



**NATIONAL ALLIANCE FOR LOCAL  
ECONOMIC DEVELOPMENT - NALED,  
BELGRADE**

**Financial Statements as of and for the  
Year ended 31 December 2018  
and  
Independent Auditor's Report**

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*This is an English translation of Independent Auditor's Report and  
2018 Financial Statements originally issued in the Serbian language*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Association  
"National Alliance for Local Economic Development - NALED", Belgrade

We have audited the accompanying financial statements of the Association "National Alliance for Local Economic Development - NALED", Belgrade (hereinafter: the "Association"), which comprise the balance sheet as of 31 December 2018 and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting ("RS Official Gazette", no. 62/2013 and 30/2018), 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.

### *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 the Law on Audit ("RS Official Gazette", no. 62/2013 and 30/2018) and Standards on Auditing applicable in the Republic of Serbia. 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 entity's 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 a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Association as of 31 December 2018 and its financial performance for the year then ended in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and accounting policies disclosed in Note 3 to the financial statements.

Belgrade, 5 April 2019

  
Ksenija Ristic Kostic  
Certified Auditor



INCOME STATEMENT  
For the Year Ended 31 December 2018  
In RSD thousand

	Note	2018	2017
<b>OPERATING INCOME</b>			
Sales of services	5	63,652	43,351
Income from membership fees	6	76,464	69,037
Income from premiums, subsidies, grants and donations	7	134,103	95,000
		<u>274,219</u>	<u>207,388</u>
<b>OPERATING EXPENSES</b>			
Cost of material and energy	8	(6,318)	(5,236)
Salaries, compensations and other personal expenses	9	(112,404)	(82,751)
Cost of productive services	10	(27,920)	(22,978)
Amortisation and depreciation expense	13, 14	(2,064)	(1,757)
Cost of donations		(65)	(2)
Non-material costs	11	(104,702)	(83,976)
		<u>(253,473)</u>	<u>(196,700)</u>
<b>OPERATING PROFIT</b>		<u>20,746</u>	<u>10,688</u>
Financial income		338	72
Financial expenses		(581)	(3,186)
Net financial expense		<u>(243)</u>	<u>(3,114)</u>
Other income		46	-
Other expenses		(505)	(4,695)
<b>PROFIT FROM REGULAR OPERATIONS BEFORE TAX</b>		20,044	2,879
Prior year's error adjustment		111	(47)
<b>PROFIT BEFORE TAX</b>		20,155	2,832
Income tax expense	12	(738)	(307)
<b>NET PROFIT FOR THE YEAR</b>		<u>19,417</u>	<u>2,525</u>

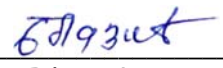
The accompanying notes on pages 4 to 23  
are an integral part of these financial statements.

The accompanying financial statements were authorized for issue on 5 April 2019 and shall be  
submitted to the Serbian Business Registers Agency.

Signed on behalf of the Association's management by:

  
Violeta Jovanovic  
Legal representative of  
the Association

  
Marko Stanojevic  
Operational Director

  
Biljana Lazic  
Person responsible for the  
preparation of financial  
statements

BALANCE SHEET  
As of 31 December 2018  
In RSD thousand

	Note	31 December 2018	31 December 2017
<b>ASSETS</b>			
Non-current assets			
Intangible assets	13	2,826	2,474
Property, plant and equipment	14	7,098	5,961
Long-term financial placements		473	473
		<u>10,397</u>	<u>8,908</u>
Current assets			
Inventories		2	-
Advances paid for inventories and services		753	718
Trade receivables	15	24,144	2,428
Other receivables	16	1,460	1,920
Cash and cash equivalents	17	38,585	65,307
Value added tax receivable		-	18
Prepayments and accrued income	18	7,292	5,584
		<u>72,236</u>	<u>75,975</u>
<b>TOTAL ASSETS</b>		<u><b>82,633</b></u>	<u><b>84,883</b></u>
<b>EQUITY AND LIABILITIES</b>			
Equity			
Retained earnings		35,666	16,249
		<u>35,666</u>	<u>16,249</u>
Non-current liabilities			
Long-term financial liabilities		-	138
		<u>-</u>	<u>138</u>
Current liabilities			
Short-term financial liabilities	19	138	404
Accounts payable	20	7,198	8,358
Other current liabilities	21	5,681	-
Value added tax payable		1,059	-
Other tax liabilities, contributions and other duties		709	269
Accruals and deferred income	22	32,182	59,465
		<u>46,967</u>	<u>68,496</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>82,633</b></u>	<u><b>84,883</b></u>

The accompanying notes on pages 4 to 23  
are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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1. CORPORATE INFORMATION

The association “National Alliance for Local Economic Development - NALED”, Belgrade (hereinafter: the “Association” or “NALED”), was founded on 6 June 2006, as a non-party and non-governmental association of citizens, with the aim of providing incentives to foreign direct investments, as well as permanent, stable and functional cooperation between representatives of the domestic economy and economic associations with potential foreign investors and units of local self-government for the purpose of improving the overall environment for stimulating local economic development in the Republic of Serbia.

Initially, the Association was organized in accordance with the provisions of the Law on Association of Citizens in Associations, Social Organizations and Political Organizations Established for the Territory of the SFRY (“SFRY Official Gazette”, no. 42/1990 and “FRY Official Gazette”, no. 24/1994, 28/1996 and 73/2000) and the provisions of the Law on Social Organizations and Citizens' Associations (“SRS Official Gazette” no. 24/1982, 39/1983, 17/1984, 50/1984, 45/1985 and 12/1989 and “RS Official Gazette”, no. 53/1993, 67/1993, 48/1994, 101/2005 and 51/2009), as positive legal regulations in the Republic of Serbia at the time of establishment of the Association.

After the entry into force of the Law on Associations (“RS Official Gazette”, no. 51/2009 and 99/2011), the Association has harmonised the Statute with the provisions of the aforementioned Law.

On 24 February 2010, the Association was registered in the Register of Associations of the Serbian Business Registers Agency, pursuant to the Decision no. BU 1059/2010.

The founders of the Association are domestic natural persons resident in the Republic of Serbia.

The registered activity of the Association is 9499 - the activity of other organizations based on membership.

The registration number of the Association is 17646877, and its tax identification number is 104478656.

The Association is classified into small legal entities.

The Head Office of the Association is situated in Belgrade, 30, Makedonska Street.

The registered representative of the Association is Violeta Jovanovic, residing in Belgrade.

Pursuant to the Founding Act date 28 March 2013, the Association founded the company “Expose” d.o.o. Belgrade, as the sole owner with 100% share in its capital (RSD 10 thousand). The main activity of the newly founded subsidiary is provision of consulting services relating to business and other management consultancy. On 2 April 2013, pursuant to the Decision no. BD 33784/2013 the newly founded company was registered in the Register of Companies of the Serbian Business Registers Agency.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

Legal entities (including other legal entities and associations) and entrepreneurs in the Republic of Serbia are obliged to maintain their books of account, recognize and assess assets and liabilities, income and expenses, compile, submit and disclose their financial statements in accordance with the Law on Accounting ("RS Official Gazette", no. 62/2013 and 30/2018).

The accompanying financial statements of the Association as of and for the year ended 31 December 2018 have been prepared in accordance with the accounting regulations prevailing in the Republic of Serbia, based on the Law on Accounting and the Guidelines on the Manner of Recognition, Evaluation, Presentation and Disclosure of Items in Individual Financial Statements of Micro and Other Legal Entities ("RS Official Gazette", no. 118/2013 and 95/2014). In accordance with the provisions of the Law on Accounting, the regular annual financial statements of other legal entities (and associations) include the balance sheet, income statement and notes to the financial statements.

The accompanying financial statements have been prepared under the historical cost convention.

The accompanying financial statements are separate financial statements of the Association as of and for the year ended 31 December 2018.

The financial statements of the Association are presented in the format prescribed by the Rulebook on the Content and Form of Financial Statements Forms for Other Legal Entities ("RS Official Gazette", no. 137/2014). This Rulebook legally defines the forms of financial statements and the content of items in the forms, as well as the minimum content of notes to these financial statements.

The Association's financial statements are stated in thousands of Dinars (RSD), unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Association.

The principal accounting policies applied in the preparation of these financial statements are set out in Note 3.

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Association's annual financial statements for the year ended 31 December 2017.

2.2. Comparative Figures

Comparative figures represent the data included in the audited financial statements as of and for the year ended 31 December 2017, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

2.3. Going Concern Assumption

The financial statements of the Association have been prepared under the going concern principle, which implies that the Association will continue its operations in the foreseeable future, covering the period of at least twelve months from the date of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Sales

Income is expressed at fair value of the service provided or to be provided, net of any contracted discounts. Income from services are recognized when the service is performed.

All expenses arising in the current period for the purposes of generating income from sales are charged to the income statement.

3.2. Membership Fees

Income from membership fees is presented in the amount of calculated annual membership fees to legal entities, local government units and non-governmental organisations, as members of the Association.

3.3. Income from Donations

The amount of funds received through donations is initially recorded as deferred income within liabilities, i.e. accruals and deferred income, which is reduced by crediting the income statement in the period when costs related to the use of funds received from donations are charged to the income statement.

Cash donations whose purpose is not strictly defined, covering a single accounting period and intended to cover the costs incurred by the Association during that period, are recognized within income in the accounting period in which they were received.

3.4. Interest Income

Interest income is credited to the income statement of the accounting period to which it relates.

3.5. Foreign Currency Translation and Accounting Treatment of Exchange Gains/Losses and Effects of Foreign Currency Clause Application

The items included in the Association's financial statements are measured by using the currency of the primary economic environment in which the entity operates (functional currency).

As disclosed in Note 2.1, the financial statements are stated in thousands of Dinar (RSD), which represents the functional and official reporting currency of the Association.

All monetary assets and liabilities denominated in foreign currency at the balance sheet date are translated into RSD at the official median exchange rates published by the National Bank of Serbia, prevailing at the reporting date (Note 27).

Foreign currency transactions occurred during the reporting period are translated into RSD at the official exchange rates published by the National Bank of Serbia, in effect at the date of each transaction.



NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Foreign Currency Translation and Accounting Treatment of Exchange Gains/Losses and Effects of Foreign Currency Clause Application (Continued)

Foreign exchange gains and losses arising upon the translation of assets, liabilities and transactions are credited or debited, as appropriate, to the income statement, as part of financial income, i.e. financial expenses.

Gains and losses arising upon translation of receivables and liabilities with the contracted foreign currency clause are also credited or debited as appropriate, to the income statement, as part of financial income, i.e. financial expenses.

3.6. Income Tax and Taxes and Contributions Not Related to Operating Result

(a) *Income Tax*

Income tax, i.e. the tax on the difference between income and expenses, represents the amount which is calculated and paid in accordance with the Corporate Income Tax Law applicable in the Republic of Serbia.

In accordance with Article 1 of this Law, other legal entities, including associations, are taxpayers of income tax if they earn income from the sale of products on the market, or from rendering of services with fee compensation.

Tax on the difference between income and expenses is the amount calculated by applying the prescribed tax rate of 15% (2017: 15%) to the tax base reported in the annual tax balance, which represents the amount of the pre-tax profit after deduction for the effects of the adjustment of income and expenses, in accordance with the tax regulations of the Republic of Serbia, and reduced by any applicable tax credits.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific previous period.

However, the losses from the current period stated in the tax balance can be used to reduce the tax base for future accounting periods, but not longer than five ensuing years. Tax losses incurred before 1 January 2010 may be transferred to the account of profit determined in the annual tax balance of the future accounting periods, but not longer than ten ensuing years.

(b) *Taxes and Contributions Not Related to Operating Result*

Taxes and contributions that are not related to the operating result comprise property tax (including tax on received donations, Note 3.7), payroll taxes and contributions payable by the employer and various other taxes and contributions paid in accordance with the republic, municipal and general regulations. These taxes and contributions are recorded within non-material costs (Note 11).

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Tax on Received Donations

In accordance with Article 14 paragraph 3 of the Law on Property Taxes (“RS Official Gazette”, no. 26/2001, 42/2002, 80/2002, 135/2004, 61/2007, 5/2009, 101/2010, 24/2011, 78/2011, 57/2012, 47/2013, 68/2014, 95/2018 and 99/2018), it is stipulated that the gift tax is paid on received funds, rights and items, unless the individual value of the received funds is less than RSD 100 thousand, or if the Law or an international treaty stipulates the right to tax exemption.

In accordance with this Law, the Association calculates a gift tax in the amount of 2.5% for each cash inflow from donations. The gift tax is charged to expenses of the period.

3.8. Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Serbia, the Association is obliged to pay payroll taxes and contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer, in an amount calculated by applying the specific, legally-prescribed rates.

The Association is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Association has no legal obligation to pay further benefits due to its employees by the state pension fund upon their retirement.

These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

3.9. Equity Investments

Equity investments in subsidiaries and companies founded by the Association are measured at cost less any estimated impairment losses.

3.10. Intangible Assets

Intangible assets of the Association relate to software purchased from third parties.

Intangible assets are initially recognised at cost.

After the initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Intangible assets are amortised over the period of 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Property, Plant and Equipment

Property, plant and equipment of the Association include equipment and leasehold improvements.

Items of equipment and leasehold improvements are initially recognised at cost. Cost comprises the purchase price, and any directly-attributable costs of bringing the asset to working condition for its intended use.

Subsequent to the initial recognition as an asset, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Association and the cost of the item can be measured reliably. The carrying value of the replaced asset is derecognised.

All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation of equipment is calculated on a straight-line basis using the following annual rates, in order to write-off the items completely over their estimated useful lives:

Computers and computer equipment	25%
Furniture and other equipment	10 - 15%
Other equipment	20%
Motor vehicles	10 - 50%

The depreciation of the equipment begins when the asset is put into use.

Gains/losses from the disposal or sale of assets are credited/debited to the income statement of the period the asset is disposed or sold, in the amount of the difference between the net inflow and the carrying value of the asset.

3.12. Financial Instruments

Financial assets and liabilities are recognised in the Association's balance sheet on the date upon which the Association becomes counterparty to the contractual provisions of a specific financial instrument.

Financial assets are initially recognised at cost representing the fair value increased by any directly attributable transaction costs, except for financial assets at fair value through profit and loss, when transaction costs are treated as the expenses of the period.

The Association has classified its financial assets in the category "Loans and Receivables". Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

Financial assets are derecognised when the Association loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realised, expired, abandoned, and/or ceded.

Financial liabilities cease to be recognised when the Association fulfils the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

(a) *Receivables*

After the initial recognition, receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment.

In the balance sheet of the Association, this category of financial assets includes trade receivables and other accounts receivable.

Trade receivables are recorded and measured at invoiced value net of allowance for impairment.

Allowance for impairment of receivables is established when there is objective evidence that the Association will not be able to collect all amounts due according to the original terms of receivables.

The assessment of the allowance for impairment of receivables is based on the ageing structure analysis and historical experience, and when the collection of the total amount or a portion of the receivable is no longer probable.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of impairment loss is recognised as an expense in the income statement. When a receivable is uncollectible, it is written-off against the allowance for impairment of trade receivables.

Income from the reversal of impairment losses arising from subsequent recoveries and estimated collectability of receivables is recognised in the income statement.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents are measured at nominal value.

(c) *Accounts Payable*

Trade payables and other current liabilities are measured at their nominal value.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Leases

*Association as a Lessee*

*Finance Lease*

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

Finance leases are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income in interest expense. Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term.

*Operating Lease*

A lease is classified as an operating lease if it does not transfer to the Association substantially all the risks and rewards incidental to ownership.

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease (Note 10).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in accordance with the accounting regulations prevailing in the Republic of Serbia requires the Association's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period.

These estimations and related assumptions are based on information available as of the date of preparation of the financial statements. Actual results could differ from those estimates. These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognized in the income statement of the periods in which they become known.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.1. *Useful Lives of Intangible Assets, Property, Plant and Equipment*

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue.

Assessment is performed periodically by the Association's management and they carry out the appropriate changes, if the need arises. Changes to estimates can result in significant variations in the carrying value of assets and amounts charged to the income statement in specific periods.

As an example, if the Association was to shorten the average useful life by 10%, this would result in additional amortisation and depreciation expense of approximately RSD 203 thousand for a twelve-month period.

4.2. *Impairment of Non-Financial Assets*

At each reporting date, the Association's management reviews the carrying amounts of the Association's intangible assets and property, plant and equipment presented in the financial statements. 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 the impairment loss.

An impairment review requires management to make subjective judgments concerning the cash flows, growth rates and discount rates of the cash generating units under review.

4.3. *Impairment of Trade Receivables and Other Receivables*

The Association calculates impairment for doubtful receivables based on estimated losses resulting from the inability of its customers to make required payments.

When evaluating the adequacy of impairment losses for doubtful accounts, the Association bases its estimates on the ageing structure of receivables, historical experience, changes in payment pattern, customer's creditworthiness and changes in payment pattern. These involve assumptions about future customer behaviour and the resulting future cash collections.

The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operational results positively or negatively.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

5. SALES OF SERVICES

	2018	2017
Sale of services on domestic market	26,870	40,743
Sale of services on foreign markets	36,782	2,608
<b>Total</b>	<b>63,652</b>	<b>43,351</b>

The Association provides consulting services. Income generated from these services is subject to taxation in accordance with the effective Corporate Income Tax Law of the Republic of Serbia (Note 3.6(a)).

Income from sales of services mostly relates to the services of organizing and conducting training, providing legal assistance and consulting to the following legal entities:

- PwC Services Limited, London in the amount of RSD 31,839 thousand;
- Ministry of Public Administration and Local Self-Government in the amount of RSD 19,324 thousand;
- Society for International Cooperation (GIZ) in the amount of RSD 4,393 thousand; and
- Master Card Europe in the amount of RSD 4,136 thousand.

6. INCOME FROM MEMBERSHIP FEES

	2018	2017
Membership fees:		
- Companies	47,647	43,837
- Cities and municipalities - units of local self-government	27,421	24,206
- Non-governmental organisations	1,396	994
<b>Total</b>	<b>76,464</b>	<b>69,037</b>

Increase in income from membership fees in 2018 in comparison with the prior year is the result of an increase in the number of members of the Association.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

7. INCOME FROM PREMIUMS, SUBSIDIES, GRANTS AND DONATIONS

Income from premiums, subsidies, grants and donations in 2018 amounts to RSD 134,103 thousand (2017: RSD 95,000 thousand) and completely relates to income from donations.

Income from donations mostly relates to cash donations provided by the Society for International Cooperation (GIZ) (RSD 42,917 thousand), USAID (RSD 29,726 thousand), Master Card Europe (RSD 13,385 thousand), OSI Institute (RSD 10,286 thousand) and other donors. Donations are intended to fund several projects during 2018.

Income from donations is recognized in the amount of expenses incurred.

In 2018, the Association released deferred income in the amount of RSD 113,336 thousand (2017: RSD 64,422 thousand) (see Note 22) and recognised it as income of the current reporting period.

8. COST OF MATERIAL AND ENERGY

	<u>2018</u>	<u>2017</u>
Costs of material	3,246	2,483
Overhead material	2,255	1,961
Spare parts	776	912
Fuel and energy	41	35
Total	<u>6,318</u>	<u>5,236</u>

9. SALARIES, COMPENSATION AND OTHER PERSONAL EXPENSES

	<u>2018</u>	<u>2017</u>
Gross salaries and compensations	85,956	62,561
Compensations for authorship contracts	6,997	9,011
Remuneration to physical persons arising from other contracts	3,003	1,266
Compensations for occasional and periodical jobs	-	1,196
Compensations for temporary job contracts	143	-
Other personal expenses	16,305	8,717
Total	<u>112,404</u>	<u>82,751</u>



NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

10. COST OF PRODUCTIVE SERVICES

	2018	2017
Lease of premises and equipment	15,339	11,209
Marketing and advertising	7,895	7,559
Cost of transportation, postal and telecommunications services	3,442	2,873
Maintenance costs	939	950
Other productive services	305	387
Total	27,920	22,978

11. NON-MATERIAL COSTS

	2018	2017
Legal and advisory services	42,258	41,079
Representation	11,618	9,262
Audit and services of translators	3,550	3,603
Insurance premiums	179	579
Bank charges	471	424
Other taxes and membership fees	203	223
Other non-productive services	46,423	28,806
Total	104,702	83,976

Legal and advisory services in 2018 include costs from related party transactions in the amount of RSD 1,654 thousand (Note 23(b)).

Other non-productive services in 2018 mostly relate to the costs of prize game, research costs, and costs of graphic design, program developers and maintenance of trainings.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

12. INCOME TAX

(a) Components of Income Tax on the Difference between Income and Expenses

	<u>2018</u>	<u>2017</u>
Tax expense of the period	<u>738</u>	<u>307</u>
Total	<u><u>738</u></u>	<u><u>307</u></u>

(b) Numerical Reconciliation of Income Tax and Profit before Tax  
Multiplied by the Income Tax Rate

	<u>2018</u>	<u>2017</u>
Income earned on the market from sales of services	<u>63,652</u>	<u>43,351</u>
	<u>63,652</u>	<u>43,351</u>
Expenses incurred in relation to income earned on the market:		
- costs of material	(1,464)	(1,100)
- salaries and compensations	(26,043)	(17,378)
- depreciation and amortization expense	(479)	(368)
- other expenses	<u>(30,744)</u>	<u>(22,461)</u>
	<u>(58,730)</u>	<u>(41,307)</u>
Tax base	4,922	2,044
Tax expense calculated at the statutory rate of 15%	<u>738</u>	<u>307</u>
Tax expense reported in the income statement	<u><u>738</u></u>	<u><u>307</u></u>

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

13. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets under construction	Total
<b>COST</b>				
Balance as of 1 January 2017	4,475	-	-	4,475
Additions during the year	747	-	-	747
Balance as of 31 December 2017	5,222	-	-	5,222
Additions during the year	-	584	592	1,176
Balance as of 31 December 2018	5,222	584	592	6,398
<b>ACCUMULATED AMORTISATION</b>				
Balance as of 1 January 2017	2,098	-	-	2,098
Amortisation expense	650	-	-	650
Balance as of 31 December 2017	2,748	-	-	2,748
Amortisation expense	824	-	-	824
Balance as of 31 December 2018	3,572	-	-	3,572
<b>CARRYING VALUE AS OF:</b>				
- 31 December 2018	1,650	584	592	2,826
- 31 December 2017	2,474	-	-	2,474

Based on the Association's management estimate, there are no indications that intangible assets are impaired at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

14. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Leasehold improve- ments	Total
<b>COST</b>			
Balance as of 1 January 2017	8,954	743	9,697
Additions during the year	2,114	-	2,114
Balance as of 31 December 2017	<u>11,068</u>	<u>743</u>	<u>11,811</u>
Additions during the year	2,377	-	2,377
Balance as of 31 December 2018	<u>13,445</u>	<u>743</u>	<u>14,188</u>
<b>ACCUMULATED DEPRECIATION</b>			
Balance as of 1 January 2017	3,907	645	4,552
Depreciation expense	1,011	96	1,107
Other movements	191	-	191
Balance as of 31 December 2017	<u>5,109</u>	<u>741</u>	<u>5,850</u>
Depreciation expense	1,240	-	1,240
Balance as of 31 December 2018	<u>6,349</u>	<u>741</u>	<u>7,090</u>
<b>CARRYING VALUE AS OF:</b>			
- 31 December 2018	<u>7,096</u>	<u>2</u>	<u>7,098</u>
- 31 December 2017	<u>5,959</u>	<u>2</u>	<u>5,961</u>

The carrying value of equipment under finance lease amounts to RSD 1,513 thousand as of 31 December 2018.

The cost of fully depreciated equipment as of 31 December 2018 amounts to RSD 5,556 thousand.

There are no indications that equipment and leasehold improvements of the Association are impaired at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

15. TRADE RECEIVABLES

	2018	2017
Domestic trade receivables	8,728	2,225
Foreign trade receivables	15,416	203
Balance as of 31 December	24,144	2,428

The most significant receivables from domestic customers relate to the Ministry of Public Administration and Local Self-Government, Belgrade in the amount of RSD 7,047 thousand.

The most significant receivables from foreign customers relate to PwC Services Limited, London in the amount of RSD 15,328 thousand.

For outstanding trade receivables reported as of 31 December 2018 and not collected until the date of preparation of the accompanying financial statements, the Association estimated their recoverability and it is expected that they will be fully collected.

Concentration of credit risk with respect to trade receivable are limited due to the Association's customer base being relatively large, with individually small amounts, and unrelated customers.

16. OTHER RECEIVABLES

Other receivables as of 31 December 2018 amount to RSD 1,460 thousand (31 December 2017: RSD 1,920 thousand) and mostly relate to:

- Receivables from active projects in 2018, based on which costs were incurred, and the Association issued invoices to the grantors/donors, but funds had not been received yet. These receivables mostly relate to receivables from the Foundation "SOS Decja sela" Belgrade in the amount of RSD 709 thousand.
- Receivables for refundable compensation (based on maternity leave) in the amount of RSD 676 thousand.

17. CASH AND CASH EQUIVALENTS

	2018	2017
Current accounts:		
- in RSD	16,684	6,843
- in foreign currency	21,901	58,464
Balance as of 31 December	38,585	65,307

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

18. PREPAYMENTS AND ACCRUED INCOME

	<u>2018</u>	<u>2017</u>
Accrued income from donations	3,709	2,961
Other accrued income	880	1,073
Accrued income from membership fees	1,237	930
Prepaid expenses	1,365	528
Other accruals	<u>101</u>	<u>92</u>
Balance as of 31 December	<u><u>7,292</u></u>	<u><u>5,584</u></u>

Accrued income from donations as of 31 December 2018 completely relates to accrued income arising with respect to the project "PPD/Public Private Dialogue" financed by the USAID.

19. SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities amount to RSD 138 thousand as of 31 December 2018 (31 December 2017: RSD 404 thousand) and completely relate to the current portion of long-term finance lease liabilities for the passenger vehicle purchased from UniCredit Leasing Srbija d.o.o. Belgrade.

20. ACCOUNTS PAYABLE

	<u>2018</u>	<u>2017</u>
Advances received	2,383	2,176
Domestic trade payables - related parties (Note 23(a))	1,254	1,668
Domestic trade payables	2,723	3,723
Foreign trade payables	70	23
Other payables	<u>768</u>	<u>768</u>
Balance as of 31 December	<u><u>7,198</u></u>	<u><u>8,358</u></u>

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

21. OTHER CURRENT LIABILITIES

	2018	2017
Liabilities for net salaries and compensations	4,332	-
Payroll taxes on behalf of the employee	523	-
Payroll contributions on behalf of the employee	373	-
Payroll taxes and contributions on behalf of the employer	335	-
Other liabilities	118	-
Balance as of 31 December	5,681	-

22. ACCRUALS AND DEFERRED INCOME

	2018	2017
Deferred income from donations	27,182	55,651
Accrued expenses	2,373	1,187
Deferred income	2,627	2,627
Balance as of 31 December	32,182	59,465

Deferred income from donations mostly relates to donations from the following partners:

- Society for International Cooperation (GIZ) - RSD 19,407 thousand;
- Embassy of the Netherlands, Belgrade - RSD 4,918 thousand; and
- Embassy of Norway, Belgrade - RSD 1,716 thousand.

Movements in deferred income from donations during the year were as follows:

	2018	2017
Balance as of 1 January	55,651	13,173
Donations received during the year	84,867	106,900
Released to the income statement (Note 7)	(113,336)	(64,422)
Balance as of 31 December	27,182	55,651

NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

23. RELATED PARTY TRANSACTIONS

The Association considers the subsidiary “Expose” d.o.o. Belgrade to be its related party. The Association is its founder and the sole owner.

Related party transactions are presented in the following tables:

- (a) Outstanding accounts receivable and accounts payable as of 31 December 2018 and 2017 arising from related party transactions are presented in the table below:

	2018	2017
LIABILITIES		
Trade payables (Note 20)	1,254	1,668
Balance as of 31 December	1,254	1,668

- (b) Transactions with the related party, i.e. income and expenses for the years ended 31 December 2018 and 2017, respectively, are summarized below:

	2018	2017
EXPENSES		
Non-productive services (Note 11)	1,654	2,947
Net expenses	1,654	2,947

- (c) Gross salaries and compensations of the key management personnel of the Association (CEO and three managers) in 2018 and 2017 are presented in the table below:

	2018	2017
Gross salaries and compensations	23,880	22,160
Total	23,880	22,160

24. COMMITMENTS

The Association’s commitments arising from the operating lease of business premises are as follows:

	2018	2017
Up to one year	79,200	10,269
From one to three years	198,000	20,537
Balance as of 31 December	277,200	30,806

25. CONTINGENT LIABILITIES

As of 31 December 2018, the Association is not involved as a defendant in any litigation whose outcome could have an adverse effect on the Association’s performance in the upcoming period.



NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended 31 December 2018

*All amounts are expressed in RSD thousand, unless otherwise stated*

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26. TAX RISKS

In the ordinary course of business, the Association enters into business transactions with its subsidiary. When preparing the accompanying financial statements, the Association has not reported the effects of transfer pricing to the calculated income tax, as it considers that transactions with the subsidiary are carried out under market conditions. In accordance with the tax laws of the Republic of Serbia, the Association is obliged to submit to the Tax Administration a tax balance and accompanying forms (together with transfer pricing documentation in abbreviated form) within 180 days from the expiration of the period for which the tax liability is determined.

In addition, the interpretation of tax laws by tax and other relevant authorities in relation to the transactions and activities of the Association may be different from the interpretation of the management of the Association. There is uncertainty whether the interpretations of the management of the Association and the accompanying documentation are sufficient and whether they correspond to the demands and interpretations of tax and other authorities.

The management of the Association considers that any different interpretations cannot have material effects on the Association's financial statements.

27. EXCHANGE RATES

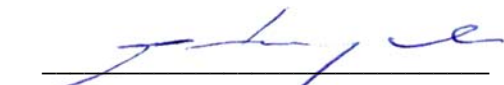
The official median exchange rates of the National Bank of Serbia for the major currencies, used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2018 and 2017 into the functional currency (RSD), were as follows:

	2018	In RSD 2017
EUR	118.1946	118.4727
USD	103.3893	99.1155

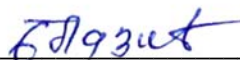
Belgrade, 5 April 2019



Representative of the Association  
Violeta Jovanovic



Operational Director  
Marko Stanojevic



Person responsible for the preparation  
of financial statements  
"BDL Sistem" d.o.o. Belgrade  
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