THE REGIONAL SCHOOL OF PUBLIC ADMINISTRATION
BRANELOVICA, DANILOVGRAD

Financial Statements
December 31, 2019
and Independent Auditors' Report

**Financial Statements December 31, 2019
and Independent Auditors' Report**

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Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Regional School of Public Administration, Branelovica, Danilovgrad (hereinafter: "ReSPA"), which comprise:

— the statement of financial position as at 31 December 2019;

and, for the period from 1 January to 31 December 2019:

— the statement of profit or loss and other comprehensive income;
— the statement of changes in equity;
— the statement of cash flows;

and

— notes, comprising a summary of significant accounting policies and other explanatory information;

(the "financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the ReSPA as at 31 December 2019, 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 regulations are further described in the Auditor’s Responsibility 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 (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia 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.

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

Management is responsible for the preparation of financial statements that give a true and fair view 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 ReSPAs 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 auditor’s 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;

— 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 auditor’s 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 auditor’s 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.

KPMG d.o.o., Beograd

Goran Skrobonja
Certified Auditor

Belgrade, 30 July 2020

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
Year ended December 31, 2019
(Amounts in EUR)

	Notes	2019	2018
INCOME			
Income from the sales of services	4	65,208	70,110
Income from grants and membership fees, and other income	5	1,325,298	1,900,500
		1,390,506	**1,970,610**
OPERATING EXPENSES			
Costs of goods sold	6	(2,234)	(2,642)
Cost of materials, fuel and energy used	7	(38,672)	(63,358)
Staff costs	8	(596,191)	(586,444)
Amortization and depreciation charge	9	(42,770)	(44,253)
Costs of production services	10	(454,592)	(629,930)
Costs of non-production services	11	(330,775)	(828,783)
		(1,465,234)	**(2,155,410)**
OPERATING LOSS		**(74,728)**	**(184,800)**
Finance income		29	76
Finance costs		(4,614)	-
NET FINANCE COSTS		**(4,585)**	**76**
Other income		-	15,338
Other expenses		(2,787)	(5,828)
LOSS BEFORE TAX		**(82,100)**	**(175,214)**
Income tax expense		-	-
LOSS FOR THE YEAR		**(82,100)**	**(175,214)**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(82,100)**	**(175,214)**

These financial statements were adopted on 23 July 2020.

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

Chairman of the ReSPA Governing Board
at Senior Official Level:

Goran Jovetić

Director:

Ratka Sekulović

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

STATEMENT OF FINANCIAL POSITION
As of December 31, 2019
(Amounts in EUR)

	Notes	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets			
Property and leasehold improvements	12	76,960	114,816
Long term receivables	14	435,000	-
Total non-current assets		**511,960**	**114,816**
Current assets			
Inventories	13	25,215	30,202
Trade and other receivables	14	2,103,848	325,584
Cash and cash equivalents	15	1,629,469	398,676
repaid expenses		-	2,781
Total current assets		**3,758,532**	**757,243**
TOTAL ASSETS		**4,270,492**	**872,059**
EQUITY AND LIABILITIES			
Equity			
Retained earnings		184,710	266,811
Total equity		**184,710**	**266,811**
Non-current liabilities			
Deferred income	19	3,752,407	-
Total Non-current liabilities		**3,752,407**	**-**
Current liabilities			
Loans and borrowings	16	-	315,014
Accounts payable	17	10,414	9,326
Accrued liabilities	18	322,961	280,908
Total current liabilities		**333,375**	**605,248**
TOTAL EQUITY AND LIABILITIES		**4,270,492**	**872,059**

These financial statements were adopted on 23 July 2020.

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Chairman of the ReSPA Governing Board at Senior Official Level:

Goran Jovetić

Director:

Ratka Sekulović

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STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2019
(Amounts in EUR)

	Retained earnings	Total
Balance, January 1, 2018	**442,025**	**442,025**
Loss for the period	(175,215)	(175,215)
Balance, December 31, 2018	**266,810**	**266,810**
Balance, January 1, 2019	**266,810**	**266,810**
Loss for the current period	(82,100)	(82,100)
Balance, December 31, 2019	**184,710**	**184,710**

These financial statements were adopted on 23 July 2020.

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at Senior Official Level:

Goran Jovetić

Director:

Ratka Sekulović

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

STATEMENT OF CASH FLOWS
Year ended December 31, 2019
(Amounts in EUR)

	Notes	Year Ended December 31, 2019	Year Ended December 31, 2018
Cash flows from operating activities			
Inflows from operating activities		2,952,710	665,707
Inflows from grants		2,137,576	-
Interest receipts from operating activities		9	12
Inflows from membership fees		750,025	607,898
Inflows from other operating activities		65,100	57,797
Outflows from operating activities		(1,397,562)	(2,117,842)
Payments to suppliers and advances paid		(832,099)	(1,568,102)
Payments to and on behalf of employees		(548,472)	(549,740)
Interests paid		(16,991)	
Net cash from / (used in) operating activities		**1,555,148**	**(1,452,135)**
Cash flows from investing activities			
Outflows from investing activities		(9,341)	(20,194)
Proceeds from the sale of property, plant and equipment		-	20,300
Net cash generated from / (used in) investing activities		**(9,341)**	**106**
Cash flows from financing activities			
Proceeds from loans		-	315,014
Repayment of loans		(315,014)	-
Net cash generated from / (used in) financing activities		**(315,014)**	**315,014**
Net cash increase / (decrease)		**1,230,793**	**(1,137,015)**
Cash at the beginning of the reporting period		**398,676**	**1,535,691**
CASH AT THE END OF REPORTING PERIOD	15	**1,629,469**	**398,676**

These financial statements were adopted on 23 July 2020.

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Chairman of the ReSPA Governing Board at Senior Official Level:

Goran Jovetić

Director:

Ratka Sekulović

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

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, 2019, ReSPA had 15 employees (December 31, 2018: 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, 2019, ReSPA used the direct method of reporting on cash flows.

The accompanying financial statements for the year ended December 31, 2019 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 2019. 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);
- 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);

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

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

- Amendments to IFRS 3 “Business Combinations” – Definition of Business (issued in October 2018, effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Material (issued in August 2019, effective for annual periods beginning on or after 1 January 2020); and
- Amendments to IFRS 17 “Insurance Contract” – effective date postponed for one year, effective for annual periods beginning on or after 1 January 2021. Early application is permitted only for the companies that also apply IFRS 9 “Financial Instruments”.

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. 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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The accounting policies provided below are consistently used by the ReSPA in all periods presented in the accompanying financial statements.

3.1. Income

ReSPA income comprises of:

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

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1. Income (Continued)

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 income 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 membership fees

Income from contributions fees is recognized on an accrual basis in the period in which it arises. Income 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. Change in accrued liability is recorded as carry over income if it has been decreased as a decrease to reported membership fees income if accrued liability has been increased.

Income from EU grants

Income generated from a financial donation from 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.

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; and
- 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.

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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Expenses (Continued)

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 tax 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:

- 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), and
- 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

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 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, and
— 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; and
— the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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, and
— 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. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2019 were unchanged in comparison to 2018 and are presented in the following table:

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

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.

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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Inventories (Continued)

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

Income generated from the financial assistance of the European Commission comprises grants approved to ReSPA for the purpose of financing its operations or donated assets.

Grants received for the purpose of financing operations are initially recorded as deferred income under accrued liabilities line item (note 18 and are recognized as income on a systematic and rational basis for the period, in the amount necessary to cover the operational costs. Deferred income represents the excess of cash received over the income earned from the donor.

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.

3.12. Financial Instruments

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.

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when ReSPA becomes a party to the contractual provisions of the instrument. Receivables mainly include receivables due from donors which represent the excess of income earned over the cash received from donor. Receivables are recognized in the full amount when grant contract is signed when there is reasonable assurance that the ReSpa will comply with the relevant conditions and the grant will be received.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss, transactions costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets are classified and measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL). 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.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

— it is held within a business model whose objective is to hold assets to collect contractual cash flow; and
— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI, as described above, are measured at FVTPL. This includes all derivative financial assets. On initial recognition, ReSPA may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For trade receivables and contract assets that do not contain a significant financing component in accordance with IFRS 15, ReSPA elected to adopt the simplified approach, which allows entities to use a provision matrix to recognize lifetime ECL. The provision matrix is based on historical loss patterns, reflecting the customers' payment behavior adjusted for forward-looking estimates. Trade receivables are identified according to one of the three following categories: normal, doubtful, bad. The amount of the loss allowances is measured at initial recognition and throughout the life of the receivables, using an aging calculation applied to all trade receivables, which reflects the expected credit losses that result from all possible default events over the expected life of the receivable. When information has been obtained indicating that non-collection risk exists on the financial asset, the trade receivables are fully impaired. A write-off is made when all or part of the financial asset is deemed uncollectible or forgiven. Due to nature of trade and other receivables, ReSpa has not identified or recognized any ECL.

Financial assets are classified as loan and receivables that are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gain or loss on derecognition is recognised in profit or loss.

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.

Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Cash Flows include cash on hand, balances on current accounts held with banks and other highly liquid financial assets whose maturity is up to three months.

Recognition of Financial Assets

A purchase or a sale of a financial asset is accounted for on the transaction settlement date.

Measurement of Financial Assets

Financial instruments are initially measured at market value that includes transaction costs of all financial assets or financial liabilities other than those measured at fair value through profit or loss. Financial assets at fair value through profit or loss are initially measured at fair value, while transaction costs are charged to operating expenses in the income statement.

Subsequent to the initial recognition, financial assets available for sale and financial assets at fair value through profit or loss are stated at fair value.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

Loans and receivables and financial assets held to maturity are measured at amortised cost using the effective interest rate method.

Derecognition of Financial Assets

ReSPA derecognised a financial asset when the rights to inflows from this asset expire or when these rights are transferred to a third party. Each right per transferred financial asset, which is created or retained by the ReSPA, is recognised as a separate asset or liability.

Measurement at Amortised Cost

An amortised cost of a financial asset is the amount at which financial assets are initially measured, net of principal repayments, and increased or decreased by accumulated depreciation using the effective interest rate method.

Measurement at Fair Value

The fair value of financial instruments is the amount at which a financial asset can be exchanged or a liability settled among informed and willing parties in an independent transaction.

The fair value is determined using the available market information on the reporting date and other measurement models applied by the ReSPA.

The fair value of certain financial instruments stated at nominal value approximates their carrying amount. These instruments include cash and cash equivalents, receivables and payables that do not have a contracted maturity or a fixed interest rate.

Other receivables and payables are adjusted to the present value by discounting future cash flows using the current interest rates. Due to the nature of the ReSPA's operating activities and its general policies, the management believes that there are no significant differences between the carrying amount and fair value of financial assets and financial liabilities.

Financial Liabilities

Financial liabilities are initially recognised at fair value that represents the fair value of the received compensation. Subsequent to the initial recognition, financial liabilities are stated at amortised cost using the effective interest rate method, except for financial liabilities at fair value through profit or loss. The amortised cost of a financial liability is the amount at which financial liabilities are initially measured, increased or decreased by accumulated amortisation using the effective interest rate method.

A liability is classified as current if it is expected to be settled in an ordinary course of the business cycle of the ReSPA, i.e. if it matures within a 12- month period after the balance sheet date. All other liabilities are classified as non-current.

ReSPA derecognised a liability when it is settled, reversed or transferred to a third party.

3.13. Changes in Significant Accounting Polices

This is the first set of the ReSPA's annual financial statements in which IFRS 16 Leases have been applied. The adoption of these new accounting standard has not caused any changes or effect to these financial statements.

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Changes in Significant Accounting Polices (Continued)

IFRS 16 Leases

At inception of a contract, ReSPA assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control a use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contacts entered into, or changed on, or after 1 January 2019.

ReSPA recognize a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of cost to dismantle and remove the underlying asset or to restore the underlying asset or the site which is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of these lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, ReSPA's incremental borrowing rate. Generally, ReSPA uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the ReSPA's estimate of the amount expected to be payable under a residual value guarantee, or if the ReSPA changes its assessment of whether it will exercise a purchase, extension or termination option.

Lease term is determined as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Lease term reflects the ReSPA's reasonable expectation of the period during which the underlying asset will be used. If the ReSPA concludes that the contract is enforceable beyond the notice period of a cancellable lease (or the initial period of a renewable lease), it assesses whether it is reasonably certain not to exercise an option to terminate the lease. The entity considers all relevant facts and circumstances that create an economic incentive not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option. The factors include significant leasehold improvements undertaken over the term of the contract that are expected to have significant economic when the option to extend or terminate the lease, becomes exercisable and the importance of that underlying asset to the lessee's operations.

Short term leases and leases of low-value asset

ReSPA has elected not to recognize right-of-use assets and leases liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. ReSPA will recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ReSPA does not have signed lease agreements and therefore IFRS 16 does not have effect on financial report as of 31 December 2019.

4. INCOME FROM SALES OF SERVICES

	2019	(In EUR) 2018
Income from services sold	65,208	70,110
Total	**65,208**	**70,110**

From total amount of sales income from services, amount of EUR 33,512 is related to board and lodging of participants and coaches attending the events as part of the hotel capacity building activities conducted by ReSPA. Remaining amount is related to the income form ReSPA's engagement as a project partner with BACID II Project, a 3-year ADA-funded programme implemented by the Austrian Association of Cities and Towns and KDZ Centre for Public Administration Research.

5. INCOME FROM GRANTS, MEMBERSHIP FEES AND OTHER INCOME

	2019	(In EUR) 2018
Financial grants (Note 18)	597,593	1,071,176
Membership fees	727,705	829,324
Total	**1,325,298**	**1,900,500**

Income from the financial grant, which, for the period from January 1 to December 31, 2019, amounted to EUR 597,593, refers to funds from the grant of the European Commission under the Grant Contract Mainstream of ReSPA Activities No. CN 2019/405 139 signed on May 16, 2019, with a scheduled implementation period of 36 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 2019, the member countries paid the total of EUR 750,025, and each member paid the sum of EUR 150,000 except for Kosovo[1]* which was not recognized as income in the amount of EUR 150,000 and which was still in the process of ratification of accession to the ReSPA Agreement. In 2019, 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 income.

Income from membership fees of the member countries and contribution from ReSPA Working Capital Fund for the period from January 1 through December 31, 2019 and for the comparative period from January 1 through December 31, 2018 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.

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

	2019	(In EUR) 2018
Republic of Albania	150,000	150,000
Bosnia and Herzegovina	150,025	150,000
Republic of North Macedonia	150,000	150,000
Republic of Montenegro	150,000	150,000
Republic of Serbia	150,000	150,000
Carry over effect	(22,320)	79,324
Total	**727,705**	**829,324**

According to the ReSPA Financial Regulation, Article 10., appropriations (membership contributions), 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 income 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 2019, amounted to EUR 302,746.

7. COST OF GOODS SOLD

	2019	(In EUR) 2018
Cost of goods sold at wholesale	2,234	2,642
Total	**2,234**	**2,642**

8. COST OF MATERIALS, FUEL AND ENERGY USED

	2019	(In EUR) 2018
Maintenance materials	3,507	22,702
Fuel and electricity	26,709	31,027
Office supplies	8,456	9,629
Total	**38,672**	**63,358**

9. STAFF COSTS

	2019	(In EUR) 2018
Gross employee salaries	469,242	434,236
Per diems for business trip costs, transport, accommodation and meals on business trips	126,949	152,208
Total	**596,191**	**586,444**

10. AMORTIZATION AND DEPRECIATION CHARGE

	2019	(In EUR) 2018
Amortization of intangible assets	-	2,945
Depreciation of tangible assets (Note 12)	42,620	41,157
Other provisions	150	151
Total	**42,770**	**44,253**

11. COSTS OF PRODUCTION SERVICES

	2019	(In EUR) 2018
Maintenance costs	16,354	19,792
Transportation costs	34,055	30,121
Postage and telecommunication services	25,491	26,572
Costs of rent	30,891	25,047
Costs of organizing seminars	327,700	522,279
Other	20,101	6,119
Total	**454,592**	**629,930**

Costs of seminars in the amount of EUR 327,700 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

	2019	(In EUR) 2018
Representation cost	11,153	11,404
Banks charges	12,836	19,812
Legal, accounting and consultancy services	57,258	168,690
Intellectual services	114,917	327,504
Costs of non production service	105,571	117,964
Bad debt expenses	-	150,000
Cost of insurance and insurance premiums	27,195	29,611
Other	1,845	3,798
Total	**330,775**	**828,783**

Legal, accounting and consultancy services are related to the cost of accounting and audit services in the amount of EUR 32,880 and consulting services in the amount of EUR 24,378.

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

Cost of nonproduction services in amount of EUR 105,571 are mainly related to the Outsourcing services in amount of EUR 36,130, catering services in amount of EUR 21,789, security services in amount of EUR 22,200 and other.

13. PROPERTY, PLANT AND EQUIPMENT

(In EUR)

	Leasehold improvements	IT and office equipment	Vehicles	Total
Cost				
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)	-	(63,622)
Balance, December 31, 2018	**47,123**	**1,171,922**	**24,860**	**1,243,905**
Balance, January 1, 2019	47,123	1,171,922	24,860	1,243,905
Additions during the year	-	7,552	-	7,552
Sale	-	-	-	-
Disposals	(103)	(62,373)	-	(62,476)
Balance, December 31, 2019	**47,020**	**1,117,101**	**24,860**	**1,188,981**
Accumulated Depreciation				
Balance, January 1, 2018	42,859	1,105,056	43,700	1,191,615
Charge for the year (Note 9)	-	36,186	4,972	41,158
Sale	-	-	(45,890)	(45,890)
Disposals	(646)	(57,148)	-	(57,794)
Balance, December 31, 2018	**42,213**	**1,084,094**	**2,782**	**1,129,089**
Balance, January 1, 2019	42,214	1,084,095	2,782	1,129,091
Charge for the year (Note 9)	-	39,109	3,511	42,620
Sale	-	-	-	-
Disposals	(103)	(59,587)	-	(59,690)
Balance, December 31, 2019	**42,111**	**1,063,617**	**6,293**	**1,112,021**
Net Book Value				
December 31, 2018	**4,910**	**87,827**	**22,078**	**114,816**
December 31, 2019	**4,910**	**53,483**	**18,567**	**76,960**

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).

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.

14. INVENTORIES

	December 31, 2019	(In EUR) December 31, 2018
Goods on stock in the warehouse	25,215	30,202
Total	**25,215**	**30,202**

As of December 31, 2019, ReSPA had inventories in the amount of EUR 25,215 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.

15. TRADE AND OTHER RECEIVABLES

	December 31, 2019	(In EUR) December 31, 2018
Receivables from membership fees		
- Bosnia and Herzegovina	-	25
Accounts receivable		
- domestic	1,379	2,888
- foreign	2,048	1,828
Less allowance for impairment:		
- of accounts receivable	(3,158)	(3,158)
Accrued receivables	2,154	-
Long - term receivables due from donors	435,000	-
Short - term receivables due from donors	2,101,425	324,001
	2,536,425	324,001
Total	**2,538,848**	**325,584**

During the year 2019 Respa received donation from Grant IV. The contract was signed May 23, 2019. The value of the new grant is EUR 4,350,000. The remaining amount relates to receivables for grant that have not yet been paid and for which there is also a calculated liability at accrued liability.

Reconciliation receivables due from donors in 2019	(In EUR) December 31, 2019
Opening balance	**324,001**
Recognition of receivables	4,350,000
Grant IV - initial pre-financing payment	(1,813,575)
Grant III - final payment	(324,001)
Outstanding as at 31 December 2019	**2,536,425**

ReSpa has recognized receivables due European Commission for the grant IV in the total amount (EUR 4,350,000 thousand) as it believes there is reasonable assurance it will comply with the relevant conditions and the grant will be received.

16. CASH AND CASH EQUIVALENTS

(In EUR)

	December 31, 2019	December 31, 2018
Current accounts	291,892	96,904
Foreign currency accounts	1,337,418	300,886
Cash in hand	159	886
Total	**1,629,469**	**398,676**

17. LOANS AND BORROWINGS

(In EUR)

	December 31, 2019	December 31, 2018
Short-term loan from Erste bank ad Podgorica	-	315,014
Total	**-**	**315,014**

Last year 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. ReSPA repaid the loan during the year 2019.

18. ACCOUNTS PAYABLE

(In EUR)

	December 31, 2019	December 31, 2018
Payables to suppliers:		
- domestic	9,084	8,576
- foreign	1,330	750
Total	**10,414**	**9,326**

19. ACCRUED LIABILITIES

(In EUR)

	December 31, 2019	December 31, 2018
Payables under the contract on hiring experts	20,215	449
Deferred income for carry-over appropriations	302,746	280,459
Total	**322,961**	**280,908**

20. DEFERRED INCOME

	December 31, 2019	(In EUR) December 31, 2018
Deferred income - EC grant IV	3,752,407	-
Total	**3,752,407**	**-**

Changes in deferred income arising from EU financial donations received for the years 2019 and 2018 are shown in the following table:

	Year ended December 31, 2019	(In EUR) Year ended December 31, 2018
Balance at the beginning of year	-	747,175
Increase during the period - Grant (note 14)	4,350,000	324,001
Grants used during the year (Note 5)	(597,593)	(1,071,176)
Balance at the end of the year	**3,752,407**	**-**

21. RELATED PARTIES TRANSACTIONS

Remunerations paid to the key management personnel for the period from January 1 through December 31, 2019 amounted to EUR 129,714 (2018: EUR 111,462).

22. RISK MANAGEMENT

22.1. 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.

22.2. Categories of Financial Instruments

	December 31, 2019	December 31, 2018
Trade and other receivables	2,538,848	325,584
Cash and cash equivalents	1,629,469	398,676
Financial assets	**4,168,317**	**724,260**
Loans and borrowings	-	315,014
Accounts Payable	10,414	9,326
Accrued liabilities	26,515	100,450
Financial liabilities	**30,629**	**424,790**

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, 2019, ReSPA did not undertake transactions involving financial instruments.

22. RISK MANAGEMENT (Continued)

22.2. Categories of Financial Instruments (continued)

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.

22.3. 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.

22.4. 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, 2019	**December 31, 2018**
Financial assets	-	-
Financial liabilities	-	315,014
Fixed-rate instruments	**-**	**315,014**
Financial assets	-	-
Financial liabilities	-	-
Variable rate instruments	**-**	**315,014**

22.5. 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.

22. RISK MANAGEMENT (Continued)

22.5. Credit Risk (Continued)

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, 2019	**December 31, 2018**
Financial assets		
Trade and other receivables	2,538,848	325,584
Cash and cash equivalents	1,629,469	398,676
Total	**4,168,317**	**724,260**

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, 2019	**December 31, 2018**
Uprava za kadrove	-	840
Municipality of Doboj	-	238
Receivables from Grant	2,536,425	324,001
Other receivables	2,423	505
Total	**2,538,848**	**325,584**

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

In EUR	**December 31, 2019**	**December 31, 2018**
Not past due	2,538,848	325,584
Past due 0-30 days	-	-
Past more than 30 days	-	-
Total	**2,538,848**	**325,584**

22.6. 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.

22. RISK MANAGEMENT (Continued)

22.6. Liquidity Risk (Continued)

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
Cash and cash equivalents	1,629,469	-	1,629,469
Trade and other receivables	2,423	2,101,425	2,103,848
Financial Assets	**1,631,892**	**2,101,425**	**3,733,317**
Loans and borrowings	-	-	-
Accounts payable	10,414	-	10,414
Accrued liabilities	-	20,215	20,215
Financial liabilities	**10,414**	**20,215**	**30,629**
Maturity gap as at December 31, 2019	**1,621,478**	**2,081,210**	**3,702,688**
Cash and cash equivalents	398,676	-	398,676
Trade and other receivables	325,584	-	325,584
Financial Assets	**724,260**		**724,260**
Loans and borrowings	-	315,014	315,014
Accounts payable	9,326	-	9,326
Accrued liabilities	100,450	-	100,450
Financial liabilities	**109,776**	**315,014**	**424,790**
Maturity gap as at December 31, 2018	**614,484**	**(315,014)**	**299,470**

22. RISK MANAGEMENT (Continued)

22.7. Fair Values of Financial Assets and Liabilities

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

	December 31, 2019		December 31, 2018	
In EUR	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Trade and other receivables	2,538,848	2,538,848	325,584	325,584
Cash and cash equivalents	1,629,469	1,629,469	398,676	398,676
Financial assets	**4,168,317**	**4,168,317**	**724,260**	**724,260**
Loans and borrowings	-	-	315,014	315,014
Accounts payable	10,414	10,414	9,326	9,326
Accrued liabilities	20,215	20,215	100,450	100,450
Financial liabilities	**30,629**	**30.629**	**424,790**	**424,790**

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.

23. LITIGATION

As of December 31, 2019, ReSPA was involved in no legal disputes either as a defendant or as a plaintiff.

24. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2020 the World Health Organization declared the coronavirus outbreak a pandemic, and the Montenegro government declared a state of emergency on 16 March 2020. Responding to the potentially serious threat the COVID – 19 presents to public health, the Montenegro government authorities have taken measures to contain the outbreak, including introducing restrictions on the cross-borders movement of people, entry restrictions on foreign visitors and the ‘lock-down’ of certain industries, pending further developments.

ReSPA operates in sector that has not been significantly affected by the outbreak of COVID 19. Based on the publicly available information management has considered the potential development of the outbreak and its expected impact on the ReSPA and economic environment, in which ReSPA operates, including the measures already taken by the Montenegro government.

In order to safeguard uninterrupted operating activities, management has implement a number of measures, which notably include:

- implementation of work from home program;
- Information on re-organization and postponed of ReSPA activities was prepared and placed on web site, shared with the EC and the GB SL; and
- Initiation of ZOOM Platform for internal and external meetings.

24. EVENTS AFTER THE REPORTING PERIOD (Continued)

Outbreak of pandemic may have effect on the planned activities in terms of their delay due to restrictions on traveling. Having in mind current cash level, management is of the view that ReSpa's financial position is stable.

Based on currently publicly available information, and in view of the actions initiated by management, ReSPA do not anticipate a direct immediate and significant adverse impact of the Covid – 19 outbreak on the ReSPA, its operations and financial position. Management cannot however preclude the possibility that extended lock down periods, an escalation in the severity of such measures, or a consequential adverse impact of such measures on the economic environment we operate in will not have an adverse effect on the ReSPA, and its financial position and operating results, in the medium and longer term. We continue to monitor the situations closely and will respond to mitigate the impact of such events and circumstances as they occur.

The Government of Montenegro at its session held in January 2020 adopted the decision to terminate the Contract on the Granting Right of Use of Premises, Equipment, Hotel Facility in Danilovgrad and surrounding land to ReSPA (concluded on 29 April 2015). On 12 March 2020, based on the decision of the Government of Montengro, Hotel is used for the quarantine for the COVID 19, which further postponed formal handover of the Hotel.

Danilovgrad, 23 July 2020

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

Chairman of the ReSPA Governing Board at Senior Official Level:	Director:
Goran Jovetić	Ratka Sekulović