Tax number:	18084764-2-41
Court of Registration:	Budapest-Capital Regional Court
Ruling on registration:	Pk.61.344/1996/2
Registration number:	7375

HUNGART

Collecting Society of Hungarian Visual Artists

(HUNGART CSHVA)

1055 Budapest, Falk Miksa utca 30.

Supplementary notes to the 2018 annual report

31 December 2018

30 April 2019

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CORPORATE PROFILE OF HUNGART ASSOCIATION

HUNGART Collecting Society of Hungarian Visual Artists was founded by private individuals in accordance with Government Decree no. 146/1996.(19 September).

The registered seat of the Association is at 1055 Budapest, Falk Miksa utca 30.

The Government Decree referred to above states that copyright and related rights may only be managed by registered non-profit associations, established pursuant to Sections 61-64 of the Civil Code.
In its ruling no. 01.Pk.61344/1996/2, which became final on 27 February 1997, the Metropolitan Court of Budapest registered the Association under registration number 7375.
Based on Decree No. 5/1997. (12 February) of the Minister of Culture and Public Education, the Minister of Culture and Public Education registered HUNGART Collecting Society of Hungarian Visual Artists as a collecting society through passing a resolution on 19 April 1997.

The purpose of the Association is to collect royalties on behalf of and pay them to its members, i.e. artists active in visual and applied arts, photo artists as well as their legal successors, collectively: rights holders, and to enhance the protection of their copyright both in Hungary and abroad.

At a meeting of 23 May 2006, the meeting of delegates decided to terminate the public benefit status of the Society because, although the activities of the Society according to its objectives comply with the terms and conditions laid down in Act CLVI of 1997, the public benefit status does not generate any major advantage for the Society. The Budapest-Capital Regional Court ordered the strike-off of the public benefit status of the organisation in its order 16.pk.61.344/1996/9, which was adopted on 5 July but took effect on 28 July 2006.

The rules of the activities of the Society are laid down in Sections 85-92 of Chapter XII of Act LXXXVI of 1999 on Copyright. In addition to the collective management of copyright and related rights as the Association's fundamental purpose, sponsorship for other artist associations and the improvement of the living conditions of artists in need also feature among the causes promoted by the Association.

The European Parliament and the Council approved Directive 2014/26/EU on copyright and related rights on 26 February 2014. The collective rights management directive was transposed into the Hungarian legislation with the adoption of Act XCIII of 2016, which entered into force on 28 July 2016 and therefore the provisions of collective rights management were removed from the Act on Copyright. The detailed rules of operation of collective rights management organisations and independent rights management organisations and rights management procedures are included in Government Decree 216/2016 (22 July) effective from 22 August 2016.

Due to changes in law, all the regulations of HUNGART have been modified. The law stipulates that reports be prepared for the Hungarian Intellectual Property Office responsible for HUNGART's supervision. With effect from 2017, transparency reports must be prepared and disclosed. Furthermore, credible written information must be provided for rights holder on the terms and conditions of rights management, trends in royalties, management fees, deductions for the benefit of the artist community and the use of such deductions. Considering that there is also an obligations to supply data abroad, these legislative changes and requirements cause continuous and increasing administration work, which impedes the actual and relevant rights management.

The Association does not have any authorised or initial capital. The costs of operation had to be funded also in 2018 from the net 22% and 15% management fee ratio, defined five years ago in the Policy on the Distribution of Collected Copyrights copyright income and contributions.

HUNGART has not been engaged in any business activity since its foundation.

The primary decision-making organisation of the Society is the Delegates' Meeting. The Association is governed by an eight-member management committee presided by a chairperson and two vice chairpersons elected from among its members. HUNGART's lawful operation and business management are supervised by a three-member supervisory board.
Daily duties are performed by members, who are also the employees of the Association. In areas where employment is not justified, outside organisations and private individuals are contracted for work.

All members of the organisation performing accounting services (bookkeeping, income settlement) are registered certified accountants and certified auditors.
The annual accounts of HUNGART Association are audited by GG PLUS Kft. (registration number: 000141). The contracted auditor is Ms Éva Gampel, CoHA membership number: 004681.

ACCOUNTING POLICY

The balance sheet compilation date is the last day of March in the year immediately following the reporting year because such seems to be justified by past years' experience. The reason underlying the selection of this date is that it makes accounting for the economic events that affect the reporting year and become known between the 31 December balance sheet date and the balance sheet compilation date possible.
The Association uses double-entry bookkeeping to keep its books. Its chart of accounts has been developed on the basis of the recommendations disclosed in financial and accounting journals.

With effect from 2012, the Association prepares annual accounts in keeping with the new act and decree pertaining to the collective management of rights. We continue to ensure consistency in order to be able to comply with the requirements set forth in Government Decree no. 479/2016. (28 December) on the specifics of reporting and accounting obligations of CSOs under the Accounting Act and Government Decree no. 350/2011. (30 December) on Certain Issues of the Financial Management, Fund-raising, and Public Benefit Status of CSOs.

In compiling the annual accounts, HUNGART Collecting Society of Hungarian Visual Artists observed the applicable accounting principles and complied with the requirement of providing a fair picture. Neither audit inspecting nor self-revision revising previous years' book-keeping was conducted.

There was no significant change in the valuation procedures compared with the previous year. The data are comparable to the previous year as specified in the accounting regulations even though some restatements were made among the items of the liability side due to the clarification of the accounting records in order to enforce the principles of clarity and comparison to the highest possible extent.

Regarding the Association's business management and annual accounts, materiality and substantiality are governed by the Accounting Act.
The Association's revenues comprise all the income that is realised in the reporting year and is linked to the Association's principal activity and gainful activity including sponsorship. The costs incurred by the Association are direct costs incurred in connection with the Association's principal activity and gainful activity and its operating costs.

Fixed assets, tangible assets and intangible assets are stated at their respective net values in the balance sheet. Historical costs are purchase prices, which comprise the costs incurred before capitalisation and attributable to the assets individually.
The Association uses the straight-line method to depreciate its assets taking account of the expected useful life of the assets concerned, the depreciation rates stipulated in the Corporate Tax Act and the number of the days during which the assets have been in operation. The Association recognises the historical cost of tangible assets with an individual value of below HUF 100 th as lump sum depreciation when such assets are put to service.
The value of the inventories is stated at actual, direct production cost.
Purchased securities are stated as fixed assets if we do not intend to sell them within one year. When securities booked as fixed assets are sold after the balance sheet date, they are stated as current assets in the balance sheet.
When securities are sold, we derecognise them using the FIFO (First In First Out) method, i.e. we always derecognise the securities held for the longest period of time (i.e. those purchased first).

The carrying value of interest-bearing securities may not comprise the interest paid upon purchase, i.e. such securities are stated at face value.
The Association accounts for deferrals and accruals in accordance with the general provisions of the Accounting Act and the requirements of the supervisory authority.
The assets and liabilities other than those above are also stated in accordance with the general provisions of the Accounting Act.
The Association has an accounting policy as well as inventory-taking, scrapping, cash management and valuation regulations in conformity with the requirements set out in Act C of 2000 on Accounting and the government decree referred to.

SUPERVISORY REPORT AND CHANGES IN THE ACCOUNTING POLICY

The Hungarian Intellectual Property Office supervising rights management proposed the introduction of a standard supervisory report developed by PwC in the spring of 2014 and the use of enhanced accounting reports, which affected the accounting policy of rights management organisations. The draft documents were finalised after several rounds of discussions. The use of the finalised document has been mandatory since 2016 on the basis of the relevant statutory regulations.

Changes target mainly the recognition of royalties in respect of both revenues and expenses as well as their entry into the books.
In line with the final decision, we first applied the changes affecting the accounting policy and accounting records on 1 January 2015 and those affecting reporting in the 2014 annual accounts with special regard to the supervisory report in addition to the standard balance sheet.
Relying on the changes approved and adopted, we have changed our adopted practice in order to be able to meet the requirements in force since 2015.

Pursuant to the new requirements, HUNGART only accounts for royalties actually paid in the reporting year. The royalties which affect the reporting year, which are, however, only due early in the following year and which we used to state as accruals and deferrals under the Accounting Act are now presented only when actually paid.
We recognise all royalties due to the rights holders on the revenues collected as expenses in the reporting year. In conformity with the relevant requirements, expenses on royalties are stated as mediated services.
The royalties that we used to present as accruals and deferred income and that are payable the following year are presented as current liabilities. In 2015, we accounted for the management fees that we have not included in the royalties on the books for over five years. The restatements in the accounts were made one year before the previous year between one long-term liability, short-term liabilities and deferred revenues. In 2018, we settled the HUNGART monographies published from the use of contributions (Section 100 of the Copyright Act) paying public property and their respective items on the liability side, which made our records even more transparent.

Relative to the practice of previous years, there was no change to the booking, recognition, measurement and statement of operating costs, which are comparable not only with those incurred in the previous year and the reporting year, but also several years retrospectively.

In summary, the data in the reporting year's accounts are comparable with those in the previous year's.

Related to the annual accounts, a transparency report the content of which is regulated by the government decree and which must be inspected by the auditor must be published on the last day of the eighth month following the reporting year. The meeting of delegates approved the transparency report for 2017 on 22 August 2018; then it was published on the website of the Association.

THE GENERAL ECONOMIC AND LEGAL CONTEXT OF RIGHTS MANAGEMENT

The impact on rights management of the financial crisis that broke out before 2010 and the economic crisis that followed it has been petering out. Though the income from primary royalties received since the year after the end of the crisis has stopped declining, it still falls short of the amount of previous years. Compared with the HUF 70-75 million in stagnating income realised earlier, income over the past two years has shown signs of recovery. The income ratios changed due to the increase in contribution revenues over the past two years, for the primary (directly collected) royalties. The ratio of secondary royalties (collected for distribution) fluctuated over the past few years.

Luckily, the inadequate payment discipline of galleries did not impose a major impediment on the rights management activities of the Association. In the past certain large arts traders were usually in default with their payments. However, after the orders they fulfilled their payment obligations and fewer lawsuits had to be filed due to the failure to make the promised payments.
The court action documents sent to the owners of art galleries who default on or regularly fall behind with royalties are mostly effective because after receipt of such documents their payment discipline improves relatively fast.
As regards some art galleries, default on the payment of royalties goes hand in hand with intentional failure to report data regularly, which makes enforcing claims difficult.
With the help of a new online search engine we have contacted 15 galleries with which we have not had any relationship before. Five of them have already paid and supplied data; lawsuits are required towards the others.

In order that EU legislation could be transposed into Hungarian legislation, the regulatory environment was changed as a result of the adoption of the new act on the collective management of rights in 2016. Rights holders are adversely affected by the fact that, in addition to an increase in the number of administrative and data reporting tasks, 90% (rather than 25% as was the case earlier) of the royalties for 2019 due to unknown persons or persons whose whereabouts is unknown must be transferred to NKA (National Cultural Fund) after three years (rather than five as was the case earlier). However, the law permits the application of this rule only to the royalties collected after the entry into force of the law. The meeting of delegates made a decision for the benefit of the rights holders - and we take that opportunity.

With effect from 2012, only 4% (rather than 5%) may be charged in royalties on the works of art sold. The 2018 plan budgeted a 22% management fee for primary royalties because interest on investments may also be used to cover operating costs.
The government measure, according to which business and non-profit organisations are no longer allowed to purchase interest bearing treasury bills from April 2018 only private individuals can

take that opportunity, had a detrimental impact on our Association. The interest on securities is falling anyway; however, the approximately 0.2% return on discount treasury bills, available for us for purchase as the least risky securities, is only a fragment of the previously realised interest income. The HUF 7-8 million interest income recognised in the previous years fell to HUF 4 million in 2018 (due to extended fixed terms); the budget for the subsequent year may include only HUF 1.5 million interest income. Our Association will lose approximately at least HUF 6 million revenue.

However, due to the treatment of accruals and deferrals, neither management fees nor any other income permitted to be used for covering operating costs could cover operating costs despite increasing royalty income. The annual 22-23% ratio of operating costs within the total revenues can no longer be covered with the falling interest and other revenues. Partly because of the cost implication relating to the increase in the administration burden, our Association may be forced to increase its management fees and to introduce other measures by applying certain cost saving measures.

The latter category includes the decision of the management committee of 12 March 2019 which changed the method of recognition of the costs indirectly associated with the publication of monographies and designated part of the arts ratio of the distributed contribution as the source of funding.

The application of the EU rules with which the royalty revenues from reprography and empty carriers are taken out from the scope of VAT and must be managed as activities outside the scope of VAT from the beginning of 2018 has also generated some extra work. In order to apply that the royalty registration programme had to be modified and the IT staff had to be doubled. Attention must be paid to the distribution of royalty types in the invoices and all organisations sending us invoices had to be informed of the right VAT categories.

It was a favourable change relating to the right holders that the former 27% health contribution charged on royalty payments was reduced further from 22%, applicable in the previous year, and was only 19.5% in 2018. The government plans to cut it by further 2%. The reduction, originally promised from the beginning of the year, has been postponed to H2 2019. Unfortunately, the individual management fee settlement funding the health contribution must be maintained because the HUF 14-15 million public dues depending on royalty payments cannot be funded from the currently effective management fee ratios.

Compared against realised revenues, over HUF 120 million royalties disbursed to individual person rights holders reflects the Association's successful operation.

The Association's art sponsorship for community purposes was similar to those in the past years.

Since 2012, HUNGART has been transferring amounts for cultural purposes to NKA. (7% of the received royalties subject to secondary distribution and 12.5% of the royalties redistributed and kept on the books for over 5 years had to be transferred to NKA). The use of the amounts thus transferred was not transparent, as NKA did not provide any information on it.

The Act on the Collective Management of Rights allowed for the possibility of rethinking sponsorship policy. On this basis and due to the subsequent demand for 90% of the royalties collected for more than three years, no cultural deduction is made for community purposes from the revenues and royalties collected for distribution after the entry into force of the law. The rate of social sponsorship was raised to 5%. Only social deductions are made after the accounting of the management fees. The remaining royalties are distributed.

The royalties received before 29 July 2016 are redistributed in accordance with earlier practice. The royalty remaining after the settlement of 20% sponsorship to arts organisations and 5% social sponsorship is paid out to those who received distributed royalties during the previous five years.

SUMMARY ANALYSIS OF BUSINESS ACTIVITIES AND ANNUAL ACCOUNTS DATA

The net result of the economic activities of the Association in 2018 would be HUF 5,647 th loss following the loss of HUF 4,703 th. Because of the lack of revenues, the operating budget of rights management in the reporting year was closed with a deficit of HUF 3,192 th (see below); the depreciation write-off accounted due to the business operating approach increases the loss.
The operating budget must be prepared with the expense-revenue approach and the accounting report must be prepared with the cost (expense) revenue approach, and that is why there is a discrepancy in the loss figures.

Briefly describing the reasons, the table of operating budget performance (Annex 1) also shows that the loss occurred despite the outstanding annual revenues. In addition to the single retroactive surplus revenue (which cannot be predicted) received from foreign partner organisations (the management of that royalty is accounted by the partner organisation; our Association can no longer recognise such costs), only the royalty revenue from reproduction exceeded the budget. The savings in staff and material expenses were not enough to compensate for the shortage of revenues from other royalty types and financial revenues. The depreciation write-off may be considered a fixed amount on the basis of the annual settlement of the expenditure of the building.

RIGHTS MANAGEMENT

The 2014–2018i royalty data are stated in accordance with the cash accounting principle. These data do not contain the deferred royalty income, which was not yet recognised in the previous years. Following the shift in 2014, the annual figures are comparable and relevant information can be obtained for the assessment of the tendencies.
On that basis it may be concluded that although revenues increased, they fluctuated by royalty type. Income from secondary royalties (empty data carriers, cable, reprography) depends on the activities of partner organisations. We have no influence at all on royalties received from abroad either. As an example, in 2015 and 2016 we received HUF 14-14 M reprography royalty from a foreign partner organisation for 2009-2013; in 2018 we received HUF 45 M retroactively for 16 years from 2001.
We hope that the 4% follow-up royalty and contribution revenue for 2019 will be higher than in the reporting year, at least this is what may be expected from the quarterly figures. We have managed to find some galleries which have not paid anything and have not supplied any data yet; some of them have already made payments (HUF 1.2 M has been received in 2019). We continue this work and look for 'new' galleries that have failed to make payments.
Licensing (reproduction) is still influenced by licensing relating to key fine arts exhibitions. Owing to the theme-based restructuring of the MTVA channels and programmes, revenues from broadcasting will depend on the contract, renewed each year.

Gross revenues (with management fee) by royalty type *HUF th*

	2014	*2015*	*2016*	*2017*	*2018*
4 % follow-up royalties	53,066	70,626	86,233	90,483	86,926
(of which, taxes)	(25,452)	(23,824)	(32,605)	(38,611)	(42,789)
Licensing (reproduction)	16,396	16,680	14,138	15,521	18,901
Empty carriers	0	35,638	25,366	31,669	25,348
Reprography fee	0	28,725	33,903	27,152	28,074
Broadcasting royalties	8,450	14,366	14,988	16,923	17,693
Cable	0	19,044	16,029	17,393	22,075
Royalties from abroad	8,287	19,666	24,335	9,639	57,471
Total:	*86,199*	*204,745*	*214,992*	*208,780*	*256,488*

Breakdown of royalty payments *HUF th*

	2014	*2015*	*2016*	*2017*	*2018*
Private individual rights holders	92,413	81,272	121,586	120,521	112,816
Domestic organisations	6,931	6,712	13,089	11,666	11,617
Foreign partner organisations	21,167	9,285	11,189	10,736	12,517
Total	*120,511*	*97,269*	*145,864*	*142,923*	*136,950*
Number of private individual rights holders	*643*	*609*	*774*	*748*	*814*

HUF 104,463 th disbursed in royalties in the reporting year was the amount received in 2018. Of this, the total distributed royalties received from partner organisations was HUF 37,928 th, and the royalty received from abroad amounted to HUF 32,515 th. We disbursed 61% (HUF 19,442 th) of the amount of the redistributed royalties for over 5 years (the applicable time limit). More and more individual rights holders request the registered royalty to be accounted and transferred to the organisation operated by them (kft., bt, foundation, etc.) as beneficiary. In 2018, more than 50 domestic companies were among our members.
(The details of the recognition of royalties are contained in Annex 1 to the profit and loss account.)

Sponsorship policy, royalty use for community purposes

In accordance with the sponsorship policy approved by the Association, the management committee meeting in May 2018 decided on the publication of 3 monographs. The ambitious books presenting artists who had been awarded stipends in recognition of their artistic achievement were published in October. Thus, the number of the books in a series presenting contemporary artists has risen to 41.
We generated HUF 1,015 th income from the sale of the publications in the reporting year. It is not the primary objective of the publication of books to increase the revenues of the association significantly; the primary objective of the activity is to support arts and present the works of art produced by contemporary artists. We spent HUF 9,795 th on the publication of monographs in 2018. HUF 5,916 th expenditure was recognised on re-printing previously published books and the presentation of the publications at the Art Market exhibition as well as the production of a summary prospectus. This cost was funded from the contribution revenues, the amount of which had been gradually increasing for four years.

The preparatory work for the books planned to be published in 2019 has begun with the original schedule. We intend to publish three monographs this year as well, with the necessary funds already available.
As a result of the changes in the sponsorship policy, only royalties on the books for over 5 years (i.e. 'archival') royalties) can be used for granting cultural and social sponsorship. No transfer was made to NKA. 90% of the royalties on the books for over three years will have to be transferred in one year. (Close to HUF 10 million on average has been transferred on average between 2012 and 2016.)
As regards distributions for sponsorship to the artist community, the management committee approved the granting of HUF 12,737 th for supporting art organisations and HUF 7,888 th for social sponsorship. 5% of the retroactive reprography amount received in the current year was added to the payments for social purposes (HUF 2,267 th). (An itemised list of the amounts approved and used for sponsorship to the artist community in 2018 is contained in Annex 2 to the profit and loss account.)

OPERATING BUDGET

Compliance with HUNGART's 2018 operating budget is presented in Annex 1, and as part of such presentation, the costs stated in the 5th class of accounts of the general ledger has been attached. While compiling the plan, we estimated income at HUF 56,150 th. Income adjusted for accruals and deferrals amounted to HUF 52,227 th, HUF 3,923 th (7%) less than expected. The HUF 55,419 th annual expenditure was 1.3% lower than budgeted but could not compensate for the shortfall in revenues.
The in total HUF 808 th shortfall in the budgeted expenditure was the result of lower payroll expenses among the staff costs and the related contribution settlement. Among the material expenses, the lower expenditure related to royalties abroad and royalty processing offset the higher post and accounting (audit) expenses and the higher supervisory fee, which was the consequence of the revenues.
The expenditure of the purchase of unplanned, low-value assets amounted to HUF 77 th.
According to the supervisory report, the operating expenditure was 59,873 th (the supervision takes into account recognised depreciation and other and financial expenses).
With the use of the individual management fee, the HUF 14,424 th health contribution payable for royalties did not cause a loss because the invoiced revenue covered the payment liabilities.

Key expense items:	2018 audit fee	HUF 400,000
	'Transparency' audit fee:	HUF 300,000

SZTNH (Hungarian Intellectual Property Office) supervisory fee: Royalties and financial income HUF 269,200,039

0.5 % supervisory fee	*1,346,000*
Other income	15,439,132
0.3 % supervisory fee	*46,317*

2018 supervisory fee **HUF 1,392,300**

DETAILED DATA INCLUDED IN THE ANNUAL ACCOUNTS

1.1 Change in balance sheet data

	1000HUF	Previous period	Reporting period	Absolute changes
	ASSETS			
01.	**A. Fixed assets**	**418,630**	**422,988**	**4,358**
02.	**I. Intangible assets**	**19**	**0**	**- 19**
10.	**II. Tangible assets**	**87,821**	**85,386**	**-2,435**
18.	**III. Financial fixed assets Financial investments**	**330,790**	**337,602**	**6,812**
27.	**B. Current assets**	**68,604**	**99,635**	**31,031**
28.	**I. Inventories**	**50,170**	**51,018**	**848**
35.	**II. Receivables**	**2,271**	**2,053**	**- 218**
43.	**III. Securities**	**0**	**0**	**0**
49.	**IV. Cash at bank and in hand**	**16,163**	**46,564**	**30,401**
52.	**C Prepayments and deferred expenses**	**5,979**	**3,139**	**- 2,840**
56.	**TOTAL ASSETS**	**493,213**	**525,762**	**32,549**
	LIABILITIES			
57.	**D. Shareholders' equity**	**122,697**	**95,204**	**- 27,493**
58.	**I. Subscribed capital**	**0**	**0**	**0**
60.	**II. Subscribed but unpaid capital (-)**	**0**	**0**	**0**
61.	**III. Capital variation/profit**	**127,400**	**100,851**	**- 26,549**
62.	**IV. Profit reserve**	**0**	**0**	**0**
63.	**V. Fixed reserve**	**0**	**0**	**0**
64.	**VI. Valuation reserve**	**0**	**0**	**0**
67.	**VII. Profit/Loss after taxation Profit/loss after taxation**	**- 4,703**	**- 5,647**	**- 944**
68.	**E. Provisions**	**0**	**0**	**0**
72.	**F. Liabilities**	**343,669**	**417,680**	**74,011**
73.	**I. Subordinated liabilities**	**0**	**0**	**0**
77.	**II. Long-term liabilities**	**41,281**	**0**	**- 41,281**
86.	**III. Short-term liabilities**	**302,388**	**417,680**	**115,292**
98.	**G. Accrued and deferred liabilities**	**26,847**	**12,878**	**- 13,969**
102.	**TOTAL LIABILITIES**	**493,213**	**525,762**	**32,549**

ASSETS

The real property purchased and renovated at the SunPalace was stated at HUF 84,683 th in the balance sheet. The year-end residual value of a 10-year old passenger car was HUF 629 th.

The year-end net value of the Association's tangible assets was HUF 74 th. The majority of mobile assets, office furniture, fax, telephone, laptop, server and computer workstations are worth '0' or close to 0. The key computers required for royalty management are older than 3-4 years.
The year-end net value of the Association's software prepared before 2010 was HUF 19 th. The chart of investment accounts attached reveals that no tangible asset was purchased in the reporting year.
The change in the net value was due to the recognition of depreciation.
(See: Annex 2: Assets and depreciation and a table of investments.)

The treasury bills that are, based on the information available as at the balance sheet closing date, unlikely to be redeemed the following year are stated as fixed assets. It was a problem that the organisations, including non-profit associations, can no longer purchase government securities, only discount treasury bills, from April 2018. The interest on discount treasury bills is very low and term commercial bank deposits also generate an extremely low return.

The production cost of the still available copies of the 'HUNGART book series' in stock (HUF 51,018 th).
Invoiced accounts receivable were invoiced litigated amounts. (HUF 1,953 th).
The other receivables include HUF 89 th individual and foreign royalty excess payment; as well a HUF 11 th advance in a legal case.

The closing balance of the bank account kept with Budapest Bank and that of securities accounts amounted to HUF 46,564 th. Although cash transactions are kept to a bare minimum, the balance of petty cash was HUF 755,505, as certain galleries make their payments in cash.
The costs and charges are deferred in conformity with the applicable law (insurance covering the following period, GPS fees and program updates). The interest earned on securities in the current year represent deferred income.

LIABILITIES

Short-term liabilities	***HUF 417,680 th***
details:	
Domestic accounts payable	HUF 159 th
Foreign membership fee and royalties from banking errors	HUF 1,040 th
VAT payable 12th month	HUF 770 th
PIT liability 12th month	2,001 th
Health care tax 12th month	HUF 2,273 th
Company car tax, Q4	HUF 33 th
Social security tax 12th month	HUF 618 th
Returned royalty to be transferred again	HUF 227 th
Divided, divisible contribution	HUF 98,058 th
Suspended and payable royalty	HUF 311,109 th
2018 supervisory fee	*HUF 1,392 th*

Items of accruals and deferred income	***HUF 1,633***
- Sun Palace public utility charges	HUF 121 th
- public utility default interest	HUF 13 th

- postal and courier services	HUF 70 th
- telephone bill	HUF 29 th
- software supervision	HUF 150 th
- telecommunication costs	HUF 173 th
- securities account fee	HUF 37 th
- legal fees December	HUF 640 th
- 2018 audit fee	HUF 400 th

Deferred income includes the management fee due on the broadcasting royalties (HUF 2,966 th) received, but not yet allocated, the management fee due on invoiced follow-up royalties (HUF 485 th) and reproduction (HUF 430 th) received in December and re-categorised rights management fees (HUF 7,364 th) stated as long-term liabilities (on the books for over five years) in the previous year.

1.2 Change in the data of the profit and loss account

	1000HUF	Previous period	Reporting period	Change %
I.	**Net sales revenues**	**217,143**	**265,179**	**22.12**
	of which, net revenue from domestic sales	*207,504*	*207,708*	*0.01*
	- revenues received from abroad	*9,639*	*57,471*	*596.23*
II.	**Value of capitalised own performance**	**0**	**0**	**0.00**
III.	**Other revenues**	**15,907**	**15,439**	**- 2.94**
IV.	**Material type expenses**	**201,044**	**249,649**	**24.18**
V.	**Personnel related expenses**	**40,470**	**37,922**	**-6.30**
VI.	**Depreciation**	**3,079**	**2,531**	**-17.80**
VII.	**Other expenditure**	**144**	**148**	**2.78**
A.	**BUSINESS (OPERATING) PROFIT/LOSS**	**- 11,687**	**- 9,632**	**17.58**
VIII.	**Revenues from financial transactions**	**7,028**	**4,021**	**- 42.79**
IX.	**Expenses of financial transactions**	**44**	**36**	**- 18.19**
B.	**PROFIT/LOSS OF FINANCIAL TRANSACTIONS**	**6,984**	**3,985**	**- 42.94**
C.	**PROFIT/LOSS BEFORE TAXATION**	**- 4703**	**- 5,647**	**- 20.07**
X.	**Tax payment liability**	**0**	**0**	**0.00**
D.	**PROFIT/LOSS AFTER TAXATION**	**- 4,703**	**- 5,647**	**- 20.07**

In relation to the royalty income indicated above, it should also be mentioned that the domestic sales revenues were almost identical in the past two years. The net sales revenues include HUF 8.254 th management fee on archiving, not applied before (redistribution after five years) and the difference between the management fee applied by foreign partner organisations and by our Association (HUF 525 th).
Other revenues comprise invoiced case-by-case management fees (HUF 14,424 th) counterbalancing health care tax due on royalties, income from the sale of monographs (HUF 1,015 th).

Financial income comprised return on treasury bills invested in the amount of HUF 4,017 th.

Exchange rate difference was HUF 32,th in losses arising from exchange rate fluctuations. The other expenditures include HUF 132 th vehicle tax and HUF 16 th default interest. Compared to the previous years, in line with the new accounting policy, community-purpose sponsorship was stated as mediated services and from the distribution of former contribution the difference in the inventory value of sold monographs was recognised against the contribution liabilities.

Annex 1 to the profit and loss account presents royalty disbursements. For the sake of transparency, the individual items of royalties are stated in the corresponding rows of the profit and loss account.

What follows is the presentation of changes in the composition of the key balance sheet items and a few indicators applied by businesses and also interpretable in respect of the activities of the Association.

1.1. Key balance sheet items

Assets (data in %)	Previous period	Reporting period
Fixed assets	**84.88**	**80.45**
Intangible assets	0.00	0.00
Tangible fixed assets	17.81	16.24
Financial investments	67.07	64.21
Current assets	**13.91**	**18.95**
Inventories	10.17	9.70
Receivables	0.46	0.39
Securities	0.00	0.00
Liquid assets	3.28	8.86
Prepayments and deferred expenditures	**1.21**	**0.60**
TOTAL ASSETS	**100.00**	**100.00**

Liabilities (data in %)	Previous period	Reporting period
Equity	**24.88**	**18.11**
Subscribed capital	0.00	0.00
Registered but unpaid capital	0.00	0.00
Capital reserves/from changes in capital profit/loss	25.83	19.18
Profit reserve	0.00	0.00
Fixed reserve	0.00	0.00
Valuation reserve	0.00	0.00
Profit/loss after tax	- 0.95	- 1.07

Liabilities (data in %)	Previous period	Reporting period
Provisions	**0.00**	**0.00**
Liabilities	**69.68**	**79.44**
Subordinated liabilities	0.00	0.00
Long-term liabilities	8.37	0.00
Short-term liabilities	61.31	79.44
1. of which, royalty liability	(48.33)	(59.12)
2. of which contribution liability	(11.84)	(18.65)
Accruals and deferred income	**5.44**	**2.45**
TOTAL LIABILITIES	**100.00**	**100.00**

On the asset side of the balance sheet the financial investments, inventories and liquid assets increased in absolute terms, yet only the ratio of liquid assets changed significantly.
On the liability side the major changes occurred in the equity and in the ratios of short-term liabilities. Based on the inventory, the production value of the monographs funded from contributions is shown among the inventories but the changes in the inventory was only charged to the liabilities after 2014. Consequently, the liabilities were restructured for the former years.
In the accruals and deferred income the decreasing archiving management fee causes changes.

1.2. Asset position

Utilisation of invested assets

The net value (i.e. the usability) of tangible and intangible assets accounted for 60.8% of their gross value in the previous year and 59.1% in the reporting year. The net value ratio of intangible assets and office machinery and equipment is practically ‘0’ (zero). Only the properties and written off residual value of vehicles have net values.

Coverage of fixed assets

Internal funds exceeding equity covered the closing balance of fixed assets: 29.3% in the previous year and 22.54% in the reporting year.

Solvency

The share of the equity of HUNGART Collecting Society of Hungarian Visual Artists in the total liabilities was 24.9% in the previous year and 18.21% in the reporting year. The decrease was the result of the accounting of the loss and the restatement on the liability side.

Debt/Leverage ratio

Liabilities accounted for 278.8 % of equity in the previous year and 438.7 % in the reporting year.

1.3. Liquidity and solvency

Acid test ratio

Acid test ratio reflecting short-term liquidity (the ratio of the combined value of receivables, securities and cash to current liabilities) was 0.06 in the previous year and 0.12 in the reporting year.

Ratio of liquid assets

The share of assets affecting short term liquidity within total assets was 3.70 % in the previous year and 9.2 % in the reporting year.

Long-term liquidity

The long-term liquidity ratio (current assets/liabilities) was 0.20 in the previous year and 0.24 in the current year.

Liabilities and liquid assets

As at the balance sheet date, liquid assets (receivables, securities and cash) as well as the recorded inventories covered the liabilities in full.

1.4. Profitability

Trends in revenues

The Association's total income for the entire calendar year fell from HUF 240,078 th in the previous year to HUF 284,639 th in the reporting year. After the elimination of the one-off outstanding revenue, the revenues in the reporting year amounted to HUF 239,302 th, which is almost the same as in the previous year.

Sales revenues

The domestic net sales revenues amounted to HUF 207,504 th compared to HUF 207,708 th, with just a negligible change.

Profit/loss after taxation

The reporting year's accounting result (HUF -5,647 loss) exceeds previous year's by HUF 944 th.

1.5. Cash-flow

	Designation (HUF 1,000)	Previous year	Reporting year
I.	**Changes in liquid assets from ordinary operation (Operating cash flow, Rows 1-13)**	**- 15,480**	**100,417**
1	Profit/loss before tax (+-)	- 4,703	- 5,647
2	Amortisation recognised (+)	3,079	2,531
3	Recognised impairment and reversals (+-)	0	0
4	Provisions generated and released (+-)	0	0
5	Gains/Losses on the sale of fixed assets (profit -, loss +)	0	0
6	Changes in accounts payable (+-)	298	390
7	Changes in other current liabilities (+-)	- 162	114,902
8	Changes in accruals and deferred income (+-)	- 10,537	- 13,969
9	Changes in accounts receivable (+-)	-1,527	218
10	Changes in current assets (less accounts receivable and liquid assets) (+ -)	192	- 848
11	Changes in prepayments and accrued income (+-)	- 2,120	2,840
12	Taxes paid or payable (on profits) (-)	0	0
13	Dividends/profit-sharing paid or payable (-)	0	0
II.	**Changes in investment cash flow (Cash flow from investments, Rows 14-16)**	**- 5,020**	**- 6,889**
14	Fixed asset acquisition (-)	- 5,020	- 6,889
15	Disposal of fixed assets (+)	0	0

	Designation (HUF 1,000)	Previous year	Reporting year
16	Dividends/profit-sharing received (+)	0	0
III.	**Changes in cash flow from financial transactions (Financing cash flow, Rows 17-27)**	**- 2,856**	**- 63,127**
17	Income from the issue of shares and investments (+)	0	0
18	Income from the issue of bonds and debt securities (+)	0	0
19	Borrowings of credit and loans (+)	0	0
20	Repayment, termination or redemption of long-term loans and bank deposits +	0	0
21	Liquid assets received permanently (+)	0	0
22	Withdrawal of shares and capital (capital and fund restatements) (-)	0	21,846
23	Repayment of bonds and debt securities (-)	0	0
24	Credit and loan amortisation and repayment (-)	0	0
25	Long-term loans granted and long-term bank deposits made (-)	0	0
26	Liquid assets transferred free of charge (-)	0	0
27	Changes in payables to founders and in other long-term liabilities (+-)	- 2,856	- 41,281
IV.	**Changes in liquid assets (Rows I+II+III)**	**- 23,356**	**- 30,401**

Budapest, 30 April 2019
Compiled by Ferenc Holocsi