

**REGIONAL SCHOOL FOR PUBLIC ADMINISTRATION
DANILOVGRAD**

**Financial Statements
For period from January 1,
through December 31, 2013.
and Independent Auditors' Report**

REGIONAL SCHOOL FOR PUBLIC ADMINISTRATION
DANILOVGRAD

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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 23) of Regional School for Public Administration (hereinafter the "ReSPA"), which comprise the statement of financial position as at December 31, 2013, 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 the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, as well as maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Regional School for Administration, Branelovica, Danilovgrad, as of December 31, 2013 as well as the results of its operations and cash flows for the year then ended are in accordance with International Financial Reporting Standards.



Deloitte d.o.o., Podgorica
Podgorica
May 13, 2014

REGIONAL SCHOOL FOR PUBLIC ADMINISTRATION
DANILOVGRAD

STATEMENT OF COMPREHENSIVE INCOME
Period from January 1, through December 31, 2013.
(In EUR)

	Notes	Period from January 1, through December 31, 2013.	Period from January 1, through December 31,2012.	Period from January 1. Through December 31, 2011.
Operating activities – regular course of business				
Sales income	4	226,234	295,340	321,508
Investments income		7,301	241	879
Other income	5	1,843,029	2,070,589	1,392,386
Changes in inventories of finished goods and unfinished production	6	(56,609)	(72,899)	(58,322)
Materials, fuel and energy used	7	(63,601)	(57,666)	(67,000)
Salaries wages & other personnel expenses	8	(632,211)	(682,463)	(455,618)
Amortization	9	(197,117)	(227,935)	(196,012)
Production expenses	10	(16,589)	-	-
Costs of non-production expenses	11	(1,094,020)	(1,099,201)	(722,370)
Profit before taxation		16,417	226,006	215,451
Net profit for the year from operations		16,417	226,006	215,451
NET PROFIT FOR THE CURRENT YEAR		16,417	226,006	215,451
Other comprehensive income		-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE CURRENT YEAR		16,417	226,006	215,451

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

As suggested and recommended by the Budget Committee, these financial statements were submitted to the Governing Board of the Regional School for Public Administration, Branelovica, Danilovgrad for their review as at April 8, 2014.


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

Head of finance:



(Vlatko Naumovski)

ReSPA Director:



(Suad Musić)

REGIONAL SCHOOL FOR PUBLIC ADMINISTRATION
DANILOVGRAD

STATEMENT OF FINANCIAL POSITION
As of December 31, 2013.
(In EUR)

	Notes	December 31, 2013.	December 31, 2012.	January 1, 2012.
ASSETS				
Fixed assets				
Intangible assets	12	16,761	824	355
Property, plant and equipment	13	463,513	623,717	783,971
Total fixed assets		480,274	624,541	784,326
Current assets				
Inventories	14	33,334	11,726	16,832
Accounts receivable	15	15,871	15,694	169,190
Cash and cash equivalents	16	2,058,448	1,239,063	947,792
Prepaid expenses		235	1,806	-
Prepaid income taxes receivables		-	-	532
Total current assets		2,107,888	1,268,289	1,134,346
Total assets		2,588,162	1,892,830	1,918,672
LIABILITIES				
Equity				
Retained earnings		512,187	286,181	367,007
Profit/ (loss) for the period		16,417	226,006	(80,826)
Total equity		528,604	512,187	286,181
Current liabilities				
Short-term liabilities	17	24,476	146,005	436,144
Short-term finance liabilities		-	-	1,800
Accrued liabilities	18	2,035,082	1,234,638	1,194,547
Total current liabilities		2,059,558	1,380,643	1,632,491
Total equity and liabilities		2,588,162	1,892,830	1,918,672

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

STATEMENT OF CHANGES IN EQUITY
Period from January 1, through December 31, 2013.
(In EUR)

Content / Description	<u>Retained earnings</u>	<u>Loss</u>	<u>Total</u>
Balance, January 1, 2012.	367,007	(80,826)	286,181
Net profit for the period	226,006	-	226,006
Balance, December 31, 2012	<u>593,013</u>	<u>(80,826)</u>	<u>512,187</u>
Balance, January 1, 2013.	593,013	(80,826)	512,187
Net profit for the period	16,417	-	16,417
Balance, December 31, 2013	<u>609,430</u>	<u>(80,826)</u>	<u>528,604</u>

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

REGIONAL SCHOOL FOR PUBLIC ADMINISTRATION
DANILOVGRAD

STATEMENT OF CASH FLOWS

Period from January 1, through December 31, 2013.

(In EUR)

<u>Category/Position</u>	<u>Period from January 1, through December 31, 2013</u>	<u>Period from January 1, through December 31, 2012</u>	<u>Period from January 1, through December 31, 2011</u>
Cash flows from operating activities			
Inflow from operating activities	2,895,780	2,311,259	436,929
Sales and advances	226,057	294,075	147,850
Interest receipts from operating activities	7,301	264	901
Other cash generated from operating activities	2,662,422	2,016,920	288,178
Outflow from operating activities	2,059,005	(2,003,197)	(777,772)
Payments to suppliers and given advances	1,444,974	(1,315,131)	(467,876)
Staff costs	614,031	(688,043)	(309,896)
Interests paid	-	(23)	-
Net cash flow from operating activities	836,775	308,062	(340,843)
Cash flows from investing activities			
Outflow from investing activities	(17,390)	(16,791)	(49,747)
Net cash flow from investing activities	(17,390)	(16,791)	(49,747)
Cash flows from financing activities			
Outflow from financing activities	-	-	(2,811)
Net cash flow from financing activities	-	-	(2,811)
Net cash flows			
	819,385	291,271	(393,401)
Cash at the beginning of reporting period	1,239,063	947,792	1,341,193
Cash at the end of reporting period	2,058,448	1,239,063	947,792

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

1. FOUNDATION AND BUSINESS ACTIVITY

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

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

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

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

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

As an operational part of ReSPA, the hotel performs its activities and its capacities are used solely for board and lodging of participants and coaches attending the trainings in the education activities conducted by ReSPA.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

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

2.1. Statement of compliance

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

2.2. 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, 2013, ReSPA has adhered to the direct method of reporting on cash flows.

2.3. Effect and Application of Newly Issued and Amended IFRS

Standards and Interpretations Issued in the current period

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

- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance"(effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of financial statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- Amendments to various standards "Improvements to IFRSs (2012)" resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Organisation's accounting policies.

Standards and Interpretations in issue not yet adopted

Translation in English language of the draft financial statements originally issued in Montenegrin

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2013

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

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

2.3. Influence and Application of Newly Issued and Revised Standards (Continued)

- IFRS 9 (revised in 2010) "Financial Instruments" (effective for annual periods beginning on or after January 1, 2015),
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date of IFRS 9 and Transition Disclosures " (effective for annual periods beginning on or after January 1, 2015),
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Exemption from Consolidation of Subsidiaries under IFRS 10 'Consolidated Financial Statements' (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

The 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 required disclosures pursuant to the provisions of IFRS 8 - "Operating Segments" as the Company has only one reportable operating segment, i.e. the whole ReSPA is an operating segment.

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

2.4. Use of Estimates

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and Expense

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

Revenues from sales are recorded according to the accrual basis in accordance with the agreed conditions of sale. Income is measured at the fair value of the consideration received or receivable, for the products sold and services rendered in the regular course of business, less discounts.

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

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

3.2. Employee Benefits

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

3.3. Exchange Gains and Losses

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

3.4. Taxes and Contributions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Intangible Assets

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

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

3.6. Equipment

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

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

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

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

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

3.7. Amortization

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

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

The amortization of equipment for tax purposes is calculated using digressive method for the whole period, disregarding the date of activation of such assets.

3.8. Impairment of Assets

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

Translation in English language of the draft financial statements originally issued in Montenegrin

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Inventories

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

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

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

3.10. Donations of European Commission

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

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

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

Income generated from a financial assistance of the European Commission 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.

3.11. Financial Instruments

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

Accounts Receivable

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

Impairment of Financial Assets

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

Objective evidence of financial assets impairment could include the following:

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

3. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

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

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

Derecognition of Financial Assets

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

Cash and Cash Equivalents

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

Financial Liabilities

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

Derecognition of Financial Liabilities

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

3.12. Fair Value

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

4. SALES INCOME

	Period from January 1 through December 31 2013.	Period from January 1 through December 31 2012	(In EUR) Period from January 1 through December 31 2011
Income generated from services rendered-Hotel	226,234	295,340	321,508
	226,234	295,340	321,508

5. OTHER INCOME

	Period from January 1 through December 31 2013.	Period from January 1 through December 31 2012	(In EUR) Period from January 1 through December 31 2011
Financial donation (Note 18)	771,436	966,845	504,397
Financial donation in equipment (Note 18)	171,593	171,593	167,989
Membership fees	900,000	900,000	720,000
Provision reversal for the introduction of ISO 9001 and HACCP	-	32,151	-
	1,843,029	2,070,589	1,392,386

Income from financial donations, which for the year ended December 31, 2013 amounted EUR 771,436, refers to the funds from donations from the European Commission in accordance with the Contract "Grant Contract 2010/256-128", signed in Brussels as at November 26, 2010 between ReSPA and the European Commission and the second Grant Contract "Mainstream of ReSPA Activities No. 2013/331-241" signed as at November 25, 2013 with the implementation period of two years.

In accordance with Article 23, Chapter "X - privileges and immunities" of Agreement on Foundation of ReSPA, all members of the signatories of the agreement are required to pay an annual fee (for the Core Budget) in the amount of EUR 120 000 per member country in 2009, i.e. EUR 150,000 per member country for the next year.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

5. OTHER INCOME (continued)

Revenue from membership fees by member countries for the year ended December 31, 2013, for a period from January 1 through December 31, 2012 and the period from January 1 through December 31, 2011, is as shown in the table below:

	Period from January 1 through December 31 2013.	Period from January 1 through December 31 2012	(In EUR) Period from January 1 through December 31 2011
Republic of Albania	150,000	150,000	120,000
Federation of Bosnia and Herzegovina	150,000	150,000	120,000
Republic of Croatia	150,000	150,000	120,000
Republic of Macedonia	150,000	150,000	120,000
Montenegro	150,000	150,000	120,000
Republic of Serbia	150,000	150,000	120,000
	<u>900,000</u>	<u>900,000</u>	<u>720,000</u>

5. OTHER INCOME (Continued)

Provision for the introduction of ISO 9001 and HACCP for the period from January 1 until December 31, 2012 in the amount of EUR 32.151, refer to the introduction of these quality standards in hotel business. Although certification is not yet finalized, in 2011 the trainings were conducted and executed the start of implementation, however, as the date of preparation of these financial statements, there has been no transfer of objects lost between the Directorate for Personnel and RESPA-e, and therefore there are no conditions for the certification of ISO 9001 and HACCP, Respa decided to abolish provisions that are this basis was made during 2011.

6. CHANGES IN INVENTORIES OF FINISHED GOODS AND UNFINISHED PRODUCTION

	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	(In EUR) Period from January 1 through December 31 2011
Cost of goods sold in retail	56,609	6,574	48,744
Cost of goods sold at wholesale	-	66,325	9,578
	<u>56,609</u>	<u>72,899</u>	<u>58,322</u>

7. MATERIALS, FUEL AND ENERGY USED

	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	(In EUR) Period from January 1 through December 31 2011
Maintenance	12,658	2,412	18,961
Fuel and electricity	39,682	37,454	37,598
Office materials	11,261	17,800	10,441
	<u>63,601</u>	<u>57,666</u>	<u>67,000</u>

Translation in English language of the draft financial statements originally issued in Montenegrin

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

8. SALARIES, WAGES AND OTHER PERSONNEL EXPENSES

(In EUR)

	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	Period from January 1 through December 31 2011
Salaries	557,667	605,905	354,412
Per diems for business trips	33,865	42,809	49,129
Transport, accommodation and meals on business trips	40,679	33,472	51,384
Fees and temporary contracts	-	-	75
Cost of labour wears-uniforms	-	-	326
Daily cost of seminars attendance	-	-	292
Other staff costs	-	277	-
	<u>632,211</u>	<u>682,463</u>	<u>455,618</u>

Expenses of personal income for the year ended December 31, 2013 amounting to EUR 557,667 are referred to personal income of staff employed at Hotel in the amount of EUR 78,789 and personal income paid to the management and staff of ReSPA in the amount of EUR 478,878.

9. DEPRECIATION

(In EUR)

	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	Period from January 1 through December 31 2011
Depreciation	25,524	56,342	28,023
Depreciation of donated assets (Note 18)	171,593	171,593	167,989
	<u>197,117</u>	<u>227,935</u>	<u>196,012</u>

Cost of depreciation of donated funds for the period from January 1 through December 31, 2013 amounted to EUR 171,593 and are related to the amortization of the equipment the ReSPA received as a donation from the European Union in 2010.

10. PRODUCTION EXPENSES

(In EUR)

	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	Period from January 1 through December 31 2011
Maintenance costs of computer equipment	5,790	-	-
Costs of maintenance vehicles	1,507	-	-
Costs of maintenance of office furniture	4,166	-	-
Other costs of maintenance	1,274	-	-
Maintenance costs of the building	176	-	-
Maintenance costs - business	3,676	-	-

Translation in English language of the draft financial statements originally issued in Montenegrin

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

11. COSTS OF NON-PRODUCTION EXPENSES

(In EUR)

	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	Period from January 1 through December 31 2011
Seminars	527,701	686,621	200,551
Banking fees	16,467	9,496	3,982
Publications and visibility	39,364	4,095	1,249
Legal, accounting and consultancy services	26,458	40,299	19,500
Other professional services	156,771	14,784	1,200
Postal services	44,218	34,186	32,581
Presentation preparation	-	-	27,392
Cost of services and conceptual design	-	19,200	-
Organization of ReSPA activities	-	9,685	12,795
Implementation of EC Grant	213,350	189,166	229,848
Translation services	17,701	52,500	23,985
Entertainment	12,826	8,154	2,146
Maintenance services	401	8,289	2,874
Cost of utilities	7,570	13,754	7,061
Fair value adjust of inventories	-	622	1,144
The costs of providing the facility	9,400	-	-
Cost of direct write-off of receivables	-	188	-
Expenses of non-production services	12,282	2,608	-
Provision for the introduction of ISO 9001 and HACCP	1,823	-	-
Provision for maintenance of hotel inventory	-	-	32,151
Provision for maintenance of the building	-	-	48,226
Fixed assets insurance premiums expenses	-	-	64,302
Other operating expenses	7,688	2,175	-
Expenses of non-production services	-	3,379	11,383
	<u>1,094,020</u>	<u>1,099,201</u>	<u>722,370</u>

Seminars expenses in the amount of EUR 527,701 refer to the costs of organizing the seminars in ReSPA's premises or the cost of the summer schools organized by ReSPA abroad.

Costs of implementation of EC grant of EUR 213,350 refer to the fees of experts and trainers, as well as their per diem, travel expenses and accommodation costs.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

12. INTANGIBLE ASSETS

As of December 31, 2013, intangible assets of ReSPA amount to EUR 16,761 and refer to investments in software and licences for software.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

13. PROPERTY, PLANT AND EQUIPMENT

Cost	Investment in buildings – property not owned by ReSPA	IT Equipment	Furniture	Vehicles	Tools and small inventory	Construction in progress	Total
Balance, January 1, 2012	47,769	382,470	516,397	24,900	23,924	-	995,460
Acquisitions	-	12,805	24,055	20,990	5,006	4,350	67,206
Balance, December 31, 2012	47,769	395,275	540,452	45,890	28,930	4,350	1,062,666
Balance, January 1, 2013	47,769	395,275	540,452	45,890	28,930	4,350	1,062,666
Acquisitions	-	14,215	11,187	-	11,055	-	36,457
Activation of the investment	-	-	4,350	-	-	(4,350)	-
Balance, December 31, 2013	47,769	409,490	555,989	45,890	39,985	-	1,099,123
Impairments							
Balance, January 1, 2012	7,389	94,548	97,469	346	11,737	-	211,489
Amortization during the period	6,821	80,845	128,009	4,980	6,805	-	227,460
Balance, December 31, 2012	14,210	175,393	225,478	5,326	18,542	-	438,949
Balance, January 1, 2013	14,210	175,393	225,478	5,326	18,542	-	438,949
Amortization during the period	3,289	88,199	99,310	4,589	1,275	-	196,662
Balance, December 31, 2013	17,499	263,592	324,788	9,915	19,817	-	635,611
Net Book Value							
December 31, 2013	30,270	145,898	231,202	35,975	20,168	-	463,513
December 31, 2012	33,559	219,882	314,974	40,564	10,388	4,350	623,717
January 1, 2012	40,380	287,922	418,928	24,554	12,187	-	783,971

Translation in English language of the draft financial statements originally issued in Montenegrin

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

The European Union in the end of 2010 donated IT equipment and furniture to ReSPA in the total amount of EUR 857.968. In accordance with the Decision enacted by the Board of Directors of ReSPA, Directorate for Human Resources had an obligation of taking the above mentioned equipment donated by the European Union, and the obligation to coordinate the activities on furnishing the facilities given to the use of ReSPA by the Government of Montenegro, and to ensure continuous monitoring of these facilities to their assignment to ReSPA. Based on the Decision of the Directorate dated December 6, 2012, the inventory count committee was formed comprising members of the Directorate for Human Resources and ReSPA, which conducted the annual inventory count, based on which the above mentioned equipment and furniture has been transferred on January 29, 2013 in the total amount of EUR 857,968.

Until the date of preparation of these financial statements, the handover of the above mentioned facilities was not completed between the Directorate for Human Resources and ReSPA.

As of December 31, 2013, investments in buildings - property not owned by ReSPA amounted to EUR 30,270, and referred to investment in business premises, hotel building and development of surrounding land, which the Government of Montenegro, as noted above, gave to ReSPA for usage without compensation.

Total depreciation of property, plant and equipment for the year ended December 31, 2013 amounted to EUR 196,662, out of which the depreciation of donated equipment was in the amount of EUR 171,593 and it is recognized as income of the related period (Note 5 and 18).

14. INVENTORIES

	(In EUR)		
	December 31, 2013	December 31, 2012	January 1, 2012
Storehouse inventories	31,972	9,882	14,145
Goods in retail	1,362	1,844	2,687
	<u>33,334</u>	<u>11,726</u>	<u>16,832</u>

As of December 31, 2013, ReSPA has inventories in the amount of EUR 33,334 relating to food and beverage that are used by participants in the seminars, experts and trainers in the Hotel, given that trainings are organized in that way that all the participants, experts and trainers have been provided with the accommodation and food in the ReSPA.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

15. ACCOUNTS RECEIVABLE

	December 31, 2013	December 31, 2012	(In EUR) January 1, 2012
Receivables for membership fees (Contribution)			
- Republic of Albania	-	-	70
- Bosnia and Herzegovina	-	25	150,000
- Republic of Macedonia	-	797	827
- Republic of Montenegro	12,789	-	-
	<u>12,789</u>	<u>822</u>	<u>150,897</u>
Receivables from customers:			
- domestic	-	13,279	10,031
- foreign	1,548	1,358	3,341
	<u>1,548</u>	<u>14,637</u>	<u>13,372</u>
Receivables from given advances	-	235	4,921
Other account receivable	1,534	-	-
	<u>15,871</u>	<u>15,694</u>	<u>169,190</u>

Pursuant to the provisions of Article 23, Chapter IX of Agreement on Foundation of ReSPA signed in Podgorica as at November 21, 2008, all states parties to the agreement are required to pay an annual fee (for the Core Budget) in the amount of EUR 120 000 per member country in 2009 or EUR 150,000 per member country for the next year.

Accordingly during the 2013 year Member of States have paid a total of EUR 887,211, and each member paid the sum of EUR 150,000 except Montenegro that paid EUR 137,211 in membership fees for 2013.

16. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012	(In EUR) January 1, 2012
Cash in hand	-	905	940
Gyro accounts	1,935,654	191,912	37,307
Foreign currency account	122,794	1,046,246	909,545
	<u>2,058,448</u>	<u>1,239,063</u>	<u>947,792</u>

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

17. SHORT-TERM LIABILITIES

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>(In EUR)</u> <u>January 1,</u> <u>2012</u>
Payables for prepaid fees in accordance with the Agreement on the Foundation of ReSPA:			
- Republic of Albania	-	-	139,005
- Republic of Montenegro	-	-	-
- Republic of Croatia	-	-	-
- Republic of Serbia	-	-	-
	-	-	139,005
Payables to suppliers:			
- domestic	13,852	63,589	19,856
- foreign	2,472	56,083	60,133
	16,324	119,672	79,989
Payables to the Directorate for the Human Resources of Montenegro	-	-	196,398
Liabilities to employees	8,152	794	235
Payables under the contract on hiring experts	-	25,539	20,517
	-	25,539	20,517
	24,476	146,005	436,144

Payables for prepaid membership fees in accordance with the Agreement on the Foundation of ReSPA as of December 31, 2011 amounted to EUR 139,005 and refer to the membership fee in accordance with the International Agreement on the Foundation paid in advance for 2012 by the Republic of Albania

Payables to the Directorate for the Human Resources of Montenegro as of December 31, 2011 in the amount of EUR 196,398 refer to the liabilities ReSPA to the Directorate for the Human Resources in the amount of EUR 171,521 or the Directorate for property in the amount of EUR 24,877.

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

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

18. ACCRUED LIABILITIES

	December 31, 2013	December 31, 2012	(In EUR) January 1, 2012
Received financial donation	1,590,286	618,249	342,499
Received donation in equipment	332,268	503,861	675,454
Accrued expenses of EC Grant implementation	-	-	14,700
Accrued accounting expenses	-	-	2,000
Implementation of ISO 9001 and HACCP	-	-	32,151
Hotel inventory maintenance	48,226	48,226	48,226
Building maintenance	64,302	64,302	64,302
Other accrued liabilities	-	-	15,215
	<u>2,035,082</u>	<u>1,234,638</u>	<u>1,194,547</u>

Changes in accrued liabilities arising from financial donations received for the year 2013, 2012, 2011 are shown in the following table:

	(In EUR)		
	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	Period from January 1 through December 31 2011
Balance at the beginning of the period	618,249	342,499	846,896
Increase during the period	168,548	1,242,595	-
Increase during the period—Grant 2(Note 5)	1,574,925	-	-
Used during the period—Grant 1(Note 5)	(749,092)	-	-
Used during the period—Grant 2(Note 5)	(22,344)	(966,845)	(504,397)
Balance at the end of the year	<u>1,590,286</u>	<u>618,249</u>	<u>342,499</u>

Changes in accrued liabilities arising from financial donations in equipment received for the year 2013, 2012, 2011 are shown in the following table:

	(In EUR)		
	Period from January 1 through December 31 2013	Period from January 1 through December 31 2012	Period from January 1 through December 31 2011
Balance at the beginning of the period	503,861	675,454	843,443
Depreciation for the period (Note 5 and 9)	(171,593)	(171,593)	(167,989)
Balance at the end of the year	<u>332,268</u>	<u>503,861</u>	<u>675,454</u>

NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2013

19. EVENTS AFTER THE STATEMENTS OF FINANCIAL POSITION

On February 21, 2014, the top management of ReSPA had a meeting with the Director of Human Resources, Ms. Svetlana Vukovic, and with the representatives of state institutions of Montenegro Ministry of Finance and the Ministry of Foreign Affairs discussing the completion of the handover process (including real estate, the kitchen, as well as all the necessary permits for the work and related facility utilization certificates and permits) from the Human Resources Administration to ReSPA. On the meeting it was agreed that this process will be completed in the course of 2014, by adopting a mutual agreement which will encompass in more detail the rights and obligations in accordance with the existing Host country agreement between Government of Montenegro and ReSPA on the seat and the functioning of ReSPA in the host country, as well as with the International Agreement on the establishment of ReSPA.

**Report for an Expenditure Verification
of a Core Budget**

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Report of Factual Findings

Mr. Suad Musić, Director
Regional School of Public Administration (ReSPA)
Branelovica,
81410 Danilovgrad, Montenegro

May 27, 2014

Dear Mr. Music,

In accordance with the terms of reference dated April, 2014 that Regional School of Public Administration (ReSPA) concluded with Deloitte d.o.o, Podgorica, we provide our Report on Factual Findings ("the Report"), with respect to the accompanying Financial Report for the period from January 1, 2013 through December 31, 2013.

Objective

We are engaged to perform the revenue and the expenditure verification, where our engagement covered performance of certain agreed - upon procedures with regard to the Financial Report for the Core Budget. The objective of this revenue and expenditure verification is to carry out certain procedures that we have agreed and to submit to you a report on factual findings with regard to the procedures performed.

Standards and Ethics

Our engagement was undertaken in accordance with:

- International Standard on Related Services ("ISRS") 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the International Federation of Accountants ("IFAC");
- the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants;

Report of Factual Findings

Procedures performed (continued)

As requested, we have only performed the procedures listed in the terms of reference for this engagement.

These procedures have been determined solely by the Budget Committee and the Governing Board and the procedures were performed solely to assist the Budget Committee and the Governing Board in evaluating whether the revenue and expenditure claimed by you in the accompanying Financial Report is eligible in accordance with the terms and conditions of the Budget Committee and the Governing Board.

Because the procedures performed by us did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Financial Report for the Core Budget.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Beneficiary in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Sources of Information

The Report sets out information provided to us by you in response to specific questions or as obtained and extracted from your accounts and records

Factual Findings

The total revenue which is the subject of this verification amounts to 1,372,099. The Revenue Coverage Ratio is 100 %. This ratio represents the total amount of revenue verified by us expressed as a percentage of the total revenue that has been a subject of this verification. The latter amount is equal to the total amount of revenue reported by you in the Financial Report for the Core Budget.

The total expenditure which is the subject of this verification amounts to EUR 806,880 .The Expenditure Coverage Ratio is 64.60 %. This ratio represents the total amount of expenditure verified by us expressed as a percentage of the total expenditure that has been a subject of this verification. The latter amount is equal to the total amount of expenditure reported by you in the Financial Report for the Core Budget.

We report details of our factual findings that result from the procedures that we performed in Chapter 2 of this Report.

Use of this Report

This Report is intended solely for the purpose set forth above under Objective paragraph.

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the Budget Committee and the Governing Board in connection with the requirements as set out in Article 36 of the Financial Manual. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Budget Committee and the Governing Board are not a party to the agreement (the terms of reference) between you and us and therefore we do not owe or assume a duty of care to the Budget Committee and the Governing Board who may rely upon this revenue and expenditure verification report at its own risk and discretion. The Budget Committee and the Governing Board can assess for themselves the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

Report of Factual Findings

Use of this Report (continued)

The Budget Committee and the Governing Board may only disclose this Report to others who have regulatory rights of access to, in particular the European Commission, the European Anti Fraud Office and the European Court of Auditors.

This Report relates only to the Financial Report for Core Budget specified above and does not extend to any of your financial statements.

We look forward to discussing our Report with you and would be pleased to provide any further information or assistance which may be required.

Yours sincerely,

Deloitte d.o.o., Podgorica
Podgorica, May 27, 2014

A circular blue stamp is positioned behind a handwritten signature in blue ink. The stamp contains the text "POSREDOVANJE I KONSALTING" around its perimeter. The signature is written over a horizontal line.

Žarko Mionić, Certified Auditor
(Licence no. 062 issued on March 10, 2011)

Information about the Core Budget

Core Budget 2013 is projected to support the increased level of operational activities envisaged in the Program of Work 2013 by covering core expenditures related to Human Resources, Travel Expenses, Office and other costs, as Core Resources necessary for implementation of the planned operational activities.

Envisaged activities in the Program of Work 2013 and related operational activities are covered by the available financial resources from the Donor funds provided by the Current EU Grant.

Working Capital Fund is established in 2013 by the Governing Board, in an amount to be determined from time to time and from which advances can be authorized by the Governing Board to finance Core Budget activities and which Fund is to be repaid as soon as Contributions are made. This fund is established using the appropriations which have not been used at the end of the financial year and for which the Budget Committee may permit their use for any authorized ReSPA activity in the following year or for payment into the Working Capital Fund.

Among the other, the added value of ReSPA is the availability of ReSPA Campus Hotel Capacitates that provides increased opportunity for networking among participants and the necessary accommodation and meals services for organised events. In addition, ReSPA Campus Hotel Budget contributes to Core Budget by sharing common utilities and maintenance expenditures.

The main terms and conditions stipulated by the Article 16 of the Financial Regulation:

- a) The Core Budget shall consist of the following revenues and expenditures:
 - the revenues of the Core Budget shall be contributions from Members, charges on directly managed funds and charges for ReSPA services.
 - the expenditures from the Core Budget shall include the costs of the Independent Auditor(s), the Director and Financial Controller and their offices, the costs of liability and property insurance, contributions to the Working Capital Fund and such other expenditures as authorized by the Governing Board by Resolution.
- b) The Governing Board shall set an envelope for each annual Core Budget.
- c) The Core Budget had two addendums signed on April and July 2013.
- d) In addition, frequent change of program activities, driven by the need to increase the impact of the grant implementation, lead to the reorganized and adopted operational and financial plan of implementing activities and Task Manager approval of reallocation of budget resources as of February 28, 2013, with the increased amount for program activities by 14.5%. The applied methodology has enabled the required quality output and outcome of organized program activities, within the approved budget limitations, and overall utilization of the available Grant Budget Resources of 94.08%.

Procedures performed and Factual Findings

We have performed the specific procedures:

- 1 General Procedures
- 2 Procedures to verify conformity of Revenue and Expenditure with the Budget and Analytical Review
- 3 Procedures to verify selected Revenue
- 4 Procedures to verify selected Expenditure

We have applied the criteria for verification coverage of 100% for the revenue verification and 64.60% for the expenditure verification.

During the work performed we have not encountered difficulties or problems.

The total expenditure verified by us amounts to EUR 664,655. The overall Expenditure Coverage Ratio is 64.60%.

	<u>Budgeted for the period</u>	<u>Implemented for the period</u>	<u>Amount verified</u>	<u>% covered</u>
<u>Revenue</u>				
1 National Contributions	900,821	887,064	887,064	100%
Carryovers, pursuant to Article 6 (5) of 2 the Financial Regulations	<u>477,868</u>	<u>477,868</u>	<u>477,868</u>	<u>100%</u>
A Total revenue	<u>1,378,689</u>	<u>1,364,932</u>	<u>1,364,932</u>	
<u>Expenditure</u>				
1 Human Resources	660,347	538,392	333,803	62%
2 Travel	50,150	40,285	25,380	63%
3 Office Expenses	150,400	97,898	62,655	64%
4 Other costs, services	<u>90,450</u>	<u>64,993</u>	<u>39,646</u>	<u>61%</u>
<i>Total eligible costs</i>	951,347	741,569	461,483	62.50%
5 Provision for contingency reserve	<u>6,276</u>	<u>5,311</u>	<u>3,293</u>	<u>62%</u>
B Total expenditure	957,623	746,880	464,776	62.25%
Capital Savings Fund	60,000	60,000	60,000	100%
Addendum to Core Budget	<u>361,066</u>	<u>222,030</u>	<u>139,879</u>	<u>63%</u>
B Total expenditure with addendum	<u>1,378,689</u>	<u>1,028,910</u>	<u>664,655</u>	<u>64.60%</u>

We have verified the selected revenue and expenditure as shown in the above summary table and we have carried out, for each revenue and expenditure item selected, the verification procedures. We report our factual findings resulting from these procedures below.

1 General Procedures

1.1 Terms and Conditions of the Core Budget

We have obtained an understanding of the terms and conditions of the Core Budget in accordance with the Financial Regulation adopted by ReSPA . No factual findings have arisen from this procedure.

1.2 Financial Report for the Core Budget

We have verified that the Financial Report for the Core Budget is in the compliance with the terms and conditions of Article 17 of the Financial Regulation. No factual findings have arisen from this procedure.

**Procedures performed and Factual Findings
(Continued)**

1 General Procedures (Continued)

1.3 Rules for Accounting and Record keeping

During the performing of the verification procedures, we have verified that Beneficiary has complied with the rules for accounting and record keeping specified by Article 35 of the Financial Manual. No factual findings have arisen from this procedure.

1.4 Reconciling the Financial Report to the Beneficiary's Accounting System and Records

We have reconciled the information in the Financial Report for the Core Budget with the Beneficiary's accounting system and records. No factual findings have arisen from this procedure.

1.5 Exchange Rates

We have verified that amounts of revenue and expenditures incurred in a currency other than Euro have been converted at the average of the exchange rates published in InforEuro for the months covered by the Financial Report for the Core Budget. No factual findings have arisen from this procedure.

2 Procedures to verify conformity of Revenue and Expenditure with the Budget and Analytical Review

2.1 Core Budget

We have carried out an analytical review of the revenue and expenditures stated in the Financial Report. We have verified that the budget in the Financial Report corresponds to the budget submitted, and that the revenue and expenditure incurred was indicated in the submitted Core budget. No factual findings have arisen from this procedure.

2.2 Amendments to the Core Budget

We have verified that there have been two amendment to the Core Budget. No factual findings have arisen from this procedure.

3 Procedures to verify selected Revenue and Expenditure

Further below we have reported all the findings of the verification procedures resulting in a conclusion that so far conducted procedures did apply to the selected revenue and expenditure item.

We have verified the following:

- the revenue and expenditure for a selected item were actually incurred by and pertains to the Beneficiary, and for that purpose we reviewed the documents supporting and proving the payment. Therefore, we have verified the supporting documents of works performed (i.e. goods received and services rendered by reviewing the material used during the trainings, evaluation forms, reports made by trainers/lecturers, etc.);
- the revenue and expenditure for the selected items incurred during the period from January 1 to December 31, 2013;
- the revenue and expenditure for the selected items was indicated in the Core Budget;
- the revenue and expenditure for the selected items were necessary for the main activities of the Beneficiary (we identified the nature of the expenditure and its supporting documentation - offers, contracts, invoices, payments);
- the revenue and expenditure for the selected items were recorded in the Beneficiary's accounting system in accordance with the applicable accounting standards of Montenegro as the country of its registration and with the Beneficiary's usual cost recording practice;
- the revenue and expenditure for the selected items was substantiated by evidence and the supporting ;
- the monetary value of the selected revenue and expenditure items were agreed with underlying documents (invoices, per diem calculations, etc.) and correct exchange rates were used where applicable;
- the selected revenue and expenditure items have been classified under the correct (sub)heading of the Financial Report;

**Procedures performed and Factual Findings
(Continued)**

3 Procedures to verify selected Revenue and Expenditure (Continued)

- the selected revenue and expenditure items were incurred in accordance with procurement (by examining the underlying documents of the procurement and purchase process).

3.1 Eligibility of Direct Costs

By examining the nature of the expenditure items concerned, we have verified that the expenditures recorded under one of the direct costs headings 1 to 4 of the Financial Report are covered by the direct costs

3.2 Provision for Contingency Reserve

We have verified that Beneficiary has used 84.63% of contingency reserve.

3.3 Administrative costs

We have verified that there are no reported indirect cost for covering the administrative overheads of the total amount of eligible direct costs of the Core Budget.

3.4 Revenues of the Action

After the examination completion, we have verified that there are revenues that are attributed to the Core Budget-country contributions.

Annex 1 Financial Report for the Core Budget

Annex 1 includes the Beneficiary's financial report for the Core Budget which has been the subject of the verification.