



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

**Financial Statements as of and for the
Year ended 31 December 2019
and
Independent Auditor's Report**

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*This is an English translation of Independent Auditor's Report and
2019 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

Opinion

We have audited the 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 2019 and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of 31 December 2019, and its financial performance for the year then ended in accordance with the regulations prevailing in the Republic of Serbia, based on the Law on Accounting and accounting policies disclosed in Note 3 to the financial statements.

Basis for Opinion

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Belgrade, 28 April 2020


Ksenija Ristic Kostic
Certified Auditor



INCOME STATEMENT
For the Year Ended 31 December 2019
In RSD thousand

	Note	2019	2018
OPERATING INCOME			
Sales of services	5	98,715	63,652
Income from membership fees	6	87,161	76,464
Income from donations, grants and subsidies	7	133,394	134,103
		<u>319,270</u>	<u>274,219</u>
OPERATING EXPENSES			
Cost of material and energy	8	(8,046)	(6,318)
Salaries, compensations and other personal expenses	9	(142,014)	(112,404)
Cost of productive services	10	(35,949)	(27,920)
Amortisation and depreciation expense	14, 15	(2,634)	(2,064)
Cost of donations		(126)	(65)
Non-material costs	11	(126,156)	(104,702)
		<u>(314,925)</u>	<u>(253,473)</u>
OPERATING PROFIT		<u>4,345</u>	<u>20,746</u>
Financial income		1,783	338
Financial expenses		(3,075)	(581)
Net financial expense		<u>(1,292)</u>	<u>(243)</u>
Other income		626	46
Other expenses	12	(1,977)	(505)
PROFIT FROM CONTINUOUS OPERATIONS BEFORE TAX		<u>1,702</u>	<u>20,044</u>
Prior year's error adjustment		(1,180)	111
PROFIT BEFORE TAX		<u>522</u>	<u>20,155</u>
Income tax expense	13	(252)	(738)
NET PROFIT FOR THE YEAR		<u><u>270</u></u>	<u><u>19,417</u></u>

The accompanying notes on pages 5 to 25
are an integral part of these financial statements.

The accompanying financial statements were authorized for issue on 27 April 2020 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
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BALANCE SHEET
As of 31 December 2019
In RSD thousand

	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets	14	2,334	2,826
Property, plant and equipment	15	14,681	7,098
Long-term financial placements	16	1,288	473
		<u>18,303</u>	<u>10,397</u>
Current assets			
Inventories		4	2
Advances paid for inventories and services		919	753
Trade receivables	17	19,029	24,144
Other receivables	18	1,322	1,460
Cash and cash equivalents	19	69,509	38,585
Prepayments and accrued income	20	12,012	7,292
		<u>102,795</u>	<u>72,236</u>
TOTAL ASSETS		<u><u>121,098</u></u>	<u><u>82,633</u></u>
EQUITY AND LIABILITIES			
Equity			
Retained earnings		35,936	35,666
		<u>35,936</u>	<u>35,666</u>
Current liabilities			
Short-term financial liabilities		-	138
Accounts payable	21	14,533	7,198
Other current liabilities	22	5,050	5,681
Value added tax payable		13	1,059
Other tax liabilities, contributions and other duties		956	709
Accruals and deferred income	23	64,610	32,182
		<u>85,162</u>	<u>46,967</u>
TOTAL EQUITY AND LIABILITIES		<u><u>121,098</u></u>	<u><u>82,633</u></u>

The accompanying notes on pages 5 to 25
are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

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, 99/2011 and 44/2018), the Association harmonised the Statute with the provisions of the aforementioned Law.

On 24 February 2010, the Association was registered in the Register of Associations with 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.

As of 31 December 2019, the Association had 37 employees (31 December 2018: 26 employees).

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

Pursuant to the Founding Act dated 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 subsidiary is provision of consulting business services and other management consultancy. On 2 April 2013, pursuant to the Decision no. BD 33784/2013 the subsidiary was registered in the Register of Companies with the Serbian Business Registers Agency.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

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. 73/2019), as well as the valid provisions of the former Law on Accounting ("RS Official Gazette", no. 62/2013 and 30/2018) (hereinafter the "Law") and other applicable laws and by-laws in the Republic of Serbia.

The accompanying financial statements of the Association as of and for the year ended 31 December 2019 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 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.

These financial statements are the separate financial statements of the Association as of and for the year ended 31 December 2019, excluding receivables, liabilities and operating result of its subsidiary. The Association has no obligation to prepare consolidated financial statements.

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 the 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 2018.

2.2. Comparative Figures

Comparative figures represent data included in the audited separate financial statements as of and for the year ended 31 December 2018, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

**2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS
(Continued)**

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.

The Association's management deems that the going concern will not be jeopardized in the foreseeable future even though the business will be difficult in Q2 and Q3 of 2020, perhaps even after that, due to the effects of the Covid-19 pandemic on both the global economy and overall economic circumstances in the Republic of Serbia, as disclosed in more details in Note 28.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Sales of Services

Income from sales of services is recognized 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 provided (rendered).

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

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

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 29).

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.

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, and the relevant by-laws.

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% (2018: 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, while the calculated tax liability may be reduced by determined 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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).

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, 99/2018 and 86/2019), 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 and 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

The equity investment in the subsidiary, whose founder is Association ("Expose" d.o.o Belgrade), is measured at cost.

The equity investment in the subsidiary is tested for impairment if there is an indication that its value may be impaired.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3.11. Property, Plant and Equipment

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

Items of property, plant and equipment 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, 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 (Note 10).

Depreciation of equipment is calculated using the straight-line method to allocate the cost of assets over their estimated useful lives, as follows:

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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) *Accounts Receivable*

After the initial recognition, accounts receivable 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 receivables.

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

At the end of each reporting period the Association estimates the impairment of receivables. If there is an objective evidence of impairment, the Association recognises an impairment loss in the income statement.

Allowance for impairment of receivables is established when there is an 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Financial Instruments (Continued)

(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.

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).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

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.

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 in which 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 263 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 amount of impairment losses for doubtful receivables, the Association bases its estimates on the ageing structure of receivables, historical experience, 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 2019

All amounts are expressed in RSD thousand, unless otherwise stated

5. SALES OF SERVICES

	2019	2018
Sale of services on domestic market	37,163	26,870
Sale of services on foreign markets	61,552	36,782
Total	98,715	63,652

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 in 2019 mostly relate 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 44,866 thousand;
- Ministry of Public Administration and Local Self-Government in the amount of RSD 22,920 thousand;
- UN Women in the amount of RSD 11,360 thousand; and
- IBF International in the amount of RSD 6,420 thousand.

6. INCOME FROM MEMBERSHIP FEES

	2019	2018
Membership fees from:		
- Companies	49,523	47,647
- Cities and municipalities - units of local self-government	36,556	27,421
- Non-governmental organisations	1,082	1,396
Total	87,161	76,464

Increase in income from membership fees in 2019 in comparison with the prior year is the result of an increase in the number of members of the Association, as well as a change in a membership category carried out by certain members.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

7. INCOME FROM DONATIONS, GRANTS AND SUBSIDIES

Income from donations, grants and subsidies in 2019 amounts to RSD 133,394 thousand (2018: RSD 134,103 thousand) and completely relates to income from donations.

Income from donations in 2019 relates to cash donations provided by the Society for International Cooperation (GIZ) (RSD 52,218 thousand), USAID (RSD 42,579 thousand), Embassy of Norway, Belgrade (RSD 9,210 thousand), European Bank for Reconstruction and Development (RSD 8,526 thousand) and other donors (RSD 20,861 thousand). Donations are intended to fund several projects during 2019.

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

In 2019, the Association released deferred income in the amount of RSD 83,698 thousand (2018: RSD 113,336 thousand) and recognised it as income of the current reporting period (see Note 23).

8. COST OF MATERIAL AND ENERGY

	2019	2018
Processing material	4,730	3,246
Overhead material	2,279	2,255
Spare parts	648	776
Fuel and energy	389	41
Total	8,046	6,318

9. SALARIES, COMPENSATION AND OTHER PERSONAL EXPENSES

	2019	2018
Gross salaries and compensations	96,372	85,956
Compensations for authorship contracts	17,980	6,997
Remuneration to physical persons arising from other contracts	1,162	3,003
Compensations for temporary job contracts	432	143
Compensations for occasional and periodical jobs	89	-
Other personal expenses	25,979	16,305
Total	142,014	112,404

The gross salaries growth in 2019 is the result of an increase in the number of employees at the Association in the current reporting period (from 26 in 2018 to 37 at the end of 2019).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

9. SALARIES, COMPENSATION AND OTHER PERSONAL EXPENSES (Continued)

Increase in the compensations for authorship contracts is the result of an increased number of projects on which the Association was engaged in 2019.

Increased number of employees and projects in 2019 resulted in the increase in the costs of business trips, travel expenses and per diems, which are stated within other personal expenses.

10. COST OF PRODUCTIVE SERVICES

	2019	2018
Lease of premises and equipment	18,151	15,339
Marketing and advertising	11,955	7,895
Cost of transportation, postal and telecommunications services	4,367	3,442
Maintenance costs	1,473	939
Other productive services	3	305
	35,949	27,920

11. NON-MATERIAL COSTS

	2019	2018
Legal and advisory services	62,014	42,258
Representation	2,455	11,618
Audit and services of translators	4,020	3,550
Insurance premiums	1,138	179
Bank charges	669	471
Other taxes and membership fees	190	203
Other non-productive services	55,670	46,423
	126,156	104,702

The costs of legal and advisory services in 2019 increased in comparison with the prior year due to a larger number of projects that the Association contracted in 2019. These costs include the costs incurred in related party transactions in the amount of RSD 670 thousand (2018: RSD 1,654 thousand) (Note 24(a)).

Other non-productive services in 2019 mostly relate to the research costs, costs of graphic design, program developers and maintenance of trainings and workshops.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

12. OTHER EXPENSES

Other expenses for the year ended 31 December 2019 amounts to RSD 1,977 thousand (2018: RSD 505 thousand) and mostly, in the amount of RSD 1,176 thousand, relate to the expenses regarding construction of the playground in Priboj, which is in progress.

13. INCOME TAX

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

	2019	2018
Income tax expense	252	738
Total	252	738

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

	2019	2018
Income earned on the market from sales of services	98,715	63,652
	98,715	63,652
Expenses incurred in relation to income earned on the market:		
- costs of material	(2,464)	(1,464)
- salaries and compensations	(43,485)	(26,043)
- depreciation and amortization expense	(807)	(479)
- other expenses	(50,280)	(30,744)
	(97,036)	(58,730)
Tax base	1,679	4,922
Tax expense calculated at the statutory rate of 15%	252	738
Income tax expense reported in the income statement	252	738

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

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14. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets under construction	Total
COST				
Balance as of 1 January 2018	5,222	-	-	5,222
Additions during the year	-	584	592	1,176
Balance as of 31 December 2018	<u>5,222</u>	<u>584</u>	<u>592</u>	<u>6,398</u>
Additions during the year	-	518	-	518
Transfer (from)/to	592	-	(592)	-
Balance as of 31 December 2019	<u>5,814</u>	<u>1,102</u>	<u>-</u>	<u>6,916</u>
ACCUMULATED AMORTISATION				
Balance as of 1 January 2018	2,748	-	-	2,748
Amortisation expense	824	-	-	824
Balance as of 31 December 2018	<u>3,572</u>	<u>-</u>	<u>-</u>	<u>3,572</u>
Amortisation expense	1,010	-	-	1,010
Balance as of 31 December 2019	<u>4,582</u>	<u>-</u>	<u>-</u>	<u>4,582</u>
CARRYING VALUE AS OF:				
- 31 December 2019	<u>1,232</u>	<u>1,102</u>	<u>-</u>	<u>2,334</u>
- 31 December 2018	<u>1,650</u>	<u>584</u>	<u>592</u>	<u>2,826</u>

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 2019

All amounts are expressed in RSD thousand, unless otherwise stated

15. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Leasehold improvements	Total
COST			
Balance as of 1 January 2018	11,068	743	11,811
Additions during the year	2,377	-	2,377
Balance as of 31 December 2018	13,445	743	14,188
Additions during the year	2,862	6,345	9,207
Balance as of 31 December 2019	16,307	7,088	23,395
ACCUMULATED DEPRECIATION			
Balance as of 1 January 2018	5,109	741	5,850
Depreciation expense	1,240	-	1,240
Balance as of 31 December 2018	6,349	741	7,090
Depreciation expense	1,622	2	1,624
Balance as of 31 December 2019	7,971	743	8,714
CARRYING VALUE AS OF:			
- 31 December 2019	8,336	6,345	14,681
- 31 December 2018	7,096	2	7,098

The carrying value of equipment under finance lease amounts to RSD 1,274 thousand as of 31 December 2019 (31 December 2018: RSD 1,513 thousand).

The cost of fully depreciated equipment as of 31 December 2019 amounts to RSD 6,185 thousand (31 December 2018: RSD 5,556 thousand).

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

16. LONG TERM FINANCIAL PLACEMENTS

Long-term financial placements amounting to RSD 1,288 thousand as of 31 December 2019 (31 December 2018: RSD 463 thousand), completely relate to the deposit paid to the company "Lion Belf" d.o.o. Belgrade for the lease of business premises where the Association's Executive Office is situated (Eurocentar building at Makedonska 30, Belgrade).

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

17. TRADE RECEIVABLES

	2019	2018
Domestic trade receivables	6,544	8,728
Foreign trade receivables	12,485	15,416
Balance as of 31 December	19,029	24,144

The most significant receivables from domestic customers as of 31 December 2019 relate to the Ministry of Public Administration and Local Self-Government, Belgrade in the amount of RSD 5,923 thousand.

The most significant receivables from foreign customers as of 31 December 2019 relate to PwC Services Limited, London in the amount of RSD 12,473 thousand.

For outstanding trade receivables reported as of 31 December 2019 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.

18. OTHER RECEIVABLES

Other receivables as of 31 December 2019 amount to RSD 1,322 thousand (31 December 2018: RSD 1,460 thousand) and relate to:

- Receivables for reimbursement of wages and salaries (regarding maternity leave) in the amount of RSD 1,025 thousand;
- Receivables from employees in the amount of RSD 220 thousand; and
- Other receivables in the amount of RSD 77 thousand.

19. CASH AND CASH EQUIVALENTS

	2019	2018
Current accounts:		
- in RSD	5,940	16,684
- in foreign currency	63,569	21,901
Balance as of 31 December	69,509	38,585

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

20. PREPAYMENTS AND ACCRUED INCOME

	2019	2018
Accrued income from donations	7,715	3,709
Other accrued income	880	880
Accrued income from membership fees	1,394	1,237
Prepaid expenses	1,355	1,365
Accrued VAT	668	93
Other accruals	-	8
	12,012	7,292
Balance as of 31 December		

Accrued income from donations as of 31 December 2019 completely relates to accrued income arising with respect to the project "PPD/Public Private Dialogue" financed by the USAID.

21. ACCOUNTS PAYABLE

	2019	2018
Advances received	2,394	2,383
Domestic trade payables - subsidiary (Note 24(b))	1,382	1,254
Domestic trade payables	9,670	2,723
Foreign trade payables	-	70
Other payables	1,087	768
	14,533	7,198
Balance as of 31 December		

22. OTHER CURRENT LIABILITIES

	2019	2018
Liabilities for net salaries and compensations	2,004	4,332
Payroll taxes on behalf of the employee	34	523
Payroll contributions on behalf of the employee	434	373
Payroll taxes and contributions on behalf of the employer	388	335
abilities to physical persons for contractual fees	2,180	-
Other liabilities	10	118
	5,050	5,681
Balance as of 31 December		

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

23. ACCRUALS AND DEFERRED INCOME

	2019	2018
Deferred income from donations	60,981	27,182
Accrued expenses	3,253	2,373
Deferred income	376	2,627
Balance as of 31 December	64,610	32,182

Deferred income from donations as of 31 December 2019 relates to donations from the following partners:

- Society for International Cooperation (GIZ) - RSD 53,618 thousand;
- Embassy of Norway, Belgrade - RSD 4,078 thousand;
- Embassy of the Netherlands, Belgrade - RSD 1,395 thousand; and
- Other partners - RSD 1,890 thousand.

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

	2019	2018
Balance as of 1 January	27,182	55,651
Donations received during the year	117,497	84,867
Released to the income statement (Note 7)	(83,698)	(113,336)
Balance as of 31 December	60,981	27,182

24. 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 of "Expose" d.o.o. Belgrade.

Transactions with the subsidiary "Expose" d.o.o. Belgrade are presented in the following tables:

- (a) Transactions with the related party, i.e. expenses incurred during the years ended 31 December 2019 and 2018, respectively, are summarized below:

	2019	2018
EXPENSES		
Legal and advisory services (Note 11)	670	1,654
Net expenses	670	1,654

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

24. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding accounts payable as of 31 December 2019 and 2018 arising from related party transactions are presented in the table below:

	<u>2019</u>	<u>2018</u>
LIABILITIES		
Trade payables (Note 21)	<u>1,382</u>	<u>1,254</u>
Balance as of 31 December	<u>1,382</u>	<u>1,254</u>

(c) Gross salaries and compensations of the key management personnel of the Association (CEO and three managers) in 2019 and 2018 are presented in the table below:

	<u>2019</u>	<u>2018</u>
Gross salaries and compensations	<u>29,205</u>	<u>23,880</u>
Total	<u>29,205</u>	<u>23,880</u>

25. COMMITMENTS

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

	<u>2019</u>	<u>2018</u>
Up to one year	<u>12,559</u>	<u>9,361</u>
From one to three years	<u>17,992</u>	<u>23,403</u>
Balance as of 31 December	<u>30,551</u>	<u>32,764</u>

26. CONTINGENT LIABILITIES

As of 31 December 2019, 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 2019

All amounts are expressed in RSD thousand, unless otherwise stated

27. 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.

28. EVENTS AFTER THE REPORTING PERIOD

The main challenge for the international community is the recent outbreak of the coronavirus (Covid-19), whose global spread is expected to have a negative impact on the global economy. The effects of the Covid-19 pandemic on economic activities will mainly depend on its possible global spread and the time for its suppression. Countries all over the world, among them Serbia, have taken the containment measures (e.g. travel restrictions, restrictions for citizens movements, lockdowns), as well as the measures for mitigating the negative impact of this pandemic on the economy.

On 15 March 2020 the Republic of Serbia issued a Decision on the Declaration of the State of Emergency due to the Covid-19 Disease. On 17 March 2020, the National Bank of Serbia passed a Decision on Temporary Measures to Preserve the Stability of the Financial System, under which commercial banks are obliged to offer debtors a deadlock in the repayment (moratorium) of their liabilities to banks for the duration of the state of emergency.

On 20 March 2020, the Government of the Republic of Serbia adopted the first set of tax measures, namely the Decree on Tax Measures during the State of Emergency, in order to mitigate the economic consequences caused by the Covid-19 outbreak. On 10 April 2020 a Program of Economic Measures was adopted in order to reduce the negative impacts caused by the Covid-19 pandemic and to support the Serbian economy.

The Association's management has taken all necessary measures based on the recommendations of the Ministry of Health and the Government of the Republic of Serbia. The coronavirus pandemic is expected to have a negative economic impact on the second quarter of 2020, and perhaps on the remaining period until the end of 2020, when a relative stabilisation of economic circumstances is expected. In such a case, negative impact of the pandemic on the Association's activities cannot be excluded.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2019

All amounts are expressed in RSD thousand, unless otherwise stated

28. EVENTS AFTER THE REPORTING PERIOD (Continued)

The management of the Association constantly monitors the development of the situation with the pandemic and adjusts its business decisions and policies in order to ensure continuity in business and fulfil all those project activities which can be realized in the current aggravated circumstances.

The Association successfully performs a significant part of its business by working from home in accordance with the guidelines of the Government of the Republic of Serbia, while a number of necessary functions are performed from the Head Office of the Association. There has been no business downtime and every effort has been made to keep the Association at maximum capacity to resume operations after the end of the state of emergency and the Covid-19 virus pandemic.

Based on the current situation and the information available, the management of the Association estimates that the new situation will impede implementation of certain project activities, and therefore they reduced planned expenditure of the Executive Office by 30% as compared to the originally planned for 2020, in order to maintain the adequate liquidity level of the Association in the upcoming period.

Apart from the aforementioned, there were no other significant events subsequent to the reporting date, which would require disclosures in the notes to the accompanying financial statements of the Association as of and for the year ended 31 December 2019.

29. 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 2019 and 2018 into the functional currency (RSD), were as follows:

	2019	In RSD 2018
EUR	117.5928	118.1946
USD	104.9186	103.3893

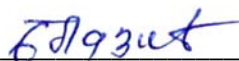
Belgrade, 27 April 2020



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