

**THE AUDITOR'S REPORT
FINANCIAL STATEMENTS
FOR 2006**

NANSEN DIALOGUE CENTER

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Skopje, February 2007

DIMITROV REVIZIJA DOOEL

Correspondent member of DFK International London

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To
The Management of
NANSEN DIALOGUE CENTER
SKOPJE

AUDITOR'S REPORT

We have audited the accompanying Balance Sheet of the Nansen Dialogue Center Skopje as of 31 December 2006, and the related Income Statement, Cash Flow Statement and Statement for Changes in Funds for the year then ended. These financial statements are the responsibility of the Association'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 auditing standards. These standards require performing the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, testing and collecting evidence that support the amounts and disclosures in the financial statements. An audit also includes assessing the accuracy of the documentation, as well as evaluating the nature of the expenses and revenues. We believe that our audit provide a reasonable basis for our opinion.

The financial statements of the Association as for 2005 were not audited. Audit was performed only to the separate projects according to the donors' requirements. Therefore, the opening balances as of 1 January 2006 are transferred as not audited. These opening balances might influence the financial position and financial results of the Company in the financial statements for 2006. According to this, we do not take responsibility for the influence of the transferred balances in the Balance Sheet from the previous year, which might affect the operating results in 2006.

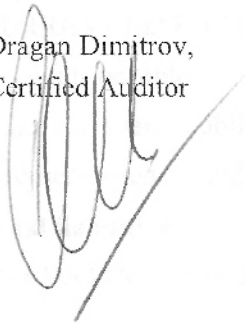
DIMITROV REVIZIJA DOOEL Skopje,
Correspondent member of DFK International London

Depreciation for 2006 is not calculated as of the date of this statement since this date precedes the ultimate date of preparation and submission of the Annual report, which, according to the national regulations, is 28th February 2007. We also mention that the depreciation for the previous year was calculated and entered with direct decrease of the fixed assets' value on the burden of the operating fund. The application of this policy has no influence on the carrying value of the fixed assets stated in the Balance Sheet, though it resulted in understated cost value and overstated accumulated depreciation of the fixed assets (Note 6).

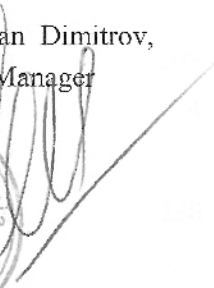
In our opinion, except for the mentioned in the previous two paragraphs financial statements of the Nansen Dialogue Center, Skopje., in all material aspects, give a true and fair view of the financial position of the Association as of 31 December 2006, and its financial results, cash flows and changes in funds for the year then ended, in accordance with the Non-Profit Organization Accounting Law and the General Accepted Accounting Principles for financial reporting in the Republic of Macedonia.

Skopje, 5th February 2007

Dragan Dimitrov,
Certified Auditor



Dragan Dimitrov,
Manager



NANSEN DIALOGUE CENTER - Skopje

BALANCE SHEET
As of 31 December

(In thousands of MKD)

	Note	2005	2006
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	189	258
Other receivables	5	171	-
Total current assets		360	258
NON-CURRENT ASSETS			
Property, plants and equipment	6	1.108	1.419
Total non-current assets		1.108	1.419
TOTAL ASSETS		1.468	1.677
LIABILITIES AND OPERATING FUND			
CURRENT LIABILITIES			
Accounts payable	7	209	103
Other short-term liabilities		-	4
Accrued expenses and deferred income	8	151	151
Total liabilities		360	258
OPERATING FUND			
Operating fund	9	1.108	1.419
Total operating fund		1.108	1.419
TOTAL LIABILITIES AND OPERATING FUND		1.468	1.677

Notes to the financial statements on pages 7 - 13 are part of the financial statements

NANSEN DIALOGUE CENTER - Skopje

STATEMENT OF REVENUES AND EXPENSES
For 2005 and 2006

(In thousands of MKD)

	Note	2005	2006
Granted donations	10	12.359	16.467
Operating expenses	11	(12.362)	(16.649)
OPERATING INCOME (LOSS)		(3)	(182)
<i>Other revenues:</i>			
Financial revenues		3	3
Other revenues	12	-	179
Total other revenues		3	182
Surplus of revenues over expenses	13	-	-

Notes to the financial statements on pages 7 - 13 are part of the financial statements

NANSEN DIALOGUE CENTER - Skopje

CASH-FLOW STATEMENT

For 2006

(In thousands of MKD)

	2006
Cash flow from operating activities	
<i>Adjusted for:</i>	
Surplus of revenues over expenses	-
Additions of fixed assets	631
Revenues from fixed assets sold	(153)
Liabilities write-off	(141)
<i>Increases (decreases) in current assets</i>	
Other receivables	171
<i>Increases (decreases) in current liabilities</i>	
Accounts payable	35
Other short term liabilities	4
Net cash from operating activities	547
Cash flow from investing activities	
Purchase of property, plant and equipment	(631)
Sale of property, plant and equipment	153
Net cash from investing activities	(478)
Net increase (decrease) in cash	69
Cash at the beginning of the year	189
Cash at the end of the year	258

Notes to the financial statements on pages 7 - 13 are part of the financial statements

NANSEN DIALOGUE CENTER - Skopje

STATEMENT FOR CHANGES IN FUNDS For 2006

(In thousands of MKD)

	Operating Fund Fixed Assets	Total
Balance as of 01.01. 2006	1.108	1.108
Additions of equipment	631	631
Sold vehicle	(320)	(320)
Balance as of 31.12.2006	1.419	1.419

Notes to the financial statements on pages 7 - 13 are part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ESTABLISHMENT AND ACTIVITY OF THE ASSOCIATION

Nansen Dialogue Center - NDC is association of citizens established at 17.01.2000 according to the Law of Associations of Citizens and Foundations (Official Gazette of RM No.31/98). The Association is registered in the register of the Association of Citizens and Foundations with Registration No. 01/ZG.956/2000.

The Association operates in accordance with the Law of Associations of Citizens and Foundations and a Statute. According them, the Association is non-governmental, non-party and non-profit association of citizens, which operates in the field of strengthening the democratic consciousness, peace, mutual tolerance, dialogue and cooperation in the society, as well as giving basic assistance to those who need it. The Association's management bodies are Assembly, Executive Body - Board, Manager of the Executive Body - Board and Council.

The Association is located in Skopje, with address at TC Leptokarija/Sek.No.1-loc.10-A, municipality of Karpos.

NOTE 2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The financial statements of the Association are conducted in accordance with the Non-Profit Association Accounting Law ("Official Gazette of RM" No. 24/2003) and the accepted accounting principles, practice and accounting standards for a presentation of the balance sheet items, balances of the assets, liabilities, sources of the assets, revenues and expenses, and the operating results on true, fair, confidential, complete, punctual basis.

The amounts in the statements and the notes are stated in thousands of MKD, except when otherwise indicated in the text.

NOTE 3. BASIC ACCOUNTING POLICIES

The basic accounting policies used for preparation of the financial statements are listed in the following text. The accounting policies of the Association are being adequately applied from year to year.

Cash and cash equivalents

Cash flow Statement requires presentation of the Association's cash that comprises the cash on hand and the cash on bank account in the commercial banks.

Money at the cash account and at the bank accounts stated in domestic currency are presented in the general ledger at their nominal value, while the foreign exchange currency is stated according to the exchange rate of NBRM at the reporting date.

Cash-Flow Statement is prepared using the indirect method.

Material and intangible assets

Material and intangible assets (fixed assets) are stated at cost.

The operating fund of the Association increases for the amount of the value of fixed assets purchased. According to the accounting policy concerning fixed assets, they are all recognized as expenses for the period they are purchased, i.e. when the funds (in cash or non-

current assets) are received from the donors.

The cost of the fixed assets comprise the purchasing price increased for the import customs, VAT, manipulative expenses and all other expenses that can be added to the cost, i.e. to the purchasing expenses.

Depreciation

Material and intangible assets (fixed assets) are depreciated using the straight-line method, by using the official depreciation rates prescribed in the Nomenclature for depreciable assets for non-profit association, so their cost and revaluation are depreciated in equal annual amounts during the estimated utilization period of the fixed assets.

The calculation of the depreciation is performed separately for each item, and not for groups of assets.

Recognition of the revenues and expenses

The recognition of the revenues and expenses for non-profit organizations is based upon the accounting principle for modified presentation of the operating transactions.

The accounting principle for modified presentation of the operating transactions means recognition of the revenues and the expenses during the period of their appearance according to the criteria of measurement and disposal. Revenues, i.e. expenses are measurable when they can be stated at value. Revenues, i.e. expenses are on disposal when they are realized, i.e. when they appear (when collected, i.e. paid) during the accounting period or within 30 days after this period, used for covering this period's liabilities, i.e. the payment liability arisen during this period.

Amounts stated in foreign currency

The transactions in foreign currency are stated in MKD according to the Official exchange rate of NBRM at the date of transaction.

Foreign exchange assets and liabilities of the balance sheet are stated in MKD according to the official exchange rates on the balance sheet date.

The Income Statement includes the net foreign exchange gains and losses that resulted from the conversion of the amounts in foreign currency in the period when they occur.

The average (closing) exchange rates of the denar related to the foreign exchange currencies (for one unit of foreign exchange currency) as of 31 December are as follows:

Currency	2005	2006
EUR	61,1779	61,1741
USD	51,8589	46,4496
CHF	39,3401	38,0696

NANSEN DIALOGUE CENTER - Skopje

NOTE 4. CASH AND CASH EQUIVALENTS

(In thousands of MKD)

	2005	2006
Bank account	134	-
Cash	55	246
Foreign exchange cash	-	12
Total	189	258

Cash and cash equivalents stated in the preview above are the most liquid assets of the Association and they are comprised of cash and the bank account. The Association has no limitations in the continual usage of the cash.

NOTE 5. OTHER RECEIVABLES

(In thousands of MKD)

	2005	2006
Receivables from the state	13	-
Receivables from the employees	158	-
Total	171	-

NOTE 6. PROPERTY, PLANTS AND EQUIPMENT

(In thousands of MKD)

	Equipment	Total
<i>Cost</i>		
Balance as of 31.12.2006	1.108	1.108
Additions for 2006	631	631
Disposals for 2006	(320)	(320)
Balance as of 31.12.2006	1.419	1.419
<i>Valuation allowance</i>		
Balance as of 31.12.2006	-	-
Depreciation for 2006	-	-
Balance as of 31.12.2006	-	-
Carrying value as of 31.12.2006	1.419	1.419
Carrying value as of 31.12.2005	1.108	1.108

NANSEN DIALOGUE CENTER - Skopje

During 2006 the Association performed new additions at total amount of 631 thousands of MKD. They totally refer to purchased computer lap-top, printer, fax machine and vehicle. During this period the Association has also performed disposals of one vehicle at amount of 320 thousands of MKD.

During the previous years the Association has calculated and entered depreciation by direct decrease of the value of the equipment and the operating fund, which results in incorrect (understated) carrying value of the equipment, which represents starting point for annual depreciation calculation.

NOTE 7. ACCOUNTS PAYABLE

(In thousands of MKD)

	2005	2006
Domestic accounts payable	209	103
Total	209	103

The accounts payable towards suppliers as of 31.12.2006 refer to everyday activities (energy, water supply, telephone, etc).

NOTE 8. ACCRUED EXPENSES AND DEFERRED INCOME

The accrued expenses and deferred income at the amount of 151 thousands of MKD (2005 - 151 thousands of MKD) totally refer to the realized surplus of revenues over expenses for 2006, deferred to further periods.

NOTE 9. OPERATING FUND

(In thousands of MKD)

	2005	2006
Operating fund	1.108	1.419
Total	1.108	1.419

The Operating fund as of 31st December 2006 is stated in the Statement of Changes in Funds. According to the Non-Profit Association Accounting Law, the Association is required to apply an accounting policy concerning the fixed assets and operating fund. Namely, each new addition of fixed assets results with increase of the operating fund, i.e. each disposal of fixed assets results with decrease of the operating fund. The operating fund is decreased as for the amount of the annual depreciation along with the entry of the valuation allowance of the fixed assets.

The depreciation for the previous year was entered by decrease of the fixed assets value along with decrease of the operating fund's value, i.e. the account of valuation allowance was not used (Note 6).

NANSEN DIALOGUE CENTER - Skopje

NOTE 10. GRANTED DONATIONS

(In thousands of MKD)

	2005	2006
Granted donations	12.359	16.467
Total	12.359	16.467

NOTE 11. OPERATING EXPENSES

(In thousands of MKD)

	2005	2006
Office materials	1.599	1.371
Energy, water, public taxes	474	504
Equipment costs	-	631
Equipment maintenance services	1.623	1.793
Transportation and communication costs	1.401	1.641
Maintenance services	-	104
Rents	109	979
Other services	594	453
Travel expenses and contributions	29	608
Marketing	2.050	927
Insurance	5	34
Other taxes	6	-
Bank services	22	37
Other non-material expenses	2.321	2.394
Penalties	-	32
Additionally determined expenses	-	17
Salaries	2.129	5.124
Total	12.362	16.649

The operating expenses in 2006 are at the amount of 16.649 thousands of MKD (2005 - 12.362 thousands of MKD). The most significant item in the operating expenses in 2006 is the salaries (5.124 thousands of MKD) as well as the other non-material expenses (2.394 thousands of MKD) which mostly refer to honoraria fees to persons engaged with agreements for part-time jobs, law services, etc. Other cost items with significant participation in the total operating costs refer to the equipment maintenance services (1.793 thousands of MKD), transportation and communication costs (1.641 thousands of MKD) and costs for office materials (1.371 thousands of MKD). The participation of the other items in the total sum of the operating expenses is insignificant.

NANSEN DIALOGUE CENTER - Skopje

NOTE 12. OTHER REVENUES

(In thousands of MKD)

	2005	2006
Indemnification revenues	-	37
Liabilities write-off	-	142
Total	-	179

NOTE 13. SURPLUS OF REVENUES OVER EXPENSES

(In thousands of MKD)

	2005	2006
Surplus of revenues over expenses before distribution	151	151
Distribution of surplus revenues for further periods	(151)	(151)
Surplus of revenues over expenses as of 31.12.2006	-	-

NOTE 14. REVENUES AND EXPENSES RELATED TO DIFFERENT PROJECTS

(In MKD)

	2006
<i>Revenues from Nansen Dialogue Network</i>	
Donation from Nansen Dialogue Network	15.904.082
Revenues from disposal of vehicle	152.900
Indemnification Revenues - insurance	37.300
Revenues from year 2005	141.465
Donation fro individual	125.720
Bank interest	2.935
<i>Total Revenues from Nansen Dialogue Network</i>	<i>16.364.402</i>
Donation from Nansenskolen	73.082
Donation from Ministry of Foreign Affairs	319.203
Donation for "Our Role in Politics "	43.754
Total Revenues	16.800.441

NANSEN DIALOGUE CENTER - Skopje

(In MKD)

2006

Projects financed by Nansen Dialogue Network

Office budget costs	9.457.908
Activities	6.580.335
UNITAS	47.001
ACTS	36.173
GPPAC	74.270
Helsinki Mediation Project	28.707
Monitoring and evaluation	48.357
Cost from previous years	13.720

Total costs related to Projects financed by Nansen Dialogue Network 16.286.471

Ministry of Foreign Affairs	318.841
"Our Role in Politics "	43.754

Total Costs related to different Projects 16.649.066

(In MKD)

2006

Surplus of revenues over expenses - Nansen Dialogue Network	77.931
Surplus of revenues over expenses - Nansenskolen	73.082
Surplus of revenues over expenses - Ministry of Foreign Affairs	362
Surplus of revenues over expenses as of 31.12.2006	151.375