THE REGIONAL SCHOOL FOR PUBLIC ADMINISTRATION BRANELOVICA, DANILOVGRAD

Financial Statements December 31, 2017 and Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements (pages from 2 to 25) of the Regional School for Public Administration, Branelovica, Danilovgrad (hereinafter: "ReSPA"), which comprise the statement of financial position as of December 31, 2017, and the statement of comprehensive income, 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 preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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 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 entity's internal controls. 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 ReSPA as of December 31, 2017 as well as its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Other Matter

The financial statements of ReSPA as of and for the year ended December 31, 2016 were audited by another auditor (Deloitte d.o.o., Podgorica), whose report dated September 6, 2017 expressed an unmodified opinion thereon.

Belgrade, November 12, 2018

Deloitte d.o.o., Belgrade

STATAMENT OF COMPREHENSIVE INCOME
Year ended December 31, 2017
(Amounts in EUR)

	Notes	Year ended December 31, 2017	Year ended December 31, 2016
Continuing operations			
Income from the sales of services	4	92,482	140,387
Investment income		67	-
Income from grants and membership fees and other income	5	2,625,592	1,451,006
Other gains/(losses)		10,200	(240)
Costs of goods sold	6	4,731	(3,176)
Cost of materials, fuel and energy used	7	(76,385)	(56,180)
Staff costs	8	(548,948)	(516,196)
Amortization/depreciation charge	9	(51,185)	(64,957)
Costs of production services	10	(26,766)	(9,443)
Costs of non-production services	11	(1,913,912)	(948,082)
Other expenses		-	(12,918)
Profit/(loss) before taxation		106,414	(19,799)
NET PROFIT FOR THE YEAR		106,414	(19,799)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		106,414	(19,799)

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

These financial statements were adopted on October 9, 2018.

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

Finance and Operations Manager - Coordinator:

Vlatko Naumovski

Regional School of Public Administration DANILOVGRAD MONTENEGRO

Director:

Ratka Sekulović

Translation of the Auditors' Report issued in the Serbian language.

STATEMENT OF FINANCIAL POSITION
As of December 31, 2017
(Amounts in EUR)

	Notes	December 31, 2017	December 31, 2016
ASSETS			
Non-current assets			
Intangible assets	12	2,945	6,001
Property and leasehold improvements	13	124,718	138,694
Total non-current assets		127,663	144,695
Current assets			
Inventories	14	15,158	37,785
Accounts receivable	15	3,530	136,343
Cash and cash equivalents	16	1,535,691	2,464,358
Prepaid expenses	17	153,125	10,643
Total current assets		1,707,504	2,649,363
Total assets		1,835,167	2,794,058
EQUITY AND LIABILITIES			
Equity			
Retained earnings		801,816	695,402
Total equity		801,816	695,402
Current liabilities			
Short-term liabilities – accounts payable	18	190,221	139,896
Accrued liabilities	19	843,130	1,958,760
Total current liabilities		1,033,351	2,098,656
Total equity and liabilities		1,835,167	2,794,058

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

Finance and Operations Manager - Coordinator:

Vlatko Naumovski

Regional School of Public Administration
ReSPA
DANILOVGRAD
MONTENEGRO

Director:

Ratka Sekulović

STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2017
(Amounts in EUR)

	Retained earnings	Total
Balance, January 1, 2016	715,201	715,201
Loss for the current period	(19,799)	(19,799)
Balance, December 31, 2016	695,402	695,402
Profit for the current period	106,414	106,414
Balance, December 31, 2017	801,816	801,816

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Finance and Operations Manager - Coordinator:

Vlatko Naumovski

Regional School of Public Administration ReSPA DANILOVGRAD MONTENEGRO

Director:

Ratka Sekulović

STATEMENT OF CASH FLOWS
Year ended December 31, 2017
(Amounts in EUR)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Cash flows from operating activities		
Inflows from operating activities	2,285,839	2,880,538
Proceeds from sales and advances received	151,661	169,610
Interest receipts from operating activities	26	-
Other inflows from operating activities	2,134,252	2,710,928
Outflows from operating activities	(3,157,338)	(1,389,438)
Payments to suppliers and advances paid	(2,620,372)	(924,136)
Payments to and on behalf of employees	(536,966)	(465,302)
Net cash (used in)/generated by operating activities	(871,399)	1,491,100
Cash flows from investing activities		
Outflows from investing activities	(57,268)	(63,786)
Net cash used in investing activities	(57,268)	(63,786)
Net cash (decrease)/increase	(928,667)	1,427,314
Cash at the beginning of reporting period	2,464,358	1,037,044
Cash at the end of reporting period	1,535,691	2,464,358

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Finance and Operations Manager - Coordinator:

Vlatko Naumovski

Regional School of Public Administration ReSPA DANILOVGRAD * MONTENEGRO *

Director:

Ratka Sekulović

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2017

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 Macedonia, Montenegro and the Republic of Serbia in presence of representatives of the European Commission. After signing the Protocol on Cooperation in the Creation of ReSPA, the Board of Directors 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 on the Foundation of the Regional School of Public Administration. The representatives of five member countries of ReSPA signed the Agreement on the Foundation of 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 on the Foundation of 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. As at June 27, 2016, the Board of Directors voted by the two-third majority vote in favor of extension of the Agreement's validity for another seven years starting on August 1, 2016 and issued Decision no. GB-ML R/02-2016 thereon. In accordance with the International Agreement on the Foundation of 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. As at June 27, 2016, the Board of Directors voted by the two-third majority vote in favor of extension of the Agreement's validity for another seven years starting on August 1, 2016 and issued Decision no. GB-ML R/02-2016 thereon.

The Regional School of Public Administration Project is one of the most important projects in the European Union (EU) in the Western Balkans, initiated in order to promote regional cooperation in the field of public administration, strengthening of administrative capacities and personnel development in accordance with the principles of European administrative space. It has been planned that, through its activities, ReSPA encourage cooperation between the public administration institutions of the member countries and similar institutions of other EU countries in order to contribute to exchange of information and experiences for improving and promoting the best practices.

ReSPA is a common regional institution where civil servants from the member countries receive quality training in the field of public administration, in order to strengthen administrative capacities and human resources development in the candidate countries as well as in the potential candidates for EU membership in the Western Balkans. At the same time, ReSPA helps promote professional administration of the member countries towards EU membership and becomes a hub of a network of public administration schools in the Western Balkans. In addition, ReSPA has an advisory role for the improvement of the regional civil sector.

As an operational part of ReSPA, there is a hotel whose capacities are used solely for accommodation of experts and coaches holding the trainings within the educational activities 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 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 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 Foundation of ReSPA through June 23, 2011, the Board of ReSPA, appointed the Directorate for Human Resources 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 education and training at the regional level and beyond. As of December 31, 2017, ReSPA had 16 employees (December 31, 2016: 14 employees).

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 the International Financial Reporting Standards (IFRS).

2.2. 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, 2017, ReSPA used the direct method of reporting on cash flows.

The accompanying financial statements for the year ended December 31, 2017 have been prepared on the going concern basis.

2.3. Impact and Application of Newly Issued and Amended Standards

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board were effective for the current period:

- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after January 1, 2017); and
- Amendments to IFRS 12 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017).

Adoption of these amendments to the existing standards and interpretations has not led to any changes in ReSPA’s accounting policies.

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

2.4. Standards and Interpretations in Issue not yet Effective

At the date of authorization of these financial statements the following standards, amendments to the existing standards and interpretations were in issue, but not yet effective:

- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2021),
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018),
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019),
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018),
- Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018),
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after January 1, 2018); and
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after January 1, 2019).

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 ReSPA in the period of initial application.

ReSPA did not make the required disclosures pursuant to the provisions of IFRS 8 - “Operating Segments” as ReSPA has only one reportable operating segment, i.e., the entire ReSPA is a single operating segment.

2.5. Use of Estimates

Presentation of the financial statements requires ReSPA’s management to make best estimates, 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 the information available as of the preparation date of the financial statements. However, future actual results may vary from these estimates.

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

2.5. Use of Estimates (Continued)

What follows are the key estimates and assumptions referring to the future and other sources of estimation at the date of the statement of the financial position.

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

2.5.1. Depreciation/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.

2.5.2 Allowance for impairment of receivables

Calculation of the allowance for impairment of bad debt was made on the basis of estimated losses due to the inability of customers to discharge their liabilities to ReSPA as these fall due. In determining the adequacy of the allowance for bad and doubtful receivables ReSPA relies on the aging analysis of receivables, historical write-offs, customer creditworthiness and credit rating and changes in terms of sales. This includes assumptions about future customer behavior as well as the resulting future collections. The management believes that no additional allowance for impairment is required.

2.5.3 Provisions

In general, provisions are highly judgmental. Management uses the best possible estimates when making provisions. In addition, although the management observes the prudency principle in their assessment, due to high levels of uncertainty, in some cases the actual results may differ from these estimates.

2.5.4 Fair Value

The fair value of the financial instruments for which there is no active market is determined by using appropriate valuation methods. Management applies professional judgment in the selection of appropriate valuation methods and assumptions.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

3.1. Sales Income

Sales income is recorded when there is a high probability that the economic benefits attributable to business transactions will flow to ReSPA.

Sales income is recorded according to the accrual basis in accordance with the agreed terms of sales. 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, net of any discounts.

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 comprehensive income in the accounting period to which they relate, and when they do not qualify for recognition as assets.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Income from Grants

The value of funds obtained through grants are initially recorded as deferred income within liabilities i.e. accruals in the statement of financial position, which is reversed to income in the income statement in the period when the expenses related to the use of funds received as grants are charged to the statement of comprehensive income.

Monetary donations whose purpose is not strictly defined, which cover a single accounting period and which are intended to cover the costs incurred during that period, are disclosed as an item of the income during the accounting period in which they were received.

3.3. Employee Benefits

Pursuant to the provisions of Chapter "X - Privileges and Immunities" of the Agreement on Foundation 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 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 Foundation 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:

- 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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Intangible Assets

After the initial recognition, intangible assets are carried at their cost less any accumulated amortization and any 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 as intangible assets. Costs incurred in respect of computer software maintenance and development are disclosed as expenses of the period to which they relate.

3.7. Equipment and Leasehold Improvements

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

Equipment is stated at cost net of accumulated depreciation. Cost represents the price billed by suppliers increased by all costs incurred in bringing new assets to the location and condition for their intended use.

Leasehold improvements are assets that are not owned by ReSPA and that have an expected useful life of more than one year.

Additional expenditures incurred while investing in assets owned by third parties, such as replacement of parts of property or equipment, adaptation, overhaul, and general repairs of the assets are recognized as an increase in the net book value of the leasehold improvements, when it is probable that future economic benefits will flow to ReSPA, and when the amounts thereof can be reliably measured.

Current maintenance of the leasehold improvements such as 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 sale of an item of property and equipment is recognized in the statement of comprehensive income within other income or other expenses, as appropriate.

3.8. Depreciation

Depreciation of equipment is calculated based on the cost of an asset at the beginning of the year, as well as equipment put into use during the year on the straight-line basis. The basic annual rates of depreciation used in 2017 were unchanged in comparison to 2016 and are presented in the following table:

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

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 make appraisal of the recoverable amount of the cash-generating unit to which the asset belongs.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Impairment of Assets (Continued)

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 recoverable amount.

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

Inventories are 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, handling 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, 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.

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.

3.12. Financial Instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

Impairment of Financial Assets

Financial assets are assessed for impairment as of the financial statements' preparation date. Financial assets 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 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.

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, 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.

Short Term Liabilities – Accounts Payable

Accounts payable 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. 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 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.

4. INCOME FROM SALES OF SERVICES

	Year ended December 31, (In EUR)	
	2017	2016
Income from services sold – hotel accommodation	92,482	140,387
	92,482	140,387

5. INCOME FROM GRANTS, MEMBERSHIP FEES AND OTHER INCOME

	Year ended December 31, (In EUR)	
	2017	2016
Financial grants (Note 19)	1,725,410	642,217
Financial grants in equipment (Note 19)	-	11,287
Membership fees	900,000	750,000
Other income	182	5,203
Write-off of liabilities	-	42,299
	2,625,592	1,451,006

Income from the financial grant, which, for the period from January 1 to December 31, 2017, amounted to EUR 1,725,410, refer to funds from the grant of the European Commission under the Grant Contract Mainstream of ReSPA Activities No. 2016/373-854 signed on July 1, 2016, with a scheduled implementation period of 33 months.

In accordance with Article 23, Chapter "IX - Privileges and Immunities" of the Agreement on Foundation of ReSPA, all signatories of the Agreement are required to pay an annual fee (for the Core Budget) in the amount of EUR 150,000 per member country.

Revenues from membership fees of the member countries and contribution from ReSPA Working Capital Fund for the period from January 1 through December 31, 2017 and for the comparative period from January 1 through December 31, 2016 are shown in the following table:

5. INCOME FROM GRANTS, MEMBERSHIP FEES AND OTHER INCOME (Continued)

	Year ended December 31, 2017	(In EUR) 2016
Republic of Albania	150,000	150,000
Bosnia and Herzegovina	150,000	150,000
Republic of Macedonia	150,000	150,000
Montenegro	150,000	150,000
Republic of Serbia	150,000	150,000
Contribution from Working Capital Fund	150,000	150,000
	900,000	750,000

6. COST OF GOODS SOLD

	Year ended December 31, 2017	(In EUR) 2016
Cost of goods sold at wholesale	4,731	3,176
	4,731	3,176

7. COST OF MATERIALS, FUEL AND ENERGY USED

	Year ended December 31, 2017	(In EUR) 2016
Maintenance materials	10,033	9,651
Fuel and electricity	28,435	31,637
Office supplies	37,915	14,892
	76,385	56,180

8. STAFF COSTS

	Year ended December 31, 2017	(In EUR) 2016
Gross employee salaries	467,825	395,877
Per diems for business trip costs, transport, accommodation and meals on business trips	81,123	120,319
	548,948	516,196

9. AMORTIZATION/DEPRECIATION CHARGE

	Year ended December 31, 2017	(In EUR) 2016
Amortization of intangible assets (Note 12)	3,056	3,056
Depreciation of tangible assets (Note 13)	47,979	61,901
Other provisions	150	-
	51,185	64,957

10. COSTS OF PRODUCTION SERVICES

	Year ended December 31, 2017 (In EUR)	2016
Maintenance costs – equipment	19,326	3,439
Maintenance costs – business premises	3,065	2,559
Maintenance costs - building	2,124	2,164
Other	2,251	1,281
	26,766	9,443

11. COSTS OF NON - PRODUCTION SERVICES

	Year ended December 31, 2017 (In EUR)	2016
Seminars	987,924	318,766
Bank fees and charges	29,557	9,930
Publications	6,943	6,197
Legal, accounting and consultancy services	93,710	32,150
Other intellectual services	445,141	349,634
Postage and telecommunication services	30,485	31,624
Cost of the conference and fixture lease	83,403	4,840
Implementation of EC Grant	500	-
Translation/interpretation services	106,901	-
Entertainment	27,339	45,248
Cost of utilities	4,680	5,212
Catering costs	27,256	41,700
The costs of securing services	22,200	22,200
Costs of non-production services	18,880	55,643
Membership fees	577	3,645
Cost of insurance and insurance premiums	28,416	21,293
	1,913,912	948,082

Costs of seminars in the amount of EUR 987,924 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. INTANGIBLE ASSETS

	(In EUR) Software and licenses
Cost	
Balance, January 1, 2016	18,658
Balance, December 31, 2016	18,658
Balance, January 1, 2017	18,658
Balance, December 31, 2017	18,658
Accumulated Amortization	
Balance, January 1, 2016	9,601
Amortization charge for the year (Note 9)	3,056
Balance, December 31, 2016	12,657
Balance, January 1, 2017	12,657
Amortization charge for the year (Note 9)	3,056
Balance, December 31, 2017	9,601
Net Book Value as at:	
- December 31, 2017	2,945
- December 31, 2016	6,001

13. PROPERTY AND LEASEHOLD IMPROVEMENTS

(In EUR)

	Leasehold improvements	IT Equipment	Furniture	Vehicles	Other equipment	Total
Cost						
Balance, January 1, 2016	47,769	461,406	623,729	45,890	19,300	1,198,094
Additions during the year	-	52,710	12,100	-	425	65,235
Balance, December 31, 2016	47,769	514,116	635,829	45,890	19,725	1,263,329
Balance, January 1, 2017	47,769	514,116	635,829	45,890	19,725	1,263,329
Additions during the year	-	8,506	637	24,860	-	34,003
Balance, December 31, 2017	47,769	522,622	636,466	70,750	55,417	1,297,332
Accumulated Depreciation						
Balance, January 1, 2016	47,769	460,097	511,826	23,682	19,357	1,062,734
Charge for the year (Note 9)	-	29,696	22,890	9,178	137	61,901
Balance, December 31, 2016	47,769	489,793	534,719	32,860	19,494	1,124,635
Balance, January 1, 2017	47,769	489,793	534,719	32,860	19,494	1,124,635
Charge for the year (Note 9)	-	30,084	14,723	4,037	135	47,979
Balance, December 31, 2017	47,769	519,877	548,442	36,897	19,629	1,172,614
Net Book Value						
December 31, 2017	-	2,745	88,024	33,853	96	124,718
December 31, 2016	-	24,323	101,110	13,030	231	138,694

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 totaling EUR 857,968. In accordance with the Decision enacted by the Board of Directors of ReSPA, Directorate for Human Resources 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 Directorate dated December 6, 2012, the Asset Count Committee was formed comprising members of the Directorate for Human Resources 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.

13. PROPERTY AND INVESTMENTS IN LEASED FIXED ASSETS (Continued)

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

14. INVENTORIES

(In EUR)

	December 31, 2017	**December 31, 2016**
Goods on stock in the warehouse	15,158	38,019
	15,158	38,019

As of December 31, 2017, ReSPA had inventories in the amount of EUR 15,158 relating to food, beverages and materials 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 are provided with the accommodation and food within ReSPA.

15. ACCOUNTS RECEIVABLE

(In EUR)

	December 31, 2017	**December 31, 2016**
Receivables from membership fees		
- Montenegro	-	40,961
- Bosnia and Herzegovina	25	-
- Republic of Macedonia	-	67,727
	25	108,688
Accounts receivable		
- domestic	5,016	19,205
- foreign	1,396	5,079
	6,412	24,284
Other receivables	251	6,529
Less allowance for impairment:		
- of accounts receivable	(3,158)	(3,158)
	3,530	136,343

Pursuant to the provisions of Article 23, Chapter IX of the Agreement on Foundation 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 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 Board of Directors, the stated amount was approved as a transfer from ReSPA Working Capital Fund during the process of ratification.

16. CASH AND CASH EQUIVALENTS

(In EUR)

	December 31, 2017	December 31, 2016
Gyro accounts	329,126	287,441
Foreign currency accounts	1,206,415	2,176,234
Cash in hand	150	683
	1,535,691	2,464,358

17. PREPAID EXPENSES

(In EUR)

	December 31, 2017	December 31, 2016
Accrued receivables for non-invoiced income	150,000	-
Prepaid expenses	3,125	10,643
	153,125	10,643

18. SHORT-TERM ACCOUNTS PAYABLE

(In EUR)

	December 31, 2017	December 31, 2016
Payables to suppliers:		
- domestic	10,071	110,412
- foreign	1,040	1,040
- other liabilities from specific affairs	-	1,183
	11,111	112,635
Liabilities to employees	85	858
Payables under the contract on hiring experts	29,025	26,403
Payables for received membership fees	150,000	-
	190,221	139,896

19. ACCRUED LIABILITIES

(In EUR)

	December 31, 2017	December 31, 2016
Received financial grants	747,175	1,843,558
Accrued non-invoiced expenses	95,955	115,202
	843,130	1,958,760

19. ACCRUED LIABILITIES (Continued)

Changes in accrued liabilities arising from financial donations received for the years 2017 and 2016 are shown in the following table:

(In EUR)

	Year ended December 31, 2017	Year ended December 31, 2016
Balance at the beginning of year	1,843,558	461,365
Increase during the period - Grant	1,125,590	2,024,410
Reversal – Grant used during the year (Note 5)	(1,725,410)	(642,217)
Returned or adjusted during the year for the previous Grant	(496,563)	-
Balance at the end of the year	747,175	1,843,558

Changes in accrued liabilities arising from financial grants in equipment received for the years 2017 and 2016 are shown in the following table:

(In EUR)

	Year ended December 31, 2017	Year ended December 31, 2016
Balance at the beginning of the year	-	11,287
Depreciation for the year (Note 5)	-	(11,287)
Balance at the end of the year	-	-

20. RISK MANAGEMENT

20.1. Capital Risk Management

Management manages the 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.

20.2. Significant Accounting Policies

The details of significant accounting policies and methods applied, including the recognition criteria, basis for measurement and recognition of income and expenses for each category of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the financial statements.

20.3. Categories of Financial Instruments

(In EUR)

	December 31, 2017	December 31, 2016
Financial assets		
Accounts receivable	3,279	129,814
Cash and cash equivalents	1,535,691	2,464,358
	1,538,970	2,594,172
Financial liabilities		
Short-term accounts payable	11,111	112,635
	11,111	112,635

20. RISK MANAGEMENT (Continued)

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, 2017, 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.

20.4. Financial Risk Management

In its business activities, ReSPA is exposed to a variety of financial risks, including 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. 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.

20.5. 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

The following table presents the carrying values of financial assets and financial liabilities and their fair values as at December 31, 2017:

		(In EUR)
	December 31, 2017	**December 31, 2016**
Non-interest bearing		
Financial assets		
Accounts receivable	3,279	129,814
Cash and cash equivalents	1,535,691	2,464,358
	1,538,970	2,594,172
Non-interest bearing		
Financial liabilities		
Short term accounts payable	11,111	112,635
	11,111	112,635

Given that ReSPA has neither significant interest-bearing assets nor interest-bearing liabilities, its income and expenses are to a great extent independent of interest rate risks.

20.6. Credit Risk

Accounts Receivable, Matured

As at December 31, 2017, matured accounts receivable in the amount of EUR 3,279 (December 31, 2016: EUR 129,814) primarily relate to accommodation and restaurant services rendered during the training sessions.

20. RISK MANAGEMENT (Continued)

20.6. Credit Risk (Continued)

Accounts Receivable, Matured (Continued)

Breakdown of accounts receivable as of December 31, 2017 is shown in the following table

(In EUR)

	Gross exposure	Allowance for impairment	Net exposure
Matured accounts receivable	6,437	(3,158)	3,279
	6,437	(3,158)	3,279

Breakdown of accounts receivable as of December 31, 2016 is shown in the following table:

(In EUR)

	Gross exposure	Allowance for impairment	Net exposure
Matured accounts receivable	132,972	(3,158)	129,814
	132,972	(3,158)	129,814

Accounts Receivable

The most significant receivables – balances of receivables as of December 31, 2017 and 2016 are presented in the following table:

(In EUR)

	December 31, 2017	December 31, 2016
State of Montenegro – membership fee	-	40,961
Republic of Macedonia – membership fee	-	67,727
Municipality of Danilovgrad	200	-
Congress Travel	-	3,701
European Parliament	2,750	
Other receivables	329	17,425
	3,279	129,814

20.7. 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.

20. RISK MANAGEMENT (Continued)

20.6. Liquidity Risk (Continued)

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 1 Month	Total
Financial Assets		
Cash and cash equivalents	1,535,691	1,535,691
Accounts receivable	3,279	3,279
Total:	**1,538,970**	**1,538,970**
Financial liabilities		
Short term accounts payable	11,111	11,111
Total:	11,111	11,111
Maturity gap:		
- December 31, 2017	1,527,859	1,527,859
- December 31, 2016	2,481,537	2,481,537
Cumulative gap:		
- December 31, 2017	1,527,859	1,527,859
- December 31, 2016	2,481,537	2,481,537

20.8. Fair Values of Financial Assets and Liabilities

The following table shows the carrying values of financial assets and financial liabilities and their fair values as at December 31, 2017:

(In EUR)

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Accounts receivable	3,279	3,279	129,814	129,814
Cash and cash equivalents	1,535,691	1,535,691	2,464,358	2,464,358
	1,538,970	1,538,970	2,594,172	2,594,172
Financial liabilities				
Accounts payable	11,111	11,111	112,635	112,635
	11,111	11,111	112,635	112,635

The assumptions used to estimate the current fair values of financial assets and liabilities are summarized below:

- 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.

21. RELATED PARTIES TRANSACTIONS

Remunerations paid to the key management personnel for the period from January 1 through December 31, 2017 amounted to EUR 153,356 (2016: EUR 187,529).

22. LITIGATION

As of December 31, 2017, ReSPA was involved in no legal disputes either as a defendant or as a plaintiff.

23. EVENTS AFTER THE REPORTING PERIOD

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.

Finance and Operations Manager - Coordinator:

Vlatko Naumovski

Director:

Regional School of Public Administration ReSPA DANILOVGRAD MONTENEGRO

Ratka Sekulović