



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

**Financial Statements as of and for the
Year ended 31 December 2020**

and

Independent Auditor's Report

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*This is an English translation of Independent Auditor's Report and
2020 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 2020 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 2020, 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 the Law on Audit and 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 the Law on Audit and 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, 5 April 2021


Ksenija Ristic Kostic
Certified Auditor



INCOME STATEMENT
For the Year Ended 31 December 2020
In RSD thousand

	Note	2020	2019
OPERATING INCOME			
Sales of services	5	90,212	98,715
Income from membership fees	6	79,943	87,161
Income from donations, grants and subsidies	7	161,950	133,394
		<u>332,105</u>	<u>319,270</u>
OPERATING EXPENSES			
Cost of material and energy	8	(5,558)	(8,046)
Salaries, compensations and other personal expenses	9	(142,888)	(142,014)
Cost of production services	10	(36,903)	(35,949)
Amortisation and depreciation expense	14, 15	(5,917)	(2,634)
Cost of donations		(167)	(126)
Non-material costs	11	(138,333)	(126,156)
		<u>(329,766)</u>	<u>(314,925)</u>
OPERATING PROFIT		<u>2,339</u>	<u>4,345</u>
Financial income		881	1,783
Financial expenses	12	(2,351)	(3,075)
Net financial expense		<u>(1,470)</u>	<u>(1,292)</u>
Other income		59	626
Other expenses		(220)	(1,977)
PROFIT FROM CONTINUOUS OPERATIONS BEFORE TAX		<u>708</u>	<u>1,702</u>
Prior year's error adjustment		(328)	(1,180)
PROFIT BEFORE TAX		<u>380</u>	<u>522</u>
Income tax expense	13	(153)	(252)
NET PROFIT FOR THE YEAR		<u><u>227</u></u>	<u><u>270</u></u>

The accompanying notes on pages 5 to 27
are an integral part of these financial statements.

The accompanying financial statements were authorized for issue on 2 April 2021 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	 Branko Drcevic Finance and Projects Director	 Biljana Lazic Person responsible for the preparation of financial statements
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BALANCE SHEET
As of 31 December 2020
In RSD thousand

	Note	31 December 2020	31 December 2019
ASSETS			
Non-current assets			
Intangible assets	14	1,437	2,334
Property, plant and equipment	15	13,601	14,681
Long-term financial placements	16	1,283	1,288
		<u>16,321</u>	<u>18,303</u>
Current assets			
Inventories		-	4
Advances paid for inventories and services		462	919
Trade receivables	17	2,854	19,029
Other receivables	18	2,673	1,322
Cash and cash equivalents	19	261,136	69,509
Prepayments and accrued income	20	35,691	12,012
		<u>302,816</u>	<u>102,795</u>
TOTAL ASSETS		<u>319,137</u>	<u>121,098</u>
EQUITY AND LIABILITIES			
Equity			
Retained earnings		36,163	35,936
		<u>36,163</u>	<u>35,936</u>
Current liabilities			
Accounts payable	21	43,318	14,533
Other current liabilities	22	10,995	5,050
Value added tax payable		1,851	13
Other tax liabilities, contributions and other duties		538	956
Accruals and deferred income	23	226,272	64,610
		<u>282,974</u>	<u>85,162</u>
TOTAL EQUITY AND LIABILITIES		<u>319,137</u>	<u>121,098</u>

The accompanying notes on pages 5 to 27
are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

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 2020, the Association had 45 employees (31 December 2019: 37 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 2020

All amounts are expressed in RSD thousand, unless otherwise stated

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the 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) 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 2020 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 2020, 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 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 2019.

2.2. Comparative Figures

Comparative figures represent data included in the audited financial statements as of and for the year ended 31 December 2019, prepared in accordance with the accounting regulations prevailing in the Republic of Serbia.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

**2. BASIS OF PREPARATION AND PRESENTATION OF THE 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 Company's ability to continue as a going concern will not be jeopardized in the foreseeable future, even though the current situation will make the implementation of certain project activities difficult in Q2 and Q3 of 2021, and perhaps later, due to the effects of the Covid-19 pandemic, both on global economy and the 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 and Expenses

Interest income is recognised on an accrual basis and credited to the income statement under financial income.

Interest expenses are recorded as an expense during the period in which they are incurred and recorded under financial expenses.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Operating Expenses

Operating expenses comprise costs incurred by generating the revenue from sales and include cost of material and energy, gross salaries, depreciation and amortisation expenses, maintenance costs and cost of services provided by third parties.

Operating expenses also include non-material costs, such as the costs of insurance, bank charges, entertainment, taxes and other costs incurred in the current accounting period.

Operating expenses are recognised on an accrual basis in the actual amounts in the accounting period to which they relate.

Maintenance and repair costs of intangible assets and equipment are recognised as an expense of the accounting period in which they arise in actual amounts (Note 10).

3.6. 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 30).

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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. 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% (2019: 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.

(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 3.8.), 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).

3.8. 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, 86/2019 and 144/2020), 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. 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.

3.10. 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.

3.11. 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.

3.12. 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Property, Plant and Equipment (Continued)

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.

3.13. 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.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Financial Instruments (Continued)

(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.

(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 2020

All amounts are expressed in RSD thousand, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. 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 2020

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 553 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 2020

All amounts are expressed in RSD thousand, unless otherwise stated

5. SALES OF SERVICES

	2020	2019
Sale of services on domestic market	59,911	37,163
Sale of services on foreign markets	30,301	61,552
Total	90,212	98,715

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 2020 mostly relate to the services of organizing and conducting training, providing legal assistance and consulting to the following institutions and legal entities:

- Ministry of Public Administration and Local Self-Government in the amount of RSD 28,944 thousand;
- PwC Services Limited, London in the amount of RSD 13,945 thousand;
- UNDP - United Nations Development Programme, Serbia in the amount of RSD 7,189 thousand;
- Ecorys South East Europe LTD, Sofia, Bulgaria in the amount of RSD 7,611 thousand;
- IBF International Consulting, Brussels in the amount of RSD 6,421 thousand;
- Partner Solutions d.o.o. Belgrade in the amount of RSD 3,378 thousand; and
- Public Policy Secretariat of the Republic of Serbia in the amount of RSD 3,255 thousand.

6. INCOME FROM MEMBERSHIP FEES

	2020	2019
Membership fees from:		
- Companies	48,730	49,523
- Cities and municipalities - units of local self-government	30,102	36,556
- Non-governmental organisations	1,111	1,082
Total	79,943	87,161

Decrease in income from membership fees in 2020 in comparison with the prior year is a consequence of the aggravated economic conditions caused by the Covid-19 virus pandemic.

There was a decrease in the number of members at the end of 2020, after the local self-governments, which already paid the membership fee for 2020, were excluded from the Association and informed it that they would no longer be its members starting from 2021.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

7. INCOME FROM DONATIONS, GRANTS AND SUBSIDIES

	2020	2019
Income from foreign donations	145,030	121,973
Income from domestic donations	8,951	1,290
Income from government grants	5,366	-
Income from subsidies	2,603	-
Income from co-financing	-	10,131
Total	161,950	133,394

Income from donations in 2020 relates to cash donations provided by the Society for International Cooperation (GIZ) (RSD 92,638 thousand), USAID (RSD 32,128 thousand), European Union (RSD 8,098 thousand) and other donors (RSD 21,117 thousand). Donations are intended to fund several projects during 2020.

Income from government grants relate to funds received under the package of state aid measures due to the Covid-19 pandemic.

Income from subsidies relate to new tax reliefs, i.e. reduced payment of taxes and contributions for new employees in 2020 - 100% payroll contributions and 70% payroll taxes.

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

In 2020, the Association released deferred income in the amount of RSD 144,094 thousand (2019: RSD 83,698 thousand) and recognised it as income of the current reporting period (*see* Note 23).

8. COST OF MATERIAL AND ENERGY

	2020	2019
Processing material	3,100	4,730
Overhead material	1,771	2,279
Spare parts	457	648
Fuel and energy	230	389
Total	5,558	4,730

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

9. SALARIES, COMPENSATION AND OTHER PERSONAL EXPENSES

	2020	2019
Gross salaries and compensations	126,955	96,372
Compensations for authorship contracts	9,748	17,980
Remuneration to physical persons arising from other contracts	1,243	1,162
Compensations for temporary job contracts	1,379	432
Compensations for occasional and periodical jobs	-	89
Other personal expenses	3,563	25,979
Total	142,888	142,014

Gross salaries and compensations in 2020 increased due to the increase in the number of employees from 37 in 2019 to 45 in 2020.

Other personal expenses in 2020 decreased, since the costs of business trips, travel expenses and per diems, which are stated within other personal expenses, decreased due to the Covid-19 pandemic.

10. COST OF PRODUCTION SERVICES

	2020	2019
Lease of premises and equipment	18,688	18,151
Marketing and advertising	13,471	11,955
Cost of transportation, postal and telecommunications services	3,716	4,367
Maintenance costs	733	1,473
Other services	295	3
Total	36,903	35,949

11. NON-MATERIAL COSTS

	2020	2019
Legal and advisory services	69,460	62,014
Representation	1,225	2,455
Audit and services of translators	2,163	4,020
Insurance premiums	1,861	1,138
Bank charges	614	669
Other taxes and membership fees	139	190
Other non-production services	62,871	55,670
Total	138,333	126,156

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

11. NON-MATERIAL COSTS (Continued)

The costs of legal and advisory services in 2020 increased in comparison with the prior year due to a larger number of projects that the Association contracted in 2020. These costs include the costs incurred in related party transactions in the amount of RSD 1,798 thousand (2019: RSD 670 thousand) (Note 24(a)).

Other non-production services in 2020 mostly relate to the research costs, costs of graphic design, program developers and maintenance of trainings and workshops.

12. FINANCIAL EXPENSES

	<u>2020</u>	<u>2019</u>
Foreign exchange losses and losses arising from foreign currency clause application	2,339	3,066
Interest expenses	<u>12</u>	<u>9</u>
Total	<u>2,351</u>	<u>3,075</u>

13. INCOME TAX EXPENSE

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

	<u>2020</u>	<u>2019</u>
Income tax expense	<u>153</u>	<u>252</u>
Total	<u>153</u>	<u>252</u>

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

	<u>2020</u>	<u>2019</u>
Income earned on the market from rendering of services and sales	<u>90,271</u>	<u>98,715</u>
	<u>90,271</u>	<u>98,715</u>
Expenses incurred in relation to income earned on the market:		
- costs of material	(1,505)	(2,464)
- salaries and compensations	(38,694)	(43,485)
- depreciation and amortization expense	(1,603)	(807)
- other expenses	<u>(47,451)</u>	<u>(50,280)</u>
	<u>(89,253)</u>	<u>(97,036)</u>
Tax base	1,018	1,679
Tax expense calculated at the statutory rate of 15%	<u>153</u>	<u>252</u>
Income tax expense reported in the income statement	<u>153</u>	<u>252</u>

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

14. INTANGIBLE ASSETS

	Software	Other intangible assets	Intangible assets under construction	Total
COST				
Balance as of 1 January 2019	5,222	584	592	6,398
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>
Additions during the year	-	-	-	-
Balance as of 31 December 2020	<u>5,814</u>	<u>1,102</u>	<u>-</u>	<u>6,916</u>
ACCUMULATED AMORTISATION				
Balance as of 1 January 2019	3,572	-	-	3,572
Amortisation expense	1,010	-	-	1,010
Balance as of 31 December 2019	<u>4,582</u>	<u>-</u>	<u>-</u>	<u>4,582</u>
Amortisation expense	897	-	-	897
Balance as of 31 December 2020	<u>5,479</u>	<u>-</u>	<u>-</u>	<u>5,479</u>
CARRYING VALUE AS OF:				
- 31 December 2020	<u>335</u>	<u>1,102</u>	<u>-</u>	<u>1,437</u>
- 31 December 2019	<u>1,232</u>	<u>1,102</u>	<u>-</u>	<u>2,334</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 2020

All amounts are expressed in RSD thousand, unless otherwise stated

15. PROPERTY, PLANT AND EQUIPMENT

	Equipment	Leasehold improve- ments	Total
COST			
Balance as of 1 January 2019	13,445	743	14,188
Additions during the year	2,862	6,345	9,207
Balance as of 31 December 2019	<u>16,307</u>	<u>7,088</u>	<u>23,395</u>
Additions during the year	4,923	-	4,923
Disposals during the year	(3,580)	-	(3,580)
Balance as of 31 December 2020	<u>17,650</u>	<u>7,088</u>	<u>24,738</u>
ACCUMULATED DEPRECIATION			
Balance as of 1 January 2019	6,349	741	7,090
Depreciation expense	1,622	2	1,624
Balance as of 31 December 2019	<u>7,971</u>	<u>743</u>	<u>8,714</u>
Depreciation expense	1,847	3,173	5,020
Disposals during the year	(2,597)	-	(2,597)
Balance as of 31 December 2020	<u>7,221</u>	<u>3,916</u>	<u>11,137</u>
CARRYING VALUE AS OF:			
- 31 December 2020	<u>10,429</u>	<u>3,172</u>	<u>13,601</u>
- 31 December 2019	<u>8,336</u>	<u>6,345</u>	<u>14,681</u>

The carrying value of equipment under finance lease amounted to RSD 1,274 thousand as of 31 December 2019, while the Association does not have equipment under finance lease as of 31 December 2020.

The cost of fully depreciated equipment as of 31 December 2020 amounts to RSD 9,048 thousand (31 December 2019: RSD 6,185 thousand).

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

16. LONG TERM FINANCIAL PLACEMENTS

Long-term financial placements amounting to RSD 1,283 thousand as of 31 December 2020 (31 December 2019: RSD 1,288 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).

17. TRADE RECEIVABLES

	2020	2019
Domestic trade receivables	2,854	6,544
Foreign trade receivables	-	12,485
Balance as of 31 December	2,854	19,029

Receivables from domestic customers as of 31 December 2020 relate to receivables from "Partner Solutions" d.o.o. Belgrade in the amount of RSD 2,401 thousand and "Coca-Cola HBS Srbija" d.o.o. Zemun in the amount of 453 thousand.

For outstanding trade receivables reported as of 31 December 2020 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 2020 amount to RSD 2,673 thousand (31 December 2019: RSD 1,322 thousand) and comprise:

- Receivables for reimbursement of salaries and compensation (regarding maternity leave) in the amount of RSD 1,054 thousand;
- Receivables for membership fees in the amount of RSD 1,353 thousand; and
- Other receivables in the amount of RSD 266 thousand.

19. CASH AND CASH EQUIVALENTS

	2020	2019
Current accounts:		
- in RSD	85,877	5,940
- in foreign currency	175,259	63,569
Balance as of 31 December	261,136	69,509

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

20. PREPAYMENTS AND ACCRUED INCOME

	2020	2019
Accrued income from donations (a)	20,365	7,715
Accrued income from services (b)	10,178	-
Other accrued income	880	880
Accrued income from membership fees	484	1,394
Prepaid expenses	1,150	1,355
Accrued VAT	175	668
Other accruals (c)	2,459	-
Balance as of 31 December	35,691	12,012

(a) Accrued income from donations as of 31 December 2020 relates to accrued income arising with respect to the project financed by the following partners:

- USAID - RSD 7,946 thousand;
- European Union - RSD 7,326 thousand;
- Society for International Cooperation (GIZ) - RSD 2,695 thousand; and
- Other partners - RSD 2,398 thousand.

(b) Accrued income from services refers entirely to the project “Environmental Protection”, in which participate: Tetra Pak Production d.o.o. Belgrade, Barlan S&M (Coca-Cola Company) d.o.o. Belgrade, Ball Packaging Europe d.o.o. Belgrade, Apatinska pivara d.o.o. Apatin and others. The Project is funded from several sources.

(c) Other accruals as of 31 December 2020 mostly relate to accrued VAT in advances received in the amount of RSD 2,347 thousand.

21. ACCOUNTS PAYABLE

	2020	2019
Advances received	15,533	2,394
Domestic trade payables - subsidiary (Note 24(b))	1,970	1,382
Domestic trade payables	7,326	9,670
Foreign trade payables	18,489	-
Other payables	-	1,087
Balance as of 31 December	43,318	14,533

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

22. OTHER CURRENT LIABILITIES

	2020	2019
Liabilities for net salaries and compensations	5,933	2,004
Payroll taxes on behalf of the employee	808	34
Payroll contributions on behalf of the employee	1,607	434
Payroll taxes and contributions on behalf of the employer	1,425	388
abilities to physical persons for contractual fees	1,157	2,180
Other liabilities	65	10
	10,995	5,050

23. ACCRUALS AND DEFERRED INCOME

	2020	2019
Deferred income from donations from foreign partners	206,161	60,981
Deferred income from donations from domestic partners	18,870	-
Accrued expenses	653	3,253
Deferred income	588	376
	226,272	64,610

Deferred income from donations as of 31 December 2020 relates to donations from the following foreign and domestic partners:

- Society for International Cooperation (GIZ) - RSD 148,091 thousand;
- Swedish International Development Agency (SIDA) - RSD 57,834 thousand;
- Philip Morris Operations (PMI) a.d. Nis - RSD 18,870 thousand; and
- Other partners - RSD 236 thousand.

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

	2020	2019
Balance as of 1 January	60,981	27,182
Donations received during the year	308,144	117,497
Released to the income statement (Note 7)	(144,094)	(83,698)
	225,031	60,981

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

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 2020 and 2019, respectively, are summarized below:

	2020	2019
EXPENSES		
Legal and advisory services (Note 11)	1,798	670
Net expenses	1,798	670

- (b) Outstanding accounts payable as of 31 December 2020 and 2019 arising from related party transactions are presented in the table below:

	2020	2019
LIABILITIES		
Trade payables (Note 21)	1,970	1,382
Balance as of 31 December	1,970	1,382

- (c) Gross salaries and compensations of the key management personnel of the Association (CEO and five managers in 2020 and CEO and three managers in 2019) in 2020 and 2019 are presented in the table below:

	2020	2019
Gross salaries and compensations	44,161	29,205
Total	44,161	29,205

25. COMMITMENTS

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

	2020	2019
Up to one year	12,558	12,559
From one to three years	5,432	17,992
Balance as of 31 December	17,990	30,551

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

26. CONTINGENT LIABILITIES

As of 31 December 2020, 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.

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. IMPACT OF THE GLOBAL CRISIS CAUSED BY THE COVID-19 PANDEMIC

A major challenge in 2020 was the coronavirus (Covid-19) outbreak, whose expansion worldwide had a negative impact in the global economy. Countries worldwide-and the Republic of Serbia among them have taken measures to contain the virus' expansion (for example restriction in traveling, sanitary measures, vaccination), and cushion the shock on both economic supply and demand via fiscal measures and government benefits.

The baseline scenario that the expansion of the coronavirus globally, across the EU and in Serbia will be contained and gradually slow down (as is already the case in China) by the end of the first half of 2020, did not materialize. Consequently, the pandemic had a notable negative economic impact on the entire year 2020, with a tendency for such effects to continue until the end of the third quarter of 2021.

In 2020, the Association's management constantly monitored the situation and adjusted its business decisions and policies in order to ensure the continuity of its business operations and performance of those project activities that were able to be done in such difficult circumstances. One of the key measures for the prevention of the epidemic spread and protection of employees' health was and still is work from home by some employees, while a certain number of necessary functions is still performed at the Association's head office. There was no deadlock in business operations and a tremendous effort is put in order for the Association to continue to operate at maximum capacity and overcome the current business situation on the market.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

All amounts are expressed in RSD thousand, unless otherwise stated

**28. IMPACT OF THE GLOBAL CRISIS CAUSED BY THE COVID-19 PANDEMIC
(Continued)**

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, while on 10 April 2020 the Program of Economic Measures to Mitigate Negative Effects Caused by the Covid-19 Pandemic and Support the Serbian Economy was adopted.

The Republic of Serbia Government has continued to provide economic support measures in 2021 by adopting a Decree on the Establishment of a Programme of Direct Benefits from the Republic of Serbia Budget to Business Entities in the Private Sector to Mitigate Economic Effects Caused by the Covid-19 Pandemic ("RS Official Gazette", no. 11 dated 12 February 2021).

The Association used a portion of the measures envisaged under the state aid package intended for business entities, i.e. it used direct benefits in the amount of minimum salaries for April, May, June, July and August 2020.

Despite the aggravated circumstances, the impact of the crisis caused by the Covid-19 pandemic did not have a significant adverse impact on the Association's operations. In 2020 an increase in both operating income and expenses was recorded and thus, the income surplus generated in 2020 over expenses was not considerably lower in comparison to 2019. The Association contracted a large number of new projects totalling over EUR 9 million in 2020, and thus, created a base for successful performance in the upcoming mid-term period.

The Association is constantly monitoring the development of the situation and has increased the level of readiness by adjusting decisions and policies in order to ensure continuity in implementing project activities, settling contractual obligations to suppliers and preserving the appropriate level of liquidity, as well as achieving the 2021 business plan at maximum capacity. In addition, the Association still takes measures to rationalise costs at all levels, in particular within the Executive Office.

It is expected that the pandemic will slow down in the coming period, which will enable the normalization of life and companies' businesses, as well as the stabilization of economic conditions.

Based on the currently available information and assessment of the plans realization, the management believes that the current situation will make the implementation of certain project activities difficult, but not to the extent to endanger the Association's ability to continue as a going concern in the foreseeable future.

29. EVENTS AFTER THE REPORTING PERIOD

There were no 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 2020.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2020

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30. 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 2020 and 2019 into the functional currency (RSD), were as follows:

	<u>2020</u>	<u>In RSD 2019</u>
EUR	117.5802	117.5928
USD	95.6637	104.9186

Belgrade, 2 April 2021

 Violeta Jovanovic Legal representative of the Association	 Branko Drcelic Finance and Projects Director	 Biljana Lazic Person responsible for the preparation of financial statements
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