THE REGIONAL SCHOOL OF PUBLIC ADMINISTRATION
BRANELOVICA, DANILOVGRAD

Financial Statements
December 31, 2018
and Independent Auditors' Report

CONTENTS

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of the Regional School of Public Administration, Danilovgrad (hereinafter: "ReSPA"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the ReSPA as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the ReSPA in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Comparative Information

We draw attention to Note 4 to the financial statements which indicate that the comparative information presented as at and for the year ended 31 December 2017, and as at 1 January 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of ReSPA as of and for the year ended 31 December, 2017 and 31 December 2016 (from which the balance sheet as at 1 January 2017 has been derived), excluding the adjustments described in Note 4 to the financial statements, were audited by another auditor, who expressed an unmodified opinion on those financial statements on 12 November 2018 and 6 September 2017.

As part of our audit of the financial statements as at and for the year ended 31 December 2018, we audited adjustments described in Note 4 that were applied to restate the comparative information presented as at and for the year ended 31 December 2017 and the balance sheet as at 1 January 2017. We were not engaged to audit, review, or apply any procedures to the financial statements for the years ended 31 December 2017 or 31 December 2016 (not presented herein) or to the balance sheet as at 1 January 2017, other than with respect to the adjustments described in Note 4 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements as a whole. However, in our opinion, the adjustments described in Note 4 are appropriate and have been properly applied.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ReSPA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the ReSPA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ReSPA's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 ReSPA's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ReSPA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ReSPA to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Belgrade, 8 July 2019

KPMG d.o.o. Beograd

KPMG d.o.o., Belgrade

Društvo za konsalting i reviziju KPMG d.o.o. 1 Beograd

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
Year ended December 31, 2018
(Amounts in EUR)

	Notes	2018	2017
REVENUE			
Income from the sales of services	5	70,110	92,482
Income from grants and membership fees and other income	6	1,900,500	2,594,596
		1,970,610	2,687,078
OPERATING EXPENSES			
Costs of goods sold	7	(2,642)	(4,731)
Cost of materials, fuel and energy used	8	(63,358)	(76,385)
Staff costs	9	(586,444)	(548,948)
Amortization and depreciation charge	10	(44,253)	(51,185)
Costs of production services	11	(629,930)	(1,142,480)
Costs of non-production services	12	(828,783)	(798,198)
		(2,155,410)	(2,621,927)
OPERATING PROFIT / (LOSS)		**(184,800)**	**65,151**
Finance income		76	67
Finance costs		-	-
NET FINANCE COSTS		**76**	**67**
Other income		15,338	10,382
Other expenses		(5,828)	-
PROFIT / (LOSS) BEFORE TAX		**(175,214)**	**75,600**
Income tax expense		-	-
PROFIT / (LOSS) FOR THE YEAR		**(175,214)**	**75,600**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**(175,214)**	**75,600**

These financial statements were adopted on 3 July 2019.

Signed on behalf of the Regional School of Public Administration, Branelovica, Danilovgrad by:

Finance and Operations Manager - Coordinator:
Vlatko Naumovski

Director:
Ratka Sekulović

Regional School of Public Administration ReSPA DANILOVGRAD MONTENEGRO

Notes on the following pages
form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As of December 31, 2018
(Amounts in EUR)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
Intangible assets	13	-	2,945
Property and leasehold improvements	14	114,816	124,718
Total non-current assets		114,816	127,663
Current assets			
Inventories	15	30,202	15,158
Trade and other receivables	16	325,584	153,530
Cash and cash equivalents	17	398,676	1,535,691
Prepaid expenses	18	2,781	3,125
Total current assets		757,243	1,707,504
Total assets		872,059	1,835,167
EQUITY AND LIABILITIES			
Equity			
Retained earnings		266,811	442,025
Total equity		266,811	442,025
Current liabilities			
Loans and borrowings	19	315,014	-
Accounts payable	20	9,326	11,111
Accrued liabilities	21	280,908	1,382,031
Total current liabilities		605,248	1,393,142
Total equity and liabilities		872,059	1,835,167

These financial statements were adopted on 3 July 2019.

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STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2018
(Amounts in EUR)

	Retained earnings	Total
Balance, January 1, 2017	695,402	695,402
Adjustment (note 4)	(328,976)	(328,976)
Adjusted profit for the current period	75,600	75,600
Balance, December 31, 2017	442,025	442,025
Balance, January 1, 2018	442,025	442,025
Loss for the current period	(175,214)	(175,214)
Balance, December 31, 2018	266,811	266,811

These financial statements were adopted on 3 July 2019.

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Finance and Operations Manager - Coordinator:

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Regional School of Public Administration • ReSPA • DANILOVGRAD • MONTENEGRO

Director:

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STATEMENT OF CASH FLOWS
Year ended December 31, 2018
(Amounts in EUR)

	Notes	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash flows from operating activities			
Inflows from operating activities		665,707	2,285,839
Proceeds from sales and advances received		57,797	151,561
Interest receipts from operating activities		12	26
Other inflows from operating activities		607,898	2,134,252
Outflows from operating activities		(2,117,842)	(3,156,556)
Payments to suppliers and advances paid		(1,568,102)	(2,619,589)
Payments to and on behalf of employees		(549,740)	(536,967)
Net cash used in operating activities		(1,452,135)	(870,717)
Cash flows from investing activities			
Outflows from investing activities		(20,194)	(57,268)
Proceeds from the sale of property, plant and equipment		20,300	-
Net cash generated by investing activities		106	(57,268)
Cash flows from financing activities			
Inflow from financing activities		315,014	-
Net cash generated by financing activities		315,014	-
Net cash decrease		(1,137,015)	(927,985)
Cash at the beginning of the reporting period		1,535,691	2,463,676
Cash at the end of reporting period	**16**	398,676	1,535,691

These financial statements were adopted on 3 July 2019.

Signed on behalf of the Regional School of Public Administration, Branelovica, Danilovgrad by:

Finance and Operations Manager - Coordinator:
Vlatko Naumovski

Regional School of Public Administration · ReSPA · DANILOVGRAD · MONTENEGRO

Director:
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NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2018

1. FOUNDATION AND BUSINESS ACTIVITY

In June 2003 the Council of Ministers of the European Union (hereinafter: "EU") endorsed "The Thessaloniki Agenda for the Western Balkans: Moving towards European Integration" which supported the creation of a regional mechanism for training and education of civil servants.

In accordance with the "Thessaloniki Agenda for the Western Balkans: Moving towards European Integration" in May 2006 the "Protocol on Cooperation in the Creation of the Regional School of Public Administration" (hereinafter "ReSPA") was signed in Brussels, between the Governments or Councils of Ministers of the Republic of Albania, Bosnia and Herzegovina, the Republic of Croatia, Republic of North Macedonia, Montenegro, the Republic of Serbia and UNMIK in presence of representatives of the European Commission. After signing the Protocol on Cooperation in the Creation of ReSPA, the Governing Board at Ministerial level of ReSPA was formed, comprising representatives of ReSPA member countries. In addition, ReSPA Secretariat was formed, comprised of 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 6th Board Meeting of ReSPA, held in Paris on January 31, 2008, it was decided that the head office be in Danilovgrad.

By signing the Letter of Intent in Ljubljana on June 12, 2008, six countries committed to sign the "Agreement Establishing the Regional School of Public Administration". The representatives of five member countries of ReSPA signed the "Agreement Establishing the Regional School of Public Administration" in Podgorica on November 21, 2008, while Bosnia and Hercegovina signed the Agreement in 2009. In accordance with the International "Agreement Establishing the Regional School of Public Administration", the agreement shall be in effect seven years from the date of its entry into force upon signing, with an option of its extension. At the end of the fifth year of the validity of this Agreement, ReSPA member countries will decide by the two-third majority vote if this Agreement is to be renewed for additional seven years. As at June 27, 2016, the Governing Board at Ministerial level voted by the two-third majority vote in favour of extension of the Agreement's validity for another seven years starting on August 1, 2017 and issued Decision no. GB-ML R/02-2016 thereon. In accordance with the International Agreement Establishing ReSPA, the agreement shall be in effect seven years from the date of its entry into force upon signing, with an option of its extension. At the end of the fifth year of the validity of this Agreement, ReSPA member countries will decide by the two-third majority vote if this Agreement is to be renewed for additional seven years.

ReSPA establishes close co-operation with ministers, senior public servants and heads of function in Member countries. ReSPA also works in partnership with the European Union, specifically Directorate General for Neighbourhood and Enlargement Negotiations (DG NEAR), other regional players such as OECD/SIGMA and Regional Cooperation Council (RCC), as well as agencies and civil society organizations. Since its inception, ReSPA, as an international organization and a key regional endeavour in Public Administration Reform, has contributed to capacity-building and networking activities through in-country support mechanisms, peering and the production of regional research material.

ReSPA works primarily through regional networks which operate at three levels: Ministerial, Senior Officials, and networks/working groups of experts and senior practitioners. There is one network – Programme Committee composed of the representatives of institutions in charge of PAR, Public Financial Management (PFM) and government policy planning and the European Integration (EI) coordination process and five Working groups: (1) Centre-of-Government Institutions; 2) Better Regulation; 3) Human Resource Management and Development; 4) EGovernance; and 5) Quality Management.

As an operational part of ReSPA, there is a hotel whose capacities are used solely for accommodation of participants, experts and coaches holding capacity building events conducted by ReSPA.

1. FOUNDATION AND BUSINESS ACTIVITY (Continued)

The Government of Montenegro as the host country has provided all the necessary conditions, including premises for ReSPA with complete equipment and facilities for capacity building activities, 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 ReSPA Establishment and Agreement concluded between ReSPA and the Government of Montenegro on the Headquarters and the Functioning of ReSPA in the Host Country (the "Host Country Agreement").

As from the effective date of the International Agreement on Establishment of ReSPA through June 23, 2011, the Governing Board at Ministerial level of ReSPA, appointed the Human Resources Management Authority of Montenegro as a Provisional Administrator of ReSPA. After signing the Agreement between ReSPA and the Government of Montenegro on the Headquarters and the Functioning of ReSPA in the Host Country on June 23, 2011, the administration of ReSPA was transferred to the management members of ReSPA itself.

ReSPA is located in Danilovgrad (Branelovica), Montenegro, as an institution providing capacity building activities at the regional level and beyond. As of December 31, 2018, ReSPA had 16 employees (December 31, 2017: 16 employees).

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

2.1. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

2.2. Basis of Preparation and Presentation of Financial Statements

The accompanying financial statements have been prepared under historical cost basis.

In the preparation of the accompanying financial statements as of December 31, 2018, ReSPA used the direct method of reporting on cash flows.

The accompanying financial statements for the year ended December 31, 2018 have been prepared on the going concern basis.

2.3. Functional and presentation currency

The Financial Statements are presented in eur, which is the ReSPA’s functional currency.

2.4. Impact and Application of Newly Issued and Amended Standards

Certain new amendments to standards and interpretations have been issued but are not yet effective for the year ended 31 December 2018. The following amended standards and interpretations are not yet effective and are not expected to have a significant impact on the ReSPA’s financial statements:

- Amendments to IFRS 10 “Consolidated financial statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or transfer of funds free of charge between the investor and its associate or joint venture (amendments made in September 2014, the application has been postponed indefinitely);

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

2.4. Impact and Application of Newly Issued and Amended Standards (Continued)

- Amendments to IFRIC 23 "Uncertainty over Income Tax Treatments" (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019);

- Annual Improvements to IFRSs 2015-2017 Cycle - Amendments to IFRS 3 “Business Combinations”, IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes”, IAS 23 “Borrowing costs” (issued in December 2017, effective for annual periods beginning on or after 1 January 2019);
- Amendments to References to the Conceptual Framework in IFRS Standards - IAS 1 “Presentation of Financial Statements”, IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” (issued in March 2018, effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 19 “Employment Benefits” - Plan Amendment, Curtailment or Settlement (issued in February 2018, effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (issued in October 2017, effective for annual periods beginning on or after 1 January 2019).
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (issued in October 2017, effective for annual periods beginning on or after 1 January 2019).

The abovementioned new standards, amendments to standards and interpretations have not been applied by the ReSPA in preparing these financial statements on the basis of early adoption.

The ReSPA has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The extent of the potential impact has not yet been determined by the date when these financial statements have been authorized for the issuance. However, no significant impact is expected.

2.5. Standards issued but not yet effective

The standards that are issued but not yet effective are disclosed below:

- IFRS 16 – Leases

IFRS 16 “Leases”, issued on 13 January 2016 replaces existing leasing guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The ReSPA will adopt IFRS 16 on the required effective date.

ReSPA is currently assessing the impact of IFRS 16. No major impact is expected in terms of the application of this new standard to the financial statements of the ReSPA.

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

2.5. Standards issued but not yet effective (Continued)

- IFRS 17 – Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 was issued in May 2017 and supersedes IFRS 4 Insurance Contracts. It applies to annual reporting periods beginning on or after 1 January 2021.

This standard will have no impact on the financial statements of the ReSPA.

2.6. Use of Estimates

The preparation of financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods (prospective applications).

These estimations mostly refer to the estimations of impairment of accounts receivable, the useful life of equipment and other provisions.

2.6.1. Depreciation and Amortization and depreciation/amortization rates

Calculation of depreciation/amortization and applicable depreciation/amortization rates are based on the projected useful life of equipment and intangible assets. Useful economic life is assessed once a year based on the current estimates.

2.6.2 Allowance for impairment of receivables

Accounts receivable are assessed for impairment as of the financial statements' preparation date. Accounts receivable 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 accounts receivable impairment could include the following:

- significant financial difficulty of the legal entity - debtor; or
- delay or default in payments; or
- it is becoming probable that the debtor 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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

3.1. Sales Income

ReSPA income comprises of:

- Sales income generated from rendering services – ReSPA Campus
- Income from membership fees
- Income from financial donations/grants (Non-monetary and monetary)
- Other income.

Income is recognized when increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

Income from contributions fees is recognized on an accrual basis in the period in which it arises. Revenue recognized for the financial year will equal the total of eligible expenditures incurred by the ReSPA during the year on an accrual basis. If membership contributions are higher than incurred expenditure or not used at the end of financial year (i.e. carry over contributions), it is recognized as deferred income within accrued liabilities. ReSPA governing bodies may decide to allocate unused (carry over) contributions to working capital fund. Accrued liability is released as revenue in the statement of profit or loss when eligible expenditure is incurred and approved by the Budget Committee. In case membership contributions are lower than incurred eligible expenses, accrued receivable is recognized.

Income generated from a financial donation of the European Commission (EC) comprises grants approved to ReSPA for the purpose of financing its operations. Funds received are recognized as income on a systematic and rational basis for the period in the amount necessary to cover the operational costs. The amounts of depreciation of the donated equipment are recorded as other operating income during the useful life of the donated equipment.

At the time when income is recognized, the related expenditure is also recognized (as per the “matching principle”). The expenses are charged to the statement of profit and loss and comprehensive income in the accounting period to which they relate, and when they do not qualify for recognition as assets.

3.2. Expenses

The expenses presented in the financial statements of ReSPA can be divided into the following categories:

- Cost of goods sold, fuel and energy used;
- Staff costs;
- Other operating expenses.

Costs of goods sold, are the costs incurred relating to income generated from services rendered in the ReSPA Campus. Expenses related to fuel and energy used mainly include utility costs, maintenance, fuel and other costs relating to the operational activity of ReSPA Campus.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Expenses (Continued)

Staff costs mainly include Gross salary, per diems for business trips, expenses relating to transport, accommodation and meals on business trips.

The operating expenses of ReSPA mainly relate to implementation of EC Grant, seminars, and services relating to ReSPA visibility, advertisement, legal, accounting, professional, translation and other services.

Expenses are recognised in the income statement when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Expenses are recognised in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events.

Cost of goods sold relating to the income generated from services rendered in ReSPA Campus is recognized in the period where the sale takes place and the amount recognized as Cost of goods sold is equal to the inventory value of the items that are sold.

3.3. Employee Benefits

Pursuant to the provisions of Chapter “X - Privileges and Immunities” of the Agreement on Establishment of ReSPA signed in Podgorica on November 21, 2008 and the Certificate on Registration issued by the Ministry of Foreign Affairs of Montenegro - Department for Consular Affairs and Diaspora, and pursuant to the provisions of Article 166, paragraph 1 of the Law on General Administrative Procedure (“Official Gazette of the Republic of Montenegro”, nos. 60/02, 60/03 and “Official Gazette of Montenegro”, no. 32/11) and on the basis of Article 18a paragraph 4) item 1) of the Law on Social Security (“Official Gazette of Montenegro”, nos. 13/07, 79/08, 86/09, 78/10, 14/12, 62/13, 08/15, and 22/17), ReSPA is exempt from payment of personal income and other benefit (payroll) contributions.

3.4. Foreign Exchange Gains and Losses

All assets and liabilities denominated in foreign currencies as of the statement of financial position date are translated into EUR by applying the official exchange rates as of that date. Business transactions denominated in foreign currencies are translated into EUR by applying the official exchange rates available at the European Commission’s website. Foreign exchange gains or losses arising upon the translation of assets and liabilities and transactions are credited or charged to the statement of profit or loss and other comprehensive income as finance income or expenses.

3.5. Taxes and Contributions

Pursuant to the provisions of Chapter “X - Privileges and Immunities” of the Agreement on Establishment of ReSPA signed in Podgorica on November 21, 2008 and the Certificate on Registration issued by the Ministry of Foreign Affairs of Montenegro - Department for Consular Affairs and Diaspora, and pursuant to the provisions of Article 166, paragraph 1 of the Law on General Administrative Procedure, and according to the following:

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Taxes and Contributions (Continued)

- Article 184, paragraph 1) item 1) of the Customs Law ("Official Gazette of Montenegro" nos. 21/08, 28/12, 62/13),
- Article 25, paragraph 1) item 8b) of the Law on Value Added Tax ("Official Gazette of the Republic of Montenegro" nos. 04/06, and "Official Gazette of Montenegro" nos. 16/07, 29/13 09/15, 53/16, 01/17, 50/17),
- Article 6, paragraph 1) item 1) of the Law on Personal Income Tax ("Official Gazette of the Republic of Montenegro" nos. 37/04, 78/06 and "Official Gazette of Montenegro" nos. 86/09, 14/12, 06/13, 62/13, 60/14, 79/15, 83/16),
- Article 18a paragraph 4) item 1) of the Law on Social Security ("Official Gazette of Montenegro" nos. 13/07, 79/08, 86/09, 78/10, 14/12, 62/13, 08/15 and 22/17),

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

3.6. Intangible Assets

Purchased intangible assets must be entered at their acquisition cost. This includes the purchase price, including import dues and non-reimbursable consumption taxes withheld and directly assignable costs (e.g. legal consultancy fees, costs for function tests) payable in order to prepare the asset for its intended use. Cash discounts and other rebates are deducted during determination of the acquisition costs. After the initial recognition, intangible assets are carried at their cost less any accumulated amortization and any impairment losses. Intangible assets comprise purchased software.

The amortization of the intangible assets is calculated on a straight-line basis over the estimated useful life, not exceeding a period of 5 years.

Subsequent expenditures are to be capitalized if they can be reliably measured and assigned and there is sufficient probability that the expenditure is associated with a significant extension of the benefit beyond the previous performance level.

3.7. Property, plant and equipment

Property, plant and equipment (PPE) are in IAS 16 Property, plant and equipment defined as tangible assets that:

- are held for use in the production or supply of goods or services, for rental to others or for administrative purposes
- are expected to be used during more than one period.

During initial measurement, PPE are valued at their acquisition or conversion cost. Cost can also be defined as the fair value of consideration given for the asset as well as all directly attributable costs necessary to bring the asset to the necessary location and condition. Cost comprises:

- the purchase price, including import duties and non-refundable purchase taxes less any trade discounts and rebates;
- directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Property, plant and equipment (Continued)

ReSPA accounts for property, plant and equipment using cost model. ReSPA begins with the depreciation when the asset is available for use and ceases at the earlier of the date:

- that the asset is classified as held for sale
- that the asset is derecognized.

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 ReSPA, and when the cost can reliably be measured.

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 profit or loss and other comprehensive income.

3.8. Depreciation

Depreciation is provided on a straight-line basis at rates designed to write off. The basic annual rates of depreciation used in 2018 were unchanged in comparison to 2017 and are presented in the following table:

	Useful life (in years)	Rate (%)
Vehicles	5	20
Computers	5	20
Other equipment	3 – 10	10 – 33.33

The period and depreciation method applied shall be reviewed at least at each financial year end and if there has been a significant change in expected useful life of an item of property, plant and equipment, the depreciation period has to be appropriately changed. This change has to be disclosed in the annual financial statements.

3.9. Impairment of Assets

The management reviews the carrying amounts of its tangible assets at each statement of financial position date to determine if there is any indication that the loss was suffered due to such assets impaired. If there are such indicators, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. If it is not possible to estimate the recoverable amount of a particular asset, the management makes an appraisal of the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the net selling price or value in use, depending on which one is higher. For the purposes of appraisal of the value in use, estimated future cash flows are discounted to the present value using a discount rate that reflects the current market estimate of the time value of money and the risks specific to that asset. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than the carrying amount, then the carrying amount of that asset (or cash-generating unit) is reduced to the recoverable amount.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Assets (Continued)

Impairment losses are recognized immediately as an expense. When subsequently reversing the impairment loss, the carrying amount of the asset (the cash-generating unit) is increased to the revised estimated recoverable amount of that asset, where the higher carrying amount does not exceed the carrying amount that would have been established that in previous years there were no recognized losses on that asset (cash-generating unit) due to impairment. Reversal of impairment loss is immediately recognized as income.

3.10. Inventories

ReSPA initially recognise inventory when it has control of the inventory, expects it to provide future economic benefits and the cost of the inventory can be measured reliably. ReSPA recognise inventories when it expects to generate benefits from their use, or eventual sale to customers. Initial measurement of inventories is at cost. 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.

After the initial measurement, inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The net realizable value is the price at which inventories may be sold in the normal course of business, after deduction of the costs to sell.

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, expired or of a substandard quality are impaired or written off in full.

The inventory value in ReSPA is the total of all the different types of goods and consists of storehouse inventories, goods in retail and other inventories. Physical count of inventory must be performed at least once a year and as per same day reconciled to the booking in the General Ledger. Any difference between the physical inventory and the booking has to be corrected so the booking reflects the actual inventory.

3.11. Grants of the European Commission

Assets received free of charge as grants, i.e., donated assets (IT equipment, furniture for furnishing the facilities given to ReSPA for use and other related equipment), are recognized at cost at the time of receipt. The accruals are formed in the amount of the cost value of equipment.

Grants received for the purpose of purchasing equipment are shown as deferred income from grants while non-monetary grants (tangible assets) are deferred and depreciated over the useful lives of the donated equipment items. Amounts of the depreciation charge of the donated equipment are recognized within other income.

Income generated from the financial assistance of the European Commission comprises grants approved to ReSPA for the purpose of financing its operations. The funds received are recognized as income on a systematic and rational basis for the period, in the amount necessary to cover the operational costs.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments

Financial assets are comprised of trade and other receivables and cash and cash equivalents. The classification of the financial assets depends on the nature and purpose of a financial instrument and is determined at the time of initial recognition.

Accounts Receivable

Accounts receivables are recognised initially at fair value.

Subsequently accounts receivable are measured at amortised cost using the effective interest method, less provision for impairment.

Impairment of Accounts Receivable

Accounts receivables are assessed for impairment as of the financial statements' preparation date. Accounts receivables are impaired when 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 affected.

Objective evidence of a financial asset's impairment may include the following:

— significant financial difficulty of the counterparty; or
— delay or default in interest or principal payments (more than 360 days from the maturity date); or
— probability that the borrower/debtor will enter bankruptcy or financial re-organization.

The carrying 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 recorded as a decrease in the allowance for impairment. Changes in the carrying values on the impairment allowance account are recognized in the statement of profit or loss and other 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 only when the ReSPA 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 ReSPA neither transfers nor substantially retains any of the risks or returns arising from the ownership of financial assets, and it retains control over financial assets, it continues to recognize financial assets.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

Cash and Cash Equivalents

In the statement of cash flows, cash and cash equivalents comprise cash in hand, cash and balances on the current bank accounts foreign currency account and demand deposits placed with commercial banks for the period of up to three months that are readily convertible to known amounts of cash with insignificant risk of changes in value.

When cash and cash equivalents are recognized initially, ReSPA shall measure it at its fair value plus transaction costs that are directly attributable to the acquisition.

Subsequent to the initial recognition, cash and cash equivalent are stated at amortised cost using the effective interest rate method.

Short Term Liabilities – Accounts Payable

Accounts payable are initially measured at fair value. After the initial recognition accounts payable are measured at amortised cost using the effective interest method.

Derecognition of Financial Liabilities

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

3.13. Fair Value Measurement

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 from 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, at present, are 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 the value of 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

IFRS 13 distinguishes between 3 fair value levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Fair Value Measurement (Continued)

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets.
- quoted prices for identical or similar assets or liabilities in markets that are not active.
- inputs other than quoted prices that are observable for the asset or liability, for example:
  - interest rates and yield curves observable at commonly quoted intervals;
  - implied volatilities; and
  - credit spreads.
- market-corroborated inputs.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

3.14. Changes in Significant Accounting Polices

This is the first set of the ReSPA's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. The adoption of these new accounting standards has not caused any changes or effect to these financial statements.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

ReSPA assessed impact of the adoption of this standard and the impact to the ReSPA's financial statements as of the date of application. No significant impact has been assessed and accordingly, no effects of adopting IFRS 15 have been recognized in the accompanying financial statements.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Changes in Significant Accounting Polices (Continued)

(ii) IFRS 9 Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

ReSPA's management evaluated expected credit loss for financial assets, particularly in relation to the provision for trade receivables. Changes to the classification, impairment and measurement of financial assets and liabilities have been considered and it has been concluded that potential credit loss is low and have no impact on the financial statements.

With the first adoption of IFRS 9, the ReSPA evaluated additional impairment of trade receivables in accordance with the adopted provision matrix under the simplified approach. Due to its immateriality, driven by nature of its receivables and accrued receivables, ReSPA did not adjust opening balance of retained earnings for the effect of initial application of IFRS 9.

(iii) Classification, measurement and impairment

In accordance with IFRS 9 requirements, financial assets are classified and measured at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The classification of financial assets on initial recognition depends on characteristics of contractual cash flows of financial assets and business model for managing those assets.

IFRS 9 requirements did not have significant effect on the ReSPA’s financial statements.

Trade receivables and other receivables are held for cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets are classified as debt instruments measured at amortised cost on 1 January 2018.

4. CORRECTION OF ERROR

ReSPA has not properly applied revenue recognition regarding contributions received from members. Prior restatement revenue was recognized in the amount of total contribution received, irrespective whether all the contributions have been used for the particular financial year. ReSPa has not recognized any liability for unused (carry over) contributions. As a result accrued liabilities were understated and retained earnings were overstated as at 31 December 2017, while revenue for the year ended was overstated. Additionally, accrued liabilities were understated and retained earnings were overstated as at 1 January 2017.

The error has been corrected by restating 2017 financial statements, including balance sheet as at 1 January 2017. The following tables summarise impact on the Company's financial statements for the effects of correction of error.

a) Statement of financial position for year end 31 December 2107.:

	As restated 12/31/2017	**Adjustment**	**As previously reported 31/12/2017**	**As restated 1/1/2017**	**Adjustment**	**As previously reported 1/1/2017**
ASSETS						
Non-current assets						
Intangible assets	2,945	-	2,945	6,001	-	6,001
Property and leasehold improvements	124,718	-	124,718	138,694	-	138,694
Total non-current assets	127,663	-	127,663	144,695	-	144,695
Current assets						
Inventories	15,158	-	15,158	38,019	-	38,019
Trade and other receivables	153,530	-	153,530	136,343		136,343
Cash and cash equivalents	1,535,691	-	1,535,691	2,464,358	-	2,464,358
Prepaid expenses	3,125	-	3,125	10,643	-	10,643
Total current assets	1,707,504	-	1,707,504	2,649,363	-	2,649,363
Total assets	**1,835,167**	**-**	**1,835,167**	**2,794,058**	**-**	**2,794,058**
				-		

	As restated 12/31/2017	**Adjustment**	**As previously reported 31/12/2017**	**As restated 1/1/2017**	**Adjustment**	**As previously reported 1/1/2017**
EQUITY AND LIABILITIES				-		
Equity				-		
Retained earnings	442,025	(359,791)	801,816	366,426	(328,976)	695,402
Total equity	442,025	(359,791)	801,816	366,426	(328,976)	695,402
Current liabilities						
Loans and borrowings	-	-	-	-	-	-
Accounts payable	11,111	-	11,111	112,633	-	112,633
Accrued liabilities	1,382,031	359,791	1,022,240	2,314,999	328,976	1,986,023

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2018

Total current liabilities	1,393,142	359,791	1,033,351	2,427,632	328,976	2,098,656
Total equity and liabilities	**1,835,167**	**-**	**1,835,167**	**2,794,058**	**-**	**2,794,058**

There is no impact on cash flow statement for year ended 31 December 2017.

b) Statement of profit or loss and other comprehensive income for year end 31 December 2107.:

	As restated 12/31/2017	Adjustment	As previously reported 31/12/2017
REVENUE			
Income from the sales of services	92,482	-	92,482
Income from grants and membership fees and other income	2,594,596	(30,814)	2,625,410
	2,687,078	(30,814)	2,717,892
OPERATING EXPENSES			
Costs of goods sold	(4,731)	-	(4,731)
Cost of materials, fuel and energy used	(76,385)	-	(76,385)
Staff costs	(548,948)	-	(548,948)
Amortization and depreciation charge	(51,185)	-	(51,185)
Costs of production services	(1,142,480)	-	(1,142,480)
Costs of non-production services	(798,198)	-	(798,198)
	(2,621,927)	-	(2,621,927)
OPERATING PROFIT / (LOSS)	**65,151**	**(30,814)**	**95,965**
Finance income	67	-	67
Finance costs	-	-	-
NET FINANCE COSTS	**67**	**-**	**67**
Other income	10,382	-	10,382
PROFIT / (LOSS) BEFORE TAX	**75,600**	**(30,814)**	**106,414**
Income tax expense	-	-	-
PROFIT / (LOSS) FOR THE YEAR	**75,600**	**(30,814)**	**106,414**
Other comprehensive income	-		-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	**75,600**	**(30,814)**	**106,414**

5. INCOME FROM SALES OF SERVICES

	2018	(In EUR) 2017
Income from services sold – hotel accommodation	70,110	92,482
	70,110	92,482

Sales income from services related to board and lodging of participants and coaches attending the events as part of the capacity building activities conducted by ReSPA.

6. INCOME FROM GRANTS, MEMBERSHIP FEES AND OTHER INCOME

	2018	(In EUR) 2017
Financial grants (Note 21)	1,071,176	1,725,410
Membership fees	750,000	900,000
Carry over revenue	79,324	(30,814)
	1,900,500	2,594,596

Income from the financial grant, which, for the period from January 1 to December 31, 2018, amounted to EUR 1,071,176, refers to funds from the grant of the European Commission under the Grant Contract Mainstream of ReSPA Activities No. CN 2016/373 854 signed on July 1, 2016, with a scheduled implementation period of 33 months.

Pursuant to the provisions of Article 23, Chapter IX of the Agreement on Establishment of ReSPA signed in Podgorica on November 21, 2008, all the countries that are parties to the Agreement are required to pay an annual fee (for the Core Budget) in the amount of EUR 150,000 per member country.

Accordingly, during the year 2018, the member countries paid the total of EUR 750,000, and each member paid the sum of EUR 150,000 except for Kosovo[1]* which was not recognized as revenue in the amount of EUR 150,000 and which was still in the process of ratification of accession to the ReSPA Agreement. In 2018, following the delays in the ratification of ReSPA Agreement in Kosovo*, ReSPA Governing Board have decided not to recognize the contribution from Kosovo* as regular revenue.

Revenues from membership fees of the member countries and contribution from ReSPA Working Capital Fund for the period from January 1 through December 31, 2018 and for the comparative period from January 1 through December 31, 2017 are shown in the following table:

[1] This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and ICJ Advisory opinion on the Kosovo Declaration of independence.

	2018	(In EUR) 2017
Republic of Albania	150,000	150,000
Bosnia and Herzegovina	150,000	150,000
Republic of North Macedonia	150,000	150,000
Republic of Montenegro	150,000	150,000
Republic of Serbia	150,000	150,000
Contribution from Working Capital Fund (Kosovo*)	-	150,000
Total	750,000	900,000

According to the ReSPA Financial Regulation, Article 10., appropriations, which have not been used at the end of the end of the financial year for which they were entered, shall be carried over into the following year as revenue and the Budget Committee may at its first meeting of the following financial year permit their use for any authorized ReSPA activity or for payment into Working Capital. Carry-over appropriations which have not been used at the end of the 31 December 2017, amounted to EUR 79,324.

7. COST OF GOODS SOLD

	2018	(In EUR) 2017
Cost of goods sold at wholesale	2,642	4,731
Total	2,642	4,731

8. COST OF MATERIALS, FUEL AND ENERGY USED

	2018	(In EUR) 2017
Maintenance materials	22,702	10,035
Fuel and electricity	31,027	28,435
Office supplies	9,629	37,915
Total	63,358	76,385

9. STAFF COSTS

	2018	(In EUR) 2017
Gross employee salaries	434,236	467,825
Per diems for business trip costs, transport, accommodation and meals on business trips	152,208	81,123
Total	586,444	548,948

10. AMORTIZATION AND DEPRECIATION CHARGE

(In EUR)

	2018	2017
Amortization of intangible assets (Note 13)	2,945	3,056
Depreciation of tangible assets (Note 14)	41,157	47,979
Other provisions	151	150
Total	44,253	51,185

11. COSTS OF PRODUCTION SERVICES

(In EUR)

	2018	2017
Maintenance costs	19,792	26,766
Transportation costs	30,121	5,710
Postage and telecommunication services	26,572	30,485
Costs of rent	25,047	83,803
Costs of organizing seminars	522,279	987,924
Other	6,119	7,794
Total	629,930	1,142,481

Costs of seminars in the amount of EUR 522,279 refer to the costs of organizing seminars within ReSPA, in ReSPA's premises, abroad as well as to the cost of summer schools organized by ReSPA.

12. COSTS OF NON - PRODUCTION SERVICES

(In EUR)

	2018	2017
Representation cost	11,404	27,339
Banks charges	19,812	28,967
Legal, accounting and consultancy services	168,690	196,154
Intellectual services	327,504	444,835
Costs of non production service	117,964	62,425
Bad debt expenses	150,000	-
Cost of insurance and insurance premiums	29,611	28,416
Other	3,798	10,064
Total	828,783	798,199

The main categories of Legal, accounting and consultancy services are interpretation services in the amount EUR 77,376 (2017: 106,901) and consulting services in the amount EUR 67,080 (2017: 61,282).

Other intellectual services refer to intellectual services provided by individuals for preparation and participation in activities organized by ReSPA.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2018

Bad debt expenses in the amount of EUR 150,000 refers to membership contribution from Kosovo* for 2017. Namely, ReSPA recognized accrued income from Kosovo* contribution in 2017 which was not paid in 2018 due to ratification process (Note 16).

In 2018, following the delays in the ratification of ReSPA Agreement in Kosovo* it was decided to impair accrued receivables in the amount of EUR 150,000.

13. INTANGIBLE ASSETS

	(In EUR) Software and licenses
Cost	
Balance, January 1, 2017	18,658
Balance, December 31, 2017	18,658
Balance, January 1, 2018	18,658
Balance, December 31, 2018	18,658
Accumulated Amortization	
Balance, January 1, 2017	12,657
Amortization charge for the year (Note 10)	3,056
Balance, December 31, 2017	15,713
Balance, January 1, 2018	15,713
Amortization charge for the year (Note 10)	2,945
Balance, December 31, 2018	18,658
Net Book Value as at:	
- December 31, 2018	-
- December 31, 2017	2,945

Intangible assets refer to computer program (EDOPS) in the amount EUR 15,280 and licences in the amount EUR 3,378. Computer program was completely amortized in 2018 while licences were amortized in previous years.

14. PROPERTY, PLANT AND EQUIPMENT

(In EUR)

	Leasehold improvements	IT and office equipment	Vehicles	Total
Cost				
Balance, January 1, 2017	47,769	1,169,448	45,890	1,263,107
Additions during the year	-	28,366	24,860	53,226
Balance, December 31, 2017	47,769	1,197,814	70,750	1,316,333
Balance, January 1, 2018	47,769	1,197,814	70,750	1,316,333
Additions during the year	-	37,084	-	37,084
Sale	-	-	(45,890)	(45,890)
Disposals	(646)	(62,976)	-	(63,623)
Balance, December 31, 2018	47,123	1,171,922	24,860	1,243,905
Accumulated Depreciation				
Balance, January 1, 2017	23,636	1,061,114	39,663	1,124,413
Charge for the year (Note 10)	19,223	43,942	4,037	67,202
Balance, December 31, 2017	42,859	1,105,056	43,700	1,191,615
Balance, January 1, 2018	42,859	1,105,056	43,700	1,191,615
Charge for the year (Note 10)	-	36,186	4,972	41,158
Sale	-	-	(45,890)	(45,890)
Disposals	(646)	(57,148)	-	(57,794)
Balance, December 31, 2018	42,214	1,084,095	2,782	1,129,090
Net Book Value				
December 31, 2017	4,910	92,758	27,050	124,718
December 31, 2018	4,910	87,827	22,078	114,816

In accordance with the Agreement concluded between ReSPA and the Government of Montenegro on the Headquarters and the Functioning of ReSPA in the Host Country ("Host Country Agreement"), the Government of Montenegro as a host country, was obligated to provide free of charge all the necessary conditions for ReSPA operations, including the business premises of ReSPA and the hotel facility, as well as the surrounding land. Under this Agreement, the Government was required to hand over these properties to ReSPA for use (Note 1).

At the end of 2010, the European Union donated IT equipment and furniture to ReSPA totalling EUR 857,968. In accordance with the Decision enacted by the Governing Board of ReSPA, Human Resources Management Authority had an obligation to take over the aforesaid equipment donated by EU, and the obligation to coordinate the activities on furnishing the facilities assigned to ReSPA for its use by the Government of Montenegro, and to ensure continuous monitoring of these facilities to their assignment to ReSPA. Based on the Decision of the Human resources Management Authority dated December 6, 2012, the Asset Count Committee was formed comprising members of the Human Resources Management Authority and RESPA, which conducted the annual asset count, based on which the aforesaid equipment and furniture were transferred on January 29, 2013 in the total amount of EUR 857,968.

On April 29, 2015, the Government of Montenegro –Human Resources Management Authority and ReSPA concluded the Agreement on Assignment for Usage of Business Premises, Equipment, Hotel Facility and Surrounding Land (“Handover Contract”), under which ReSPA shall continue to use the subject property without compensation, being also in compliance with the provisions

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

of Article 2 of the Agreement concluded between the Government of Montenegro and ReSPA referring to Headquarters and Functioning of ReSPA in the Host Country.

In accordance with relevant documents, immovable property was given to ReSPA free of charge. Since the Government of Montenegro is not shareholder in the entity but beneficiary and according to the IAS 20 – “Accounting for Government Grants and Disclosure of Government Assistance”, this type of donation was treated as a non-monetary grant. For recognition of non-monetary asset and grant ReSPA has used nominal value approach (nominal amount paid), thereafter the value of granted non-monetary assets is zero as it was given on free of charge basis.

15. INVENTORIES

(In EUR)

	December 31, 2018	December 31, 2017
Goods on stock in the warehouse	30,202	15,158
	30,202	15,158

As of December 31, 2018, ReSPA had inventories in the amount of EUR 30,202 relating to Visibility Materials from the previous EC Grant, Office Stationary material (Core) and food, beverages and cleaning materials that are used in the Hotel.

16. Trade and other receivables

(In EUR)

	December 31, 2018	December 31, 2017
Receivables from membership fees		
- Bosnia and Herzegovina	25	25
	25	25
Accounts receivable		
- domestic	2,888	5,016
- foreign	1,828	1,396
	4,716	6,412
Less allowance for impairment:		
- of accounts receivable	(3,158)	(3,158)
Accrued receivables	324,001	150,251
Total	325,584	153,530

Pursuant to the provisions of Article 23, Chapter IX of the Agreement on Establishment of ReSPA signed in Podgorica on November 21, 2008, all the countries that are parties to the Agreement are required to pay an annual fee (for the Core Budget) in the amount of EUR 150,000 per member country. The amount of annual envelope is set at the Annual Governing Board meeting at the Ministerial Level, by Resolution, and upon recommendation by BC and GB SL.

16Trade and other receivables (Continued)

Accordingly, during the year 2017, the member countries paid the total of EUR 900,000, and each member paid the sum of EUR 150,000 except for Kosovo* which was not yet invoiced the amount of EUR 150,000 and which was still in the process of ratification of accession to the ReSPA Agreement. Given the foregoing, under the Decision of the Governing Board, the stated amount was approved as a transfer from ReSPA Working Capital Fund during the process of ratification, to ensure proper functioning of Secretariat – compliant with the Financial Regulations of ReSPA (Note 6).

In 2018, following the delays in the ratification of ReSPA Agreement in Kosovo*, ReSPA Governing Board had decided not to recognize the contribution from Kosovo* as regular revenue, as it was the case in 2017.

Other receivables are primarily related to the ReSPA's rights to consideration for an incurred eligible cost that is not yet billed to the donor in amount of EUR 315,001, and other accrued services.

17. CASH AND CASH EQUIVALENTS

		(In EUR)
	December 31, 2018	**December 31, 2017**
Current accounts	96,904	329,126
Foreign currency accounts	300,886	1,206,415
Cash in hand	886	150
	398,676	1,535,691

18. PREPAID EXPENSES

		(In EUR)
	December 31, 2018	**December 31, 2017**
Prepaid expenses	2,781	3,125
	2,781	3,125

19. LOANS AND BORROWINGS

		(In EUR)
	December 31, 2018	**December 31, 2017**
Short-term loan at Erste bank ad Podgorica	315,014	-
	315,014	-

19. LOANS AND BORROWINGS (Continued)

On April 19, 2018, ReSPA signed an overdraft loan agreement with Erste Bank AD, Podgorica in the amount of EUR 350,000, with a fixed interest rate of 2.99% per annum and a maturity of 12 months starting from the date of loan disbursement. This loan has been utilized up to EUR 315,014 at the end of the year.

20. ACCOUNTS PAYABLE

	December 31, 2018	(In EUR) December 31, 2017
Payables to suppliers:		
- domestic	8,576	10,071
- foreign	750	1,040
Total	**9,326**	**11,111**

21. ACCRUED LIABILITIES

	December 31, 2018	(In EUR) December 31, 2017
Liabilities to employees	-	85
Payables under the contract on hiring experts	449	29,025
Payables for received membership fees	-	150,000
Deffered income for carry-over appropriations	280,459	359,791
Deferred Income EC Grant	-	747,175
Accrued non-invoiced expenses	-	95,955
	280,908	1,382,031

Changes in accrued liabilities arising from financial donations received for the years 2018 and 2017 are shown in the following table:

	Year ended December 31, 2018	(In EUR) Year ended December 31, 2017
Balance at the beginning of year	747,175	1,843,558
Increase during the period - Grant	324,001	1,125,590
Reversal – Grant used during the year (Note 6)	(1,071,176)	(1,725,410)
Returned or adjusted during the year for the previous Grant	-	(496,563)
Balance at the end of the year	-	747,175

22. RELATED PARTIES TRANSACTIONS

Remunerations paid to the key management personnel for the period from January 1 through December 31, 2018 amounted to EUR 111,462 (2017: EUR 153,356).

23. RISK MANAGEMENT

23.1. Capital Risk Management

Management manages with equity risk on a case-to-case basis with the aim to ensure that ReSPA will continue to operate on a going concern basis.

23.2. Categories of Financial Instruments

	December 31, 2018	December 31, 2017
Financial assets		
Trade and other receivables	325,584	153,530
Cash and cash equivalents	398,676	1,535,691
Total	**724,260**	**1,689,221**
Financial liabilities		
Loans and borrowings	315,014	-
Accounts Payable	9,326	11,111
Accrued liabilities	280,908	1,382,031
Total	**605,248**	**1,393,142**

ReSPA does not enter into transactions with derivative financial instruments, such as interest rate swaps or forwards. In addition, in the course of the year ended December 31, 2018, ReSPA did not undertake transactions involving financial instruments.

Basic financial instruments held by ReSPA comprise cash and cash equivalents and receivables, which arise directly from ReSPA's operations, as well as accounts payable.

23.3. Financial Risk Management

In its business activities, ReSPA is exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ReSPA does not use derivative financial instruments or any other form of hedges against these risks.

There is no formal framework for risk management implemented within ReSPA, aside from the provisions stipulated in the Financial Regulations referring to credit risk and liquidity risk derived from the principles of operation within Inter-governmental organisations. The Financial Department focuses mainly on liquidity risk, acting on a case-to-case basis to mitigate risks and minimize losses. However, such activities, on "as needed" basis, may not be entirely effective, and therefore ReSPA cannot prevent adverse effects of fluctuations in the risk variables on the operations, financial position and financial performance.

23. RISK MANAGEMENT (Continued)

23.4. Market Risk

(a) Currency Risk

ReSPA is not exposed to risks of the fluctuations in foreign currency exchange rates, because all its business transactions are performed in EUR.

(b) *Interest Rate Risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The ReSPA's financial assets and financial liabilities are substantially independent of changes in market interest rates.

The interest rate profile of the ReSPA's interest-bearing financial instruments is as follows:

		(In EUR)
	December 31, 2018	**December 31, 2017**
Fixed-rate instruments		
Financial assets	-	-
Financial liabilities	315,014	
Variable rate instruments		
Financial assets		
Financial liabilities	-	-
	315,014	-

23.5. Credit Risk

Credit risk includes the risk that a specific counterparty will be unable or unwilling to discharge their obligation and cause a financial loss. The ReSPA's risk management is monitoring that exposure per counterparty on an on-going basis, with respect to accounts receivable. The ReSPA does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		(In EUR)
	December 31, 2018	**December 31, 2017**
Financial assets		
Trade and other receivables	325,584	153,530
Cash and cash equivalents	398,676	1,535,691
Total	**724,260**	**1,689,221**

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2018

The maximum exposure to credit risk for accounts receivable at the reporting date by type of customer are presented in the following table:

	December 31, 2018	December 31, 2017
Municipality of Danilovgrad	-	200
Uprava za kadrove	840	-
European Parliament	-	2,750
Municipality of Doboj	238	-
Accrued receivables	324.001	150,000
Other receivables	480	579
Total	**325,584**	**153,530**

The aging of trade receivables (after recording of impaired amounts) at the reporting date was:

In EUR	**December 31, 2018**	**December 31, 2017**
Not past due	325,584	153,530
Past due 0-30 days	-	-
Past more than 30 days	-	-
Total	**325,584**	**153,530**

23.6. Liquidity Risk

Liquidity management is centralized on the ReSPA level. ReSPA manages its assets and liabilities in the manner so as to ensure that ReSPA is able to settle its liabilities at any time.

ReSPA has sufficient amount of highly liquid assets (cash and cash equivalents) and continuous cash flows from service rendering which enables it to settle its liabilities on maturity. The ultimate responsibility for liquidity risk management rests with the Financial Department, which is responsible for the management of ReSPA’s short, medium and long-term funding and liquidity management requirements. ReSPA manages liquidity risk by maintaining adequate cash reserves by continuously monitoring forecasted and actual cash flows and matching between maturities of financial assets and liabilities. ReSPA does not use financial derivatives.

Also, the business policy led to dispersion in decision-making levels regarding the acquisition of goods/services. The dispersion is secured through the amount limits to the power/authorizations in making decisions on the liquidity risk exposure vested in an individual or in a ReSPA’s department.

The following table provides the details of outstanding contractual maturities of non-derivative assets and liabilities of ReSPA. The amounts presented are based on the undiscounted cash flows arising from financial assets and liabilities based on the earliest date upon which ReSPA will be due to collect such receivables or settle such payables. The table includes both interest and principal cash flows.

	Up to 3 Month	3 – 12 months	Total
Financial Assets			
Cash and cash equivalents	398,676	-	398,676
Trade and other receivables	325,584	-	325,584
Total:	**724,260**		**724,260**
Financial liabilities			
Loans and borrowings	-	315,014	315,014
Accounts payable	9,326	-	9,326
Accrued liabilities	280,469	-	280,469
Total:	**289,795**	**315,014**	**604,809**
Maturity gap as at December 31, 2018	**434,465**	**(315,014)**	**119,451**

	Up to 3 Month	3 – 12 months	Total
Financial Assets			
Cash and cash equivalents	1,535,691	-	1,535,691
Trade and other receivables	153,530	-	153,530
Total:	**1,689,221**		**1,689,221**
Financial liabilities			
Accounts payable	11,111	-	11,111
Accrued liabilities	1,382,031	-	1,382,031
Total:	**1,393,142**	**-**	**1,393,142**
Maturity gap as at December 31, 2017	**296,079**	**-**	**296,079**

23.7. Fair Values of Financial Assets and Liabilities

The following table shows the carrying values of financial assets and financial liabilities and their fair values:

(In EUR)

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Trade and other receivables	325,584	325,584	153,530	153,530
Cash and cash equivalents	398,676	398,676	1,535,691	1,535,691
	724,260	**724,260**	**1,689,221**	**1,689,221**
Financial liabilities				
Loans and borrowings	315,014	315,014	-	-
Accounts payable	9,326	9,326	11,111	11,111
Accrued liabilities	280,469	280,469	1,382,031	1,382,031
	604,809	**604,809**	**1,393,142**	**1,393,142**

The fair value of other financial assets and liabilities carried at amortized value maturing within a year approximates their fair value as the original interest rates do not differ significantly from the market interest rates.

24. LITIGATION

As of December 31, 2018, ReSPA was involved in no legal disputes either as a defendant or as a plaintiff.

25. EVENTS AFTER THE REPORTING PERIOD

With the respect to Accrued receivables in the amount of EUR 315,000 (Note 16) ReSPA sent Final Financial and Narrative Report to the EC for approval and consequent payment of final balance. The final approval was obtained in June 2019 after which payment of final balance in amount of EUR 323,991 is executed.

Following letter received from Minister Yagcilar from Kosovo* sent on 11 March 2019, informing that the ratification of ReSPA Agreement will be postponed until further notice, in order to ensure proper functioning of the Secretariat, as requested from the ReSPA Financial Regulation, Secretariat have undertaken the following measures to comply with the budgetary principle of equilibrium:

- Vacant position for Programme Manager, as envisaged in the Staff Regulation was frozen until available funds are allocated in this regard
- GB Representative on behalf of Montenegro has presented information and request from ReSPA Governing Board to the Government of Montenegro to consider undertaking of the Managerial administrative and financial management of ReSPA Campus, compliant with the extremely low utilization of its capacities, lack of available human and financial resources within the ReSPA Secretariat and related recommendation for identification of sustainable long term solution for ReSPA Campus presented in the EC Result oriented Monitoring Report – final recommendations and conclusions

Implementation of above-mentioned action in 2019 should ensure proper, but limited functioning of ReSPA Secretariat (due to missing PM position) within the 5 member Contributions and EUR 750.000 Revenues for the ReSPA Core Budget.

The Government of Montenegro at its session held on 27 June 2019 has adopted decided to undertake ReSPA Hotel and related costs.

Furthermore, ReSPA is committed to seek and establish new partnerships with other parties related to diversification of its Donor portfolio and implementation of multiple initiatives envisaged in its mandate and scope of work, as stipulated in the Agreement for ReSPA Establishment.

Finance and Operations Manager - Coordinator:

Vlatko Naumovski

Regional School of Public Administration ReSPA DANILOVGRAD MONTENEGRO

Director:

Ratka Sekulović