movement for child's right in the Republic of Macedonia. During the year 2010, changes have been made by extension of the organization's activities.

NOTE 2. BASIS FOR MAKING AND DISCLOSURE OF FINANCIAL STATEMENTS

Financial statements of above mentioned organization are made in compliance with the legislation of the Republic of Macedonia applicable to non-profit organizations as follows:

Law on accounting and non-profit organizations, Law on personal tax, Law on tax on profit as well as the Rulebook about the accounting of non-profit organizations, Rulebook about the contents of particular accounts in accounting plan of non-profit organizations and generally accepted accounting principles for disclosure of financial statements.

Financial statements are expressed in MKD, unless otherwise indicated.

NOTE 3. SIGNIFICATN ACCOUNTING POLICIES

3.1. Cash assets and cash equivalents

Cash assets and cash equivalents include cash in bank, on gyro account and foreign currency accounts in commercial banks. Cash and cash equivalents are given in their procurement (nominal) value.

3.2. Receivables

Receivables are given in their procurement value. In the balance sheet they are in their net effectuating value, that is obtained after the correction of the value or writing off the inequivalent and hardly payable receivables.

3.3. Tangible and intangible assets

Tangible and intangible assets (fixed assets) are given in the balance sheet in their original value decreased by the correction of value (depreciation) and losses due to damages.

At the moment of their acquiring, the fixed assets are recorded in their original value that consists of invoice value of fund increased by dependable costs of purchase. Tangible and intangible assets are recorded as expenditures in the period after their original value with concomitant increase of business fund.

The business fund is decreased by the amount of depreciation and sold assets during the current year.

Fixed assets and correction throughout 2011 are revaluated.

3.4. Depreciation

Tangible and intangible assets (fixed assets) are depreciated by use of proportional method, so that the procurement value of fixed assets is depreciated in equal annual amounts during the anticipated term of use of fixed assets. Depreciation is calculated for any assets individually.

Prescribed depreciation rates are the following:

Title of assets	Prescribed annual rate
Furniture and premises inventory	12%
Computer equipment and software	20%
Telecommunication equipment and motor vehicles	14%
Other non mentioned equipment	10%

3.5. Liabilities toward suppliers and other liabilities

Liabilities toward suppliers are given in their original (nominal) value.

3.5. Policy of incomes recording

Recognition of incomes and expenditures in nonprofit organization is carried out on the basis of the principle of creation, i.e. incomes and expenditures are recognized at as they are incurred only for the appropriate accounting period or 30 days after the expiration of accounting period if they apply to the accounting period and are intended to cover the liabilities from that accounting period, in compliance with the criteria of measurability and availability.

3.6. Policy of recording the expenditures

In compliance with the legislation of the Republic of Macedonia, the non-profit organizations apply cash principle, i.e. they recognize the expenditures as costs for the current year, if they are paid until 31st of January the next year, while they record the outstanding expenditures under analytical accounts- other active time appropriations.

3.7. Amounts expressed in foreign currencies

Transactions are expressed in foreign currency according the exchange rate applicable on the day of any particular transaction. Assets and liabilities given in foreign currency are expressed according to middle exchange rate of NBRM on the last day of accounting period. All profits and losses coming out from the exchange rate differences are included in the profit and loss account as other incomes and expenditures in accounting period.

Exchange rates of more significant currencies on 31.12.2011 are the following:

Currency	2011	2010
EUR	61.505	61.505
USD	47.534	43.314
CHF	50.596	49.032

3.8 Taxes and contributions

Organization calculates taxes and contributions on different basis and types pursuant to the legislation of the Republic of Macedonia.

In compliance with the Law on VAT, the activities of the organization are free of VAT without any right to deduction of previous tax.

Tax on profit is calculated and payable on expenditures not recognized from the point of view of the tax in the tax balance.

NOTE 4. CASH ASSETS

Cash assets consists of the following

	2011	2010
Denar account	697.225	53.595
Petty cash	13.595	81.157
Total cash assets	710.820	134.752

Cash assets include cash assets in the accounts and petty cash. They are reconciled with bank statements dated 31.12.2011 and petty cash accounting dated 31.12.2011.

NOTE 5. RECEIVABLES FROM THE OPERATION

Total receivables at the end of the accounting period amounted:

	2011	2010
Receivables from the operation	563.403	514.600
Receivables from overpaid taxes and contributions	13.338	
Total receivables	576.741	514.600

Receivables from the operation are receivables from the donors in the amount of mkd 435.420, balance from the previous year and they refer to the receivables that are paid but entered again as income. The incomes should be corrected by this amount and the receivable should be closed. Receivables from the purchasers on other basis in the amount of mkd 111.390 consist of receivables for sold New Year greeting cards that haven't been paid until the end of the accounting period. Receivables amounting MKD 16.693 are receivables for advance payment to the employees.

Receivables of mkd 13.338 refer to the overpaid tax on profit in the amount of MKD 2471 and overpaid contributions from salary in the amount of MKD 2.675 and overpaid

net salary in the amount of mkd 8.192. Amounts of overpaid contributions and net salaries are from the past years. No liabilities are incurred for this part of contributions and net salary and they should be corrected by recording the expenses from the past year and liability for appropriate items.

NOTE 6. ACTIVE TIME APPROPRIATIONS

In compliance with the legislation of the Republic of Macedonia, non-profit organizations apply the cash principle, i.e. they recognize the costs for the current year as expenditures if they are not paid until 31st of January the next year. Outstanding expenditures are recorded under analytical accounts –other active time appropriations.

At the end of accounting period, on the account of active time appropriation the following was recorded:

	2011	2010
a) Unpaid salaries		
b) Other active time appropriations		
c) other active time appropriations	55.840	57.860
Total	55.840	57.860

Other active time appropriations refer to the expenses paid in advance for business trip in the amount of MKD 55.427 and receivables for overpaid personal tax of MKD 413. Expenses for business trips paid in advance are from the past year. These deferred expenses should be recorded as expense if the business trip was made or advance payment for the business trips should be paid back.

NOTE 7. FIXED ASSETS

The amounts and the components of fixed assets for the year ended 31st of December 2011 are the following

Revaluated original value	Land	Constr.	Equipment	intangible	total
Opening balance on 01.01.2011	0	0	426.917	0	426.917
New procurements	0	0	124.866	0	124.866
Out of use	0	0		0	
Revaluation	0	0		0	
Other assets	0	0		0	
Closing balance on 31.12.2011	0		587.783	0	587.783
Revaluated correction of value	0	0	304.784	0	304.784
Opening balance on 01.01.2011					

Audit company MSR DOO-Skopje

Depreciation for the year	0	0	24.610	0	24.610
Revaluation of corrections	0	0		0	
Out of use	0	0		0	
Other changes	0	0	0	0	0
Closing balance on 31.12.2011	0	0	329.394	0	329.394
Net accounting value 01.01.2011	0	0	158.133	0	158.133
Net accounting value 31.12.2011	0	0	258.389	0	258.389

During 2011, the fixed assets have been increased by MKD 124.866, four lap top computers was purchased. Depreciation was calculated on newly purchased fixed assets only.

Business fund was not increased by the value of newly purchased fixed assets but it was decreased by the value of calculated depreciation only.

NOTE 8. SHORT TERM LIABILITIES-SALARIES

	2011	2010
Net salaries	609.499	198.022
Taxes from salaries	35.346	9.847
Contributions from salaries	198.939	72.445
Total	843.784	280.314

The number of employees was 7 at the end of the accounting period. Salaries and contributions for them were calculated and paid in compliance with the legislation of the Republic of Macedonia.

NOTE 9. OTHER SHORT TERM LIABILITIES

Liabilities toward the suppliers	2011	2010
Domestic suppliers	49.995	124.768
Liabilities toward the employees		40.928
Liabilities for taxes	864	7.003
Liabilities for short term loan		475.768
Total	50.861	641.464

Total liabilities toward the suppliers that are not paid in the accounting period, apply to the liabilities from current operation of the organization.

NOTE 10. PASSIVE TIME APPROPRIATIONS

	2011	2010
Surplus of incomes for the next year	1.413.836	65.748
Total	1.413.836	65.748

Surplus of incomes entered under this account is a result of received donations for the project implementation which shall continue the next year.

NOTE 11. BUSINESS FUND

	2011	2010
Business fund	137.093	158.133
Total	137.093	158.133
		3

Business fund should be at the height of net value of fixed assets. Deviation is due to improper entries over 2011 that was corrected at the beginning of 2012.

NOTE 12. BUSINESS INCOMES

	2011	2010
Incomes from donations	5.572.452	3.085.770
Incomes from charity	167.000	213.403
Incomes from membership fees		600
Incomes from sales of greeting cards	821.983	842.930
Incomes from physical persons	408.912	51.176
Incomes from legal entities		582.297
Incomes from charity (cash boxes)	75.509	200.881
Incomes from interests and exchange rates differences	2.046	224
Incomes from VAT return		57.557
Incomes from other recourses	14.424	
Incomes from writing off the liabilities		230.527
Incomes from sale of fixed assets	448.950	
Surplus of incomes brought forward from the past year	75.439	65.748
Total incomes	7.577.024	7.783.550

The incomes of the organization are from donations and its own incomes gained from its activities. Donations according to the purpose are either non-dedicated for program activities implementation or strictly dedicated for concrete project implementation. Legal entities, physical persons, domestic and foreign organizations were donors in 2011.

12.1. Incomes from donations

Donations in 2011 on the account of the organization for implementation of its project activities were made by:

	2011	2010
United Kingdom of Netherlands	297.123	1.200.000
Embassy of Switzerland	949.540	
Legal entities	56.000	
Ministry of Education of Germany	2.553.492	
Ministry of Labor and Social Affairs	90.000	60.000
European Commission	1.242.226	1.460.739
UNICEF	152.721	
French Embassy	121.951	
Coalition, All for fair trials		130.500
Association "Moon"		92.250
GAW Brussels		61.658
Daikin Airkond-Vienna	92.285	
Eurochild	17.114	
Own incomes		80.623
Total	5.572.452	3.085.770

12.2. Incomes per project out of total gained incomes of the organization

	2011	2010
Creation of culture of children's participation		1.829.640
Fight against the pedophilia		185.000
Global campaign for education	2.675.443	72.258
Children's work shops		80.000
SOS telephone line	1.363.490	500.000
Legal assistance and social support free of charge		95.000
Daily center for children who aren't attending school		180.000
Activities to fight against children discrimination		233.131
Childhood without violence		82.679
Campaign-responsible parenthood		80.000
From orphanage to own dwelling	479.690	
Project for human rights support	169.835	210.500
Young people in action	762.536	
New Year greeting cards	447.823	
Own incomes and other incomes for realization of project activities	1.678.207	1.792.596
Total	7.577.024	5.340.804

Incomes are allocated per particular activities in the accounting of particular project as separate costs units. Incomes for children's daily center are incorporated in the item SOS telephone line.

NOTE 13. BUSINESS EXPENDITURES

Expenditures

	2011	2010
Materials costs	215.704	115.786
Electricity costs	73.095	181.955
Other material costs	99.474	132.912
Communal services	14.113	21.062
PTT services	297.100	299.354
Transportation services (business trip allowances)	403.204	88.543
Printing services	283.900	
Non-manufacturing services	542.428	991.550
Project advertising	8.000	16.642
Catering services for projects	548.072	244.641
Negative exchange rate differences	18.500	3.797
Fees for payment operations	28.491	32.411
Interests	1.468	
Other material costs	43.015	
Insurance premiums		
Allowances to employees and citizens	1.192.562	290.146
Royalties	1.581.359	2.262.430
Membership fee	11.070	19.775
Other material costs	160.619	
Assets assigned to other subjects		33.810
Additionally established expenditures from past year		56.294
Gross salaries	843.784	280.314
Total expenditures	6.162.324	5.275.056

1. Expenses for materials in the amount of 215.704

-stationary	135.301
-auxiliary material	48.528
-cleaning agents-	22.994
-writing off the small inventory	8.881

2. Electricity costs in the amount of 73.095

-electricity costs	6.065
-fuel	63.520
-central heating	3.510

3. Other tangible expenses- 99.474

-Services from other...	65.140
-Expenses for motor vehicle	34.334

4. Communal services	14.113
-Water costs	14.113
5. PTT costs	297.100
-expenses Telecom	255.082
-courier costs	34.838
-Internet costs	7.180
- travelling costs for project activities	98.531
-transportation services	88.906
-taxi transportation	15.000
-air ticket	115.918
-travelling costs abroad	10.140
-travelling costs in the country	67.736
-personal tax for travelling costs	5.599
-pay tool	150
-parking	1225
7. Graphic services	283.900
-printing services ,graphic design	283.900
8. Non-manufacturing services	542.428
-lease of motor vehicle	16.605
-lease of equipment	2.360
-lawyer's and legal services	11.658
-accounting services	242.425
-Notary Public services	700
-auditor's services	43.542
-health care services	134.304
-other expenditures	78.678
-motor vehicles technical control	12.156
9. Project advertising	8.000
-project advertising	8.000
10. Catering services for projects	548.072
-catering services	498.912
-hotel services for projects	49.160
11. Negative exchange rate differences	18.500
12. Fees for payment operations	28.491
13. Interests	1.468
14. Service contract	1.192.562
15. Copy right contracts	1.581.359
16. Membership fees	11.070
18. Gross salaries	843.784

The expenses paid to the participants during the realization of project activities such as service contracts and copy right contracts take largest part of 45% in the total expenses. The other expenses are made for normal operation of the organization and project implementation in 2011.

13.1 Expenditures per project

For the realization of concrete projects, the following expenditures have been made out of the total expenditures in 2011,:

Expenditures per projects	2011	2010
Creation of culture for children's participation		1.826.380
Responsible parenthood		39.337
SOS telephone line free of charge	82.235	326.721
Children's work shop		45.252
Global campaign for education	101.958	71.863
Daily center for children and young people	2.132.855	152.651
Childhood without abuse	146.077	92.118
Fight against pedophilia		95.602
Legal assistance and social Support free of charge		58.552
From orphanage to own dwelling	262.137	
Activity against discrimination	605	249.550
Human rights support	1.168.692	175.752
New Year cards	611.179	
General expenditures for project activities Implementation	1.656.586	2.141.278
Total	6.162.324	5.275.056

NOTE 14. REVIEW OF COMPLETED ACTIVITIES

The following project activities have been implemented throughout 2011:

- 1.SOS telephone line free of charge**
- 2.Legal service free of charge**
- 3. Fight against the violence, children abuse, pedophilia and incest**
- 4. Week of global action for inclusion of all children in education**
- 5. Daily center for children who are not attending a school**
- 6. Children's workshops for right of children**
- 7. Social service**
- 8. Lobbying, representation and monitoring the situation with children's right in the Republic of Macedonia**
- 9. Peace education**
- 10. Support to vulnerable group of children in Macedonia**
- 11. From orphanage to own dwelling**
- 12. Self sustainability and philanthropy**

All activities carried out during 2011 are described in final annual report for completed activities in 2011 published by the organization.