REGIONAL SCHOOL FOR PUBLIC ADMINISTRATION
DANILOVGRAD

Financial Statements
As of and for the period from June 23
Through December 31, 2011 and
Independent Auditors' Report

Translation in English language of the report originally issued in Montenegrin

CONTENTS

Deloitte.

Deloitte d.o.o.
Bulevar Svetog Petra Cetinjskog bb,
Zgrada Maxim
81000 Podgorica
Crna Gora

Tel: +382 (0) 20 228-324
+382 (0) 20 228-096
Fax: +382 (0) 20 228-327
www.deloitte.com/me

INDEPENDENT AUDITORS' REPORT

To the Management of Regional School for Public Administration, Branelovica, Danilovgrad

We have audited the accompanying financial statements (pages from 3 to 20) of Regional School for Public Administration (hereinafter the "ReSPA"), which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income for the period from June 23 through December 31, 2011, statement of changes in equity and statement of cash flows for the year then ended, as well as the summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, as well as maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Regional School for Administration, Branelovica, Danilovgrad, as of and for the period from June 23 through December 31, 2011 in accordance with the International Financial Reporting Standards.

Other issues

Financial statements for the period from August 1 through December 31, 2010 were audited by another auditor, which expressed the unmodified opinion in the report issued as at September 23, 2010.

Financial statements for the period from January 1 through June 23, 2011, were audited by another auditor, which expressed the unmodified opinion in the report issued as at November 14, 2011.

Deloitte doo

Deloitte d.o.o., Podgorica
Podgorica
May 31, 2012

Translation in English language of the report originally issued in Montenegrin

STATEMENT OF COMPREHENSIVE INCOME
For the period from June 23 through December 31, 2011
(In EUR)

	Notes	For the period from June 23 through December 31, 2011	*Audited by another auditor* For the period from January 1 through June 22, 2011	*Audited by another auditor* For the period from August 1 through December 31, 2010
				(Adjusted)
OPERATING INCOME		1,014,545	699,349	304,107
Sales income	5	143,443	178,065	109,582
Other operating income	6	871,102	521,284	194,525
OPERATING EXPENSES		(1,096,227)	(403,095)	(233,377)
Materials, fuel and energy used	7	(52,512)	(72,810)	(54,014)
Staff costs	8	(316,648)	(138,970)	(68,080)
Depreciation and amortization	9	(80,338)	(115,674)	(15,502)
Other operating expenses	10	(646,729)	(75,641)	(95,781)
LOSS/PROFIT FROM OPERATIONS		(81,682)	295,254	70,730
Finance expenses, net		856	23	-
NET (LOSS) / PROFIT FROM OPERATIONS		(80,826)	296,277	70,730
Other comprehensive income		-	-	-
Total comprehensive income		(80,826)	296,277	70,730

The accompanying notes on the following pages
are an integral part of these financial statements.

As suggested and initiated by Budget Board, these financial statements were submitted to the Management Board of the Regional School for Public Administration, Branelovica, Danilovgrad for their review as at March 23, 2012.

Signed on behalf of Regional School for Public Administration by:

ReSPA Head of Finance :

(Vlatko Naumovski)

ReSPA Director:

(Suad Musić)

STATEMENT OF FINANCIAL POSITION
As of December 31, 2011
(In EUR)

	Notes	December 31, 2011	*Audited by another auditor* June 22, 2011	*Audited by another auditor* December 31, 2010 *(Adjusted)*
ASSETS				
Non-current assets		784,326	814,917	920,268
Intangible assets	11	355	-	-
Property, plant and equipment	12	783,971	814,917	920,268
Current assets		1,134,346	1,541,080	1,488,908
Inventories	13	16,832	4,053	8,155
Accounts receivable	14	169,190	195,834	65,473
Cash and cash equivalents	15	947,792	1,341,193	1,415,280
Prepaid value added tax		532	-	-
Total assets		1,918,672	2,355,997	2,409,176
EQUITY AND LIABILITIES				
Equity and reserves		286,181	367,007	70,370
Retained earnings		367,007	367,007	70,730
Accumulated loss		(80,826)	-	-
Short-term liabilities		1,632,491	1,988,990	2,338,446
Short-term accounts payable	16	436,144	459,935	648,107
Short-term finance liabilities		1,800	-	-
Accrued liabilities	17	1,194,547	1,529,055	1,690,339
TOTAL EQUITY AND LIABILITIES		1,918,672	2,355,997	2,409,176

The accompanying notes on the following pages
are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
For the period from June 23 through December 31, 2011
(In EUR)**

Content / Description	Retained earnings	Loss	Total
(Audited by another auditor			
Balance, August 1, 2010	-	-	-
Net profit for the period	61,528	-	61,528
Balance, December 31, 2010	61,528	-	61,528
Balance, January 1, 2011	61,528	-	61,528
Adjustment of the opening balance	9,202		9,202
Net profit for the period	296,277	-	296,277
Balance, June 22, 2011	367,007	-	367,007
Balance, June 23, 2011	367,007	-	367,007
Net loss for the year	-	(80,826)	(80,826)
Balance, December 31, 2011	367,007	(80,826)	286,181

The accompanying notes on the following pages
are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the period from June 23 through December 31, 2011
(In EUR)

Category/Position	For the period from June 23 through December 31, 2011	*Audited by another auditor* For the period from January 1 through June 22, 2011	*Audited by another auditor* For the period from August 1 through December 31, 2010
Cash flows from operating activities			
Inflow from operating activities	436,929	232,469	1,501,005
Sales and advances	147,850	182,469	104,109
Interest receipts from operating activities	901	-	-
Other cash generated from operating activities	288,178	50,000	1,396,896
Outflow from operating activities	(777,772)	(284,473)	(79,488)
Staff costs	(777,772)	(284,473)	(79,488)
Net cash flow from operating activities	(340,843)	(52,004)	1,421,517
Cash flows from investing activities			
Outflow from investing activities	(49,747)	(22,083)	(6,237)
Net cash flow from investing activities	(49,747)	(22,083)	(6,237)
Cash flows from financing activities			
Outflow from financing activities	(2,811)	-	-
Net cash flow from financing activities	(2,811)	-	-
Net cash flows	(393,401)	(74,087)	1,415,280
Cash at the beginning of reporting period	1,341,193	1,415,280	-
Cash at the end of reporting period	947,792	1,341,193	1,415,280

**NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011**

1. FOUNDATION AND BUSINESS ACTIVITY

In June 2003 the Council of Ministers of the European Union adopted "The Solun's Agenda for the Western Balkans: Towards European Integration" which supported the creation of a regional mechanism for training and education of state employees.

In accordance with the "The Solun's Agenda for the Western Balkans: Towards European Integration" in May 2006 in Brussels, "Protocol on Cooperation in the creation of the Regional School of Public Administration (hereinafter ReSPA)" was signed between the governments of Republic of Albania, Bosnia and Herzegovina, Republic of Croatia, FYR Macedonia, Montenegro and Republic of Serbia in the presence of representatives of the European Commission. After signing the Protocol on cooperation and the foundation of ReSPA, Board of Directors of ReSPA has been formed, comprising representatives of ReSPA member countries. Also, ReSPA Secretariat has been formed, comprising representatives of the Organization for Economic Development and Co-operation. At the invitation of the European Commission, all member countries had the opportunity to apply for the head office of ReSPA, and afterwards, at the VI Board Meeting of ReSPA, which took place as at January 31, 2008 in Paris, it was decided that the head office will be in Danilovgrad.

After signing the Letter of support in Ljubljana as at June 12, 2008, six countries have committed themselves to sign the Agreement on the Foundation of a Regional School of Public Administration. Agreement on the Foundation of the Regional School of Public Administration was signed November 21, 2008 in Podgorica by the representatives of five member countries of ReSPA, while Bosnia and Hercegovina signed the agreement in 2009.

In accordance with the International Agreement on the Foundation of ReSPA, the agreement is in effect seven years after the date of its entry into force upon signing with the possibility of its extension. At the end of the fifth year of this Agreement enacted and in force, ReSPA member countries will decide in two thirds majority if this agreement is to be annexed for seven years more.

The project of the Regional School of Public Administration is one of the most important projects in the European Union (EU) in Western Balkan, which was initiated in order to promote regional cooperation in the field of public administration, strengthening of administrative capacity and personnel development in accordance with the principles of European administrative territory. It is planned that ReSPA by its activities encourage cooperation between institutions of public administration of the member countries and institutions of other countries of the EU in order to contribute to exchange of information and experiences in purpose of improving and promoting good practice.

ReSPA is common regional institution, where state employees from member countries get high-quality training in public administration, in order to strengthen administrative capacity and human resources development in candidate countries and potential candidate member countries for European Union (EU) in the Western Balkans. At the same time, ReSPA is helping promote the professional management system of the member countries towards the European Union and is becoming a core of network of existing schools of public administration in the Western Balkans, with the advisory role in the improvement of the civil sector in the region.
As an operational part of ReSPA, the hotel performs its activities and its capacities are used solely for board and lodging of participants and coaches attending the trainings in the education activities conducted by ReSPA.

The Government of Montenegro as the host country has provided all necessary conditions, including the offices for ReSPA with complete equipment and facilities for training, necessary for the effective performance of its functions, as well as the hotel building and surrounding land free of charge, in accordance with the Agreement on establishing the ReSPA and Agreement concluded between the ReSPA and the Government of Montenegro on the seat and the functioning of ReSPA in the host country ("Host Country Agreement").

As of the date of enacting of the International Agreement on Foundation of ReSPA through June 23, 2011, the Directorate for Human Resources of Montenegro was appointed by the Board of ReSPA as temporary manager of ReSPA. After signing the Agreement between ReSPA and the Government of Montenegro on the seat and the functioning of ReSPA in the host country as at June 23 2011, the management obligations of ReSPA became the responsibility of the management members of ReSPA itself.

ReSPA is located in Danilovgrad (Bralenovica) as an institution providing education and training at the regional level and beyond.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Statement of compliance

The accompanying financial statements present the annual financial statements of ReSPA prepared in accordance with International Financial Reporting Standards (IFRS).

2.2. Comparable data

As comparable data in the statement of comprehensive income, statement of changes in equity and statement of cash flows ReSPA disclosed data as of June 22, 2011 for the period from January 1 through June 22, 2011 and as of December 31, 2010 for the period from August 1 through December 31, 2010.

2.3. Basis of Preparation and Presentation of Financial Statements

The accompanying financial statements have been prepared under purchase price convention.

The amounts in the accompanying financial statements are disclosed in EUR.

In the preparation of the accompanying financial statements as of December 31, 2011, ReSPA has adhered to the direct method of reporting on cash flows.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations (IFRIC) issued by the International Financial Reporting Interpretations Committee were effective for the current period:

- Amendments to IFRS 1 “First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010),
- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011),
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010)
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011),
- IFRIC 19 “Extinguishing Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

The adoption of these standards and interpretations amendments had no material impact on the accounting policies of the Company.

**NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011**

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. Basis of Preparation and Presentation of Financial Statements (Continued)

Standards and Interpretations in Issue not yet Adopted

At the date of authorization of these financial statements the following newly-enacted standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2015),
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013),
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS”- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011),
- Amendments to IFRS 1 “First-time Adoption of IFRS” - Government Loans (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfer of Financial Assets (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Mandatory Effective Date and Transition Disclosures,
- Amendments to IAS 1 “Presentation of Financial Statements” - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012),
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IAS 32 “Financial instruments: presentation” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

2.3. Basis of Preparation and Presentation of Financial Statements (Continued)

Standards and Interpretations in Issue not yet Adopted (Continued)

ReSPA's management has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The management anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

ReSPA did not make disclosures in accordance with the requirements of IFRS 8 - "Operating Segments" because has only single reportable operating segment i.e. the whole ReSPA is one segment.

ReSPA has not presented the disclosures required by IFRS 7 "Financial Instruments: Disclosures" for the specifics of its operations and internal organization of ReSPA.

2.4. Use of Estimates

The presentation of the financial statements requires ReSPA's management to make best estimates and reasonable assumptions that affect the disclosure of potential receivables and liabilities as of the date of the preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available as of the date of preparation of the financial statements. However, future actual results may vary from these estimates. These estimations mostly refer to the estimations of the useful life of equipment and reserves.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense

Income is measured at the fair value of the consideration received or receivable, for the products sold and services rendered in the regular course of business of ReSPA.

Revenues from sales are recorded according to the accrual basis in accordance with the agreed conditions of sale.

Income is measured at the fair value of the consideration received or receivable, for the products sold and services rendered in the regular course of business, less discounts.

At the time when income is recognized, the related expenditure is also recognized (as per the "matching principle"). The expense is charged to the statement of comprehensive income in the accounting period to which it relates, and when it does not qualify to be recognized within assets.

Interest income and interest expense are credited or charged to the statement of comprehensive income in the accounting period to which they relate.

3.2. Employee Benefits

Pursuant to the provisions of Chapter "X - privileges and immunities" of Agreement on Foundation of ReSPA signed in Podgorica as at November 21, 2008 i.e. Certificate on registration issued by Ministry of foreign affairs of Montenegro - Department for consular affairs and diasporas, and pursuant to the provisions of the Article 166, paragraph 1 of the Law on General Administrative Procedure and on the basis of Article 184, paragraph 1) item 1) of Law on General Administrative Procedure (Official Gazette of Montenegro No. 60/02, 60/03 and 32/11) and on the basis of Article 18a paragraph 4) item 1) Law on Social Security (Official Gazette of Montenegro No. 86/09, 78/10, 14/12), ReSPA is free from custom fees, taxes and other fiscal benefits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Gains and Losses

All assets and liabilities denominated in foreign currencies as of the statement of financial position date are translated to EUR by applying the official exchange rates as of that date. Business transactions denominated in foreign currencies to EUR by applying the official exchange rates published by the Central Bank of Montenegro at the each transaction date. Foreign exchange gains or losses arising upon the translation of assets, liabilities and transactions are credited or charged to the statement of comprehensive income within finance income or expenses.

3.4. Taxes and Contributions

Pursuant to the provisions of Chapter “X - privileges and immunities” of Agreement on Foundation of ReSPA signed in Podgorica as at November 21, 2008 i.e. Certificate on registration issued by Ministry of foreign affairs of Montenegro - Department for consular affairs and diasporas, and pursuant to the provisions of the Article 166, paragraph 1 of the Law on General Administrative Procedure and on the basis of Article 184, paragraph 1) item 1) of Law on General Administrative Procedure, and according to the following:

- Article 184, paragraph 1) item 1) of Law on Custom (Official Gazette of Montenegro No. 21/08),
- Article 25, paragraph 1) item 8b) of Law on Value Added Tax (Official Gazette of Montenegro No. 04/06, 16/07, 73/10 i 40/11),
- Article 6, paragraph 1) item 1) of Law on Personal Income (Official Gazette of Montenegro No. 37/04, 78/06, 86/09 i 14/12),
- Article 18a paragraph 4) item 1) Law on Social Security (Official Gazette of Montenegro No. 86/09, 78/10, 14/12).

ReSPA is exempt from customs duties, taxes and other fiscal charges.

3.5. Intangible Assets

After the initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses. Intangible assets comprise purchased software.

Costs directly attributable to the acquisition of software for which it is probable that the future economic benefits attributable to the asset will flow to the entity over a period exceeding one year, are recognized within intangible assets. Costs incurred based on computer software maintenance and development are disclosed as expense of the period to which they relate.

3.6. Equipment

An item is classified as an item of property, plant and equipment if its useful life is longer than one year.

Equipment is stated at cost net decreased for total of accumulated depreciation Cost represents the price billed by suppliers increased for all customs duties, irrecoverable taxes and all other costs incurred in bringing new fixed assets into functional use.

Subsequent expenditures such as the replacement of a part of property or equipment, modification, adaptation or general repair of the assets are recognized as an increase in the net book value of the respective assets, when it is probable that future economic benefits will flow to the Company, and when the cost can reliably be measured.

The maintenance and repair expenses: replacement and installation of spare parts and consumables used, as well as the expenses of day-to-day servicing of equipment are charged to expenses of the period.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Depreciation and Amortization

The depreciation of property, plant and equipment is charged to their cost as reduced for the estimated residual amount, using the straight-line method over their estimated useful life. The basic annual rates of depreciation applied were as follows:

	Useful life (in years)	Depreciation Rate (%)	Rate Prescribed by Income Tax Law (%)
Vehicles	7	14.33	15
Computers and other equipment	5	20	30
Other equipment	3-10	33.33-10	20

The depreciation of equipment for tax purposes is calculated using digressive method for the whole period, disregarding the date of activation of such assets (Article 13, Paragraph 6 of the Corporate Income Tax Law (Official Gazette of Montenegro, No. 80/2004, 40/2008 and 86/2009).

3.8. Impairment of Assets

ReSPA's management reviews the carrying amounts of the intangible and tangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. If the estimated recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount.

3.9. Inventories

Inventories are primarily stated at the lower of cost and net realizable value. Cost includes the invoiced value increased for import expenses and other non-recoverable duties, transportation, manipulative and other expenses that can be directly attributed to acquisition. The inventories of materials used are assigned using the weighted-average cost method.

The net realizable value is the price at which inventories may be sold in the normal course of business, less sale realization expenses.

Provisions that are charged to "Other expenses" are made where appropriate in order to reduce the carrying value of such inventories according to the management's best estimate of their net realizable value. Inventories found to be damaged or of a substandard quality are written off in full.

3.10. Donations of European Commission

Granted assets i.e. donated assets (IT equipment, furniture for furnishing of facilities given to use of ReSPA and other related equipment), are recognized at cost at the time of admission. The long-term reserves are formed for the amount of the cost value of equipment.

Donations received for the purpose of purchasing equipment and nonmaterial donations (property) are shown as deferred donations and are amortized over the useful life of the donated equipment.

The amounts of depreciation of the donated equipment are recorded as other operating income during the useful life of the donated equipment.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments

Financial assets are classified into the category of accounts receivable. The classification of the financial assets depends on a kind and purpose of a financial instrument and is determined at initial recognition.

Accounts Receivable

Accounts receivable and other receivables that have fixed or determinable payments and are not quoted in an active market are measured at amortized cost using the effective interest method, less any impairment based on the management's estimate of their collectability.

Impairment of Financial Assets

Financial assets are assessed for impairment as of the financial statements' preparation date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of financial assets impairment could include the following:

- significant financial difficulty of the legal entity - counterparty; or
- delay or default in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The book value of accounts receivable is reduced through the allowance account. When an account receivable is not collectible, it is written off through the impairment account. Subsequent collections of the previously written off amounts are disclosed as a decrease in the allowance for impairment. Changes in the book value on the impairment account are recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Derecognition of Financial Assets

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments, or if it transfers financial assets along with all the risks and rewards of ownership to another entity. In case when the Company neither transfers nor substantially retains any of the risks or returns arising from property, and it retains control over financial assets, it continues to recognize financial assets.

Cash and Cash Equivalents

In the statement of cash flows, cash and cash equivalents comprise cash in hand, cash and balances on current bank accounts, and demand deposits placed with commercial banks for the period of up to three months.

Financial Liabilities

Financial liabilities are initially measured at fair value, net of transaction costs.

Derecognition of Financial Liabilities

ReSPA derecognizes financial liabilities when, and only when, ReSPA's obligations are discharged, cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Fair Value

It is a policy of ReSPA to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In Montenegro, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables, investments and other financial assets or liabilities, for which published market prices are presently not readily available. As a result, fair value cannot readily or reliably be determined. The management of ReSPA assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may have suffered an impairment loss, appropriately, it recognizes a provision made in order to reduce these assets to their estimated recoverable amounts. In the management's opinion, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

4. CORRECTION OF OPENING BALANCE

The opening balance of retained earnings as of June 23 2011 in the net amount of EUR 9.202 refers to the effects of correction of errors identified in 2011 and related to the accounting period prior to December 31, 2010. The identified errors are related to the following: errors of calculation of taxes and contributions on salaries and fees in the amount of EUR 9.424, for which, Pursuant to the provisions of Chapter "X - privileges and immunities" of Agreement on Foundation of ReSPA signed in Podgorica as at November 21, 2008 i.e. Certificate on registration issued by Ministry of foreign affairs of Montenegro - Department for consular affairs and diasporas, and pursuant to the provisions of the Article 166, paragraph 1 of the Law on General Administrative Procedure and on the basis of Article 184, paragraph 1) item 1) of Law on General Administrative Procedure (Official Gazette of Montenegro No. 60/02, 60/03 and 32/11) and on the basis of Article 18a paragraph 4) item 1) Law on Social Security (Official Gazette of Montenegro No. 86/09, 78/10, 14/12), ReSPA is not obliged to calculate and pay from the salaries of its employees; errors in the recognition of deferred revenue from donations in the amount of EUR 292 and more errors in the recognized liabilities from operations amounting to EUR 70. Management of ReSPA did not identify the errors that have the effect on periods prior to the earliest comparative period presented i.e. August 1, 2010. The effects of the correction of statement of comprehensive income for the year ended December 31, 2010 are shown in the following table:

(In EUR

Category / Position	**Statement of Comprehensive Income for the period from August 1 through December 31, 2010**	**Effects of adjustment for the period from August 1 through December 31, 2010**	***adjusted* Statement of Comprehensive Income for the period from August 1 through December 31, 2010**
OPERATING INCOME	304,399	(292)	304,107
Sales income	109,582	-	109,582
Other operating income	194,817	(292)	194,525
OPERATING EXPENSES	(242,871)	9,494	(233,377)
Material, fuel and energy consumed	(28,976)	-	(28,976)
Staff costs	(77,504)	9,424	(68,080)
Amortization and depreciation	(15,502)	-	(15,502)
Other operating expenses	(95,851)	70	(95,781)
PROFIT FROM OPERATIONS	61,528	9,202	70,730
NET COMPREHENSIVE INCOME	61,528	9,202	70,730

4. CORRECTION OF OPENING BALANCE (Continued)

Effects of adjustments of 2010 Statement on financial position are presented in the following table:

(In EUR)

Category / Position	Statement of Financial Position for the period from August 1 through December 31, 2010	Effects of adjustment for the period from August 1 through December 31, 2010	*adjusted* Financial Position for the period from August 1 through December 31, 2010
ASSETS			
Non-current assets	920,268	-	920,268
Intangible assets	-	-	-
Property, plant and equipment	920,268	-	920,268
Current assets	1,488,908	-	1,488,908
Inventories	8,155	-	8,155
Accounts receivable	65,473	-	65,473
Cash and cash equivalents	1,415,280	-	1,415,280
Prepaid value added tax	-	-	-
Total assets	2,409,176	-	2,409,176
EQUITY AND LIABILITIES			
Equity and reserves	61,528	9,202	70,730
Retained earnings	61,528	9,202	70,730
Accumulated loss			
Short-term liabilities	2,347,648	(9,202)	2,338,446
Short-term accounts payable	648,177	(70)	648,107
Short-term finance liabilities	-	-	-
Accrued liabilities	1,699,471	(9,132)	1,690,339
TOTAL EQUITY AND LIABILITIES	2,409,176	-	2,409,176

5. SALES INCOME

(In EUR)

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	Period from August 1 through December 31, 2010
Income generated from services rendered-Hotel	143,443	178,065	109,582
	143,443	178,065	109,582

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011

6. OTHER OPERATING INCOME

(In EUR)

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	Period from August 1 through December 31, 2010
Financial donation (Note 17)	443,019	61,378	-
Financial donation in equipment (Note 17)	68,083	99,906	14,525
Membership fees	360,000	360,000	180,000
	871,102	521,284	194,525

Income from financial donations, which for the period from June 23 through December 31, 2011 amounted EUR 427.802, refers to the funds from donations from the European Commission in accordance with the Contract "Grant Contract 2010/256-128", signed in Brussels as at November 26, 2010 between ReSPA and the European Commission.

In accordance with Article 23, Chapter “X - privileges and immunities” of Agreement on Foundation of ReSPA, all members of the signatories of the agreement are required to pay an annual fee (for the Core Budget) in the amount of EUR 120 000 per member country in 2009, i.e. EUR 150,000 per member country for the next year. Due to delay in the start of ReSPA’s activities in 2010, as at September 26, 2010 the Board sent a letter to all member countries with the information that the annual membership fee in the amount of EUR 150,000 per member country will refer to three months of 2010 and the whole 2011.

Revenue from membership fees by member countries for a period from June 23 through December 31, 2011 and the period from August 1 through December 31, 2010, is as shown in the table below:

(In EUR)

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	Period from August 1 through December 31, 2010
Republic of Albania	60,000	60,000	30,000
Federation of Bosnia and Herzegovina	60,000	60,000	30,000
Republic of Croatia	60,000	60,000	30,000
Republic of Macedonia	60,000	60,000	30,000
Montenegro	60,000	60,000	30,000
Republic of Serbia	60,000	60,000	30,000
	360,000	360,000	180,000

7. MATERIALS, FUEL AND ENERGY USED

(In EUR)

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	Period from August 1 through December 31, 2010
Cost of goods sold in retail	6,889	41,855	25,038
Cost of goods sold in wholesale	9,578	-	-
Maintenance	7,412	11,549	12,070
Fuel and electricity	19,211	18,387	16,906
Office materials	9,422	1,019	-

	52,512	72,810	54,014

8. STAFF COSTS

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	(In EUR) Period from August 1 through December 31, 2010
Net salaries	261,342	93,070	68,080
Per diems for business trips	25,503	23,626	-
Transport, accommodation and meals on business trips	29,110	22,274	-
Fees and temporary contracts	75	-	-
Cost of labour wears-uniforms	326	-	-
Daily cost of seminars attendance	292	-	-
	316,648	138,970	68,080

Expenses of net salaries for the period from June 23 through December 31, 2011 amounting to EUR 261.342 referred to net salaries of staff employed at Hotel in the amount of EUR 65.674 and net salaries paid to the management and staff of ReSPA in the amount of EUR 195.668.

9. EXPENSES OF AMORTIZATION AND DEPRECIATION

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	(In EUR) Period from August 1 through December 31, 2010
Amortization (Note 12)	12,255	15,768	14,817
Amortization of donated assets (Note 12)	68,083	99,906	685
	(80,338)	(115,674)	(15,502)

Cost of depreciation of donated funds for a period from June 23 through December 31, 2011 amounted to EUR 68.083 and are related to the amortization of the equipment the ReSPA received as a donation from the European Union in 2010.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011

10. OTHER OPERATING EXPENSES

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	(In EUR) Period from August 1 through December 31, 2010
Seminars	200,551	-	9,123
Bank charges	2,982	1,000	933
Marketing and advertisement	1,249	-	9,547
Legal, accounting and consultancy services	15,300	4,200	-
Other professional services	1,200	-	-
Transportation	31,553	1,028	-
Postal services	27,392	-	-
Presentation preparation	-	-	15,212
Cost of services and conceptual design	12,795	-	-
Organization of ReSPA activities	171,070	58,778	-
Implementation of EC Grant	23,985	-	-
Translation services	2,146	-	-
Entertainment	2,874	-	-
Maintenance services	4,948	2,113	6,471
Cost of utilities	-	1,144	-
Provision for the introduction of ISO 9001 and HACCP (note 17)	32,151	-	-
Provision for maintenance of hotel inventory (Note 17)	48,226	-	-
Provision for maintenance of the building (Note 17)	64,302	-	-
Other operating expenses	4,005	7,378	54,495
	646,729	75,641	95,781

Seminars expenses in the amount of EUR 200.551 refer to the costs of organizing the seminars in ReSPA's premises or the cost of the summer schools organized by ReSPA abroad. Out of this amount, the costs of organizing seminars abroad amounted to EUR 117.974.

Costs of implementation of EC grant of EUR 171.070 refer to the fees of experts and trainers, as well as their per diem, travel expenses and accommodation costs.

Provision for the introduction of ISO 9001 and HACCP for the period from June 23 until December 31, 2011 in the amount of EUR 32.151, refer to the introduction of these quality standards in hotel business. Although certification is not yet finalized, in 2011 the trainings were conducted and executed the start of implementation.

Provision for maintenance of the buiding in the amount of EUR 64.302 refer to the costs of regular maintenance of the premises where there are offices and facilities for training conducted by ReSPA, which were given to ReSPA by and the Government of Montenegro for its the long-term use without compensation.

11. INTANGIBLE ASSETS

As of December 31, 2011, intangible assets of ReSPA amounts EUR 355 and refer to investments in software and licences for software.

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NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011
12. PROPERTY, PLANT, EQUIPMENT AND BIOLOGICAL ASSETS

	Investment in buildings – property not owned by ReSPA	IT Equipment	Furniture	Vehicles	Tools and small inventory	Total
Cost						
Balance, January 1, 2010						-
Acquisitions	47,769	13,828	-	-	16,205	77,802
Acquisitions during the year financed by European Commission	-	361,842	496,126	-	-	857,968
Balance, December 31, 2010	47,769	375,670	496,126	-	16,205	935,770
Balance, January 1, 2011	47,769	375,670	496,126	-	16,205	935,770
Acquisitions		3,402	-	-	6,921	10,323
Balance, June 22, 2011	47,769	379,072	496,126	-	23,126	946,093
Balance, June 23, 2011	47,769	379,072	496,126		23,126	946,093
Acquisitions during the year financed by European Commission	-	3,398	20,271	24,900	797	49,366
Acquisitions during the period	47,769	382,470	516,397	24,900	23,923	995,459
Balance, December 31, 2011						
Accumulated Depreciation	-	-	-	-	-	-
Balance, January 1, 2010	568	6,931	7,886	-	117	15,502
Charge for the year	568	6,931	7,886	-	117	15,502
Balance, December 31, 2010						
	568	6,931	7,886	-	117	15,502
Balance, January 1, 2011	1,132	57,355	48,235	-	8,952	115,674
Charge for the period	1,700	64,286	56,121	-	9,069	131,176
Balance, June 22, 2011						
	1,700	64,286	56,121	-	9,069	131,176
Balance, June 23, 2011	5,689	30,262	41,348	346	2,668	80,313
Charge for the period	7,389	94,548	97,469	346	11,737	211,489
Balance, December 31, 2011						
Net Book Value	40,380	287,922	418,928	24,554	12,186	783,970
December 31, 2011	46,069	314,786	440,005	-	14,057	814,917
December 31, 2010	47,201	368,739	488,240	-	16,088	920,268

12. PROPERTY, PLANT, EQUIPMENT AND BIOLOGICAL ASSETS (Continued)

In accordance with the Agreement concluded between ReSPA and the Government of Montenegro on the seat and the functioning of ReSPA in the host country ("Host Country Agreement"), the Government of Montenegro as a host country, was obliged to provide free of charge all the necessary conditions operating, including the offices of ReSPA and hotel facility, as well as the surrounding land. Under this agreement, the Government was obliged to give these properties to ReSPA for the use.

International agreement on the foundation stipulated that the Montenegrin Government gave the official premises of ReSPA and hotel facility and surrounding land for use to ReSPA free of charge for a period of seven years beginning from August 1, 2010, but after the expiration of five years, the Board of ReSPA will decide whether it will request the Government of Montenegro an extension to the usage deadline for seven years more.

From the enacting of the International Agreement on the Foundation of ReSPA to the signing of the Agreement between ReSPA and the Government of Montenegro on the seat and the functioning of ReSPA in the host country, i.e. June 23, 2011, the Directorate of Human Resources of Montenegro was appointed by the Board of ReSPA for its temporary manager.

The European Union in the end of 2010 donated IT equipment and furniture to ReSPA in the total amount of EUR 857.968. In accordance with the Decision enacted by the Board of Directors of ReSPA, Directorate for Human Resources had an obligation of taking the above mentioned equipment donated by the European Union, and the obligation to coordinate the activities on furnishing the facilities given to the use of ReSPA by the Government of Montenegro, and to ensure continuous monitoring of these facilities to their assignment to ReSPA. Until the date of preparation of these financial statements, the handover of the above mentioned facilities, equipment and furniture, was not completed between the Directorate for Human Resources and ReSPA.

As of December 31, 2011, investments in buildings - property not owned by ReSPA amounted to EUR 40.380, and referred to investment in business premises, hotel building and development of surrounding land, which the Government of Montenegro, as noted above, gave to ReSPA for usage without compensation.

Total depreciation of property, plant and equipment for the period from June 23 through December 31, 2011 amounted to EUR 80.313, out of which the depreciation of donated equipment was in the amount of EUR 68.083 and it is recognized as income of the related period (Note 6 and 17).

13. INVENTORIES

(In EUR)

	December 31, 2011	June 22, 2011	December 31, 2010
Storehouse inventories	14,145	778	-
Goods in retail	2,687	3,275	8,155
	16,832	4,053	8,155

As of December 31, 2011, ReSPA has inventories in the amount of EUR 16.832 relating to food and beverage that are used by participants in the seminars, experts and trainers in the Hotel, given that trainings are organized in that way that all the participants, experts and trainers have been provided with the accommodation and food in the ReSPA.

14. ACCOUNTS RECEIVABLE

(In EUR)

	December 31, 2011	June 22, 2011	December 31, 2010
Receivables for membership fees (Contribution)			
- Republic of Albania	70	70	-
- Bosnia and Herzegovina	150,000	90,000	30,000
- Republic of Macedonia	827	90,000	30,000
	150,897	180,070	60,000
Receivables from customers:			
- domestic	10,031	7,574	5,473
- foreign	3,341	6,503	-
	13,372	14,077	5,473
Receivables from advances	4,921	-	-
Other account receivable	-	1,687	-
	169,190	195,834	65,473

As of December 31, 2011 ReSPA has disclosed receivables for membership fees of member countries in the amount of EUR 150.897.

Pursuant to the provisions of Chapter IX of Agreement on Foundation of ReSPA signed in Podgorica as at November 21, 2008, all members of the signatories of the agreement are required to pay an annual fee (for the Core Budget) in the amount of EUR 120 000 per member country in 2009 or EUR 150,000 per member country for the next year. Due to delay in the start of ReSPA's activities in 2010, as at September 26, 2010 the Board sent a letter to all member countries with the information that the annual membership fee in the amount of EUR 150,000 per member country will refer to three months of 2010 and the whole 2011.

Accordingly, in 2010 the member countries have paid a total amount of EUR 549.930, out of which and EUR 100.000 paid by Montenegro, Republic of Serbia and Croatia the amount of EUR 150.000 EUR and Albania the amount of EUR 149.930. In 2011, the total paid amount was EUR 338.178 out of which EUR 50,000 by Montenegro, Macedonia EUR 149.173 and EUR 139.005 by Republic of Albania. Payment of the Republic of Albania is based on membership fee for 2012 (note 16).

15. CASH AND CASH EQUIVALENTS

(In EUR)

	December 31, 2011	June 22, 2011	December 31, 2010
Cash in hand	940	3,795	-
Gyro accounts	37,307	254,937	268,384
Foreign currency account	909,545	1,082,461	1,146,896
	947,792	1,341,193	1,415,280

16. ACCOUNTS PAYABLE

(In EUR)

	December 31, 2011	June 22, 2011	December 31, 2010
Payables for prepaid fees in accordance with the Agreement on the Foundation of ReSPA:			
- Republic of Albania	139,005	60,000	119,930
- Republic of Montenegro	-	60,000	70,000
- Republic of Croatia	-	60,000	120,000
- Republic of Serbia	-	60,000	120,000
	139,005	240,000	429,930
Payables to suppliers:			
- domestic	19,856	8,999	21,779
- foreign	60,133	10,815	-
	79,989	19,814	21,779
Payables to the Directorate for the Human Resources of Montenegro	196,398	196,398	196,398
Liabilities to employees	235	-	-
Payables under the contract on hiring experts	20,517	3,723	-
	436,144	459,935	648,107

Payables for prepaid membership fees in accordance with the Agreement on the Foundation of ReSPA as of December 31, 2011 amounted to EUR 139.005 and refer to the membership fee in accordance with the International Agreement on the Foundation paid in advance for 2012 by the Republic of Albania.

Payables to the Directorate for the Human Resources of Montenegro as of December 31, 2011 in the amount of EUR 196.398 refer to the liabilities ReSPA to the Directorate for the Human Resources in the amount of EUR 171.521 or the Directorate for property in the amount of EUR 24.877.

To implement the project of establishing ReSPA in accordance with the deadlines set by the European Commission, these institutions have no outstanding payables to suppliers of ReSPA from their own funds in behalf of ReSPA. As of April 26, 2012, ReSPA settled its liabilities to the mentioned institutions.

**NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2011**

17. ACCRUED LIABILITIES

(In EUR)

	December 31, 2011	June 22, 2011	December 31, 2010
Provisions on:			
Received financial donation	342,499	785,518	846,896
Received donation in equipment	675,454	743,537	843,443
Accrued expenses of EC Grant implementation	14,700	-	-
Accrued accounting expenses	2,000	-	-
Implementation of ISO 9001 and HACCP (Note 10)	32,151	-	-
Hotel maintenance (Note 10)	48,226	-	-
Building maintenance (Note 10)	64,302	-	-
Other accrued liabilities	15,215	-	-
	1,194,547	1,529,055	1,690,339

Changes in accrued liabilities arising from financial donations received for the period from June 23 through December 31, 2011, from January 1 through June 22, 2011 and August 1 through December 31, 2011 are shown in the following table:

(In EUR)

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	Period from August 1 through December 31, 2010
Balance at the beginning of the period	785,518	846,896	-
Increase	-	-	846,896
Used during the period (Note 6)	(443,019)	(61,378)	-
Balance at the end of the year	342,499	785,518	846,896

Changes in accrued liabilities arising from financial donations in equipment received for the period from June 23 through December 31, 2011, from January 1 through June 22, 2011 and August 1 through December 31, 2011 are shown in the following table:

(In EUR)

	Period from June 23 through December 31, 2011	Period from January 1 through June 22, 2011	Period from August 1 through December 31, 2010
Balance at the beginning of the period	743,537	843,443	-
Increase	-	-	857,968
Depreciation (Note 6)	(68,083)	(99,906)	(14,525)
Balance at the end of the year	675,454	743,537	843,443