

**REPUBLIC AGENCY FOR SMALL
AND MEDIUM-SIZED ENTERPRISES,
BANJA LUKA**

**Financial Statements
Year Ended December 31, 2015 and
Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

To the Government of the Republic of Srpska and Management of the Republic Agency for Small and Medium-Sized Enterprises, Banja Luka

We have audited the accompanying financial statements (pages 3 to 29) of the Republic Agency for Small and Medium-Sized Enterprises, Banja Luka (the "Agency"), which comprise the review of assets, liabilities and resources excluded from Treasury Ledger System ("TLS") as of December 31, 2015 and the related balance of income, receipts, expenses and disbursements excluded from TLS, functional classification of expenses and net outflows from non-financial assets excluded from TLS on Fund Accounts from 01 to 05, data on structure and number of employees and cash flow review for the year then ended, as well as a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Republic of Srpska 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Republic Agency for Small and Medium-Sized Enterprises, Banja Luka as of December 31, 2015 and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of the Republic of Srpska governing the public sector as well as with the regulations governing the financial reporting of the Republic of Srpska budget beneficiaries disclosed in note 2.1 to the accompanying financial statements.

(Continued)

INDEPENDENT AUDITORS' REPORT

To the Government of the Republic of Srpska and Management of the Republic Agency for Small and Medium-Sized Enterprises, Banja Luka (Continued)

Emphasis of Matter

We draw attention to Note 2.1 to the financial statements disclosing that the accompanying financial statements of the Agency have been prepared in accordance with the with the Rulebook on the Financial Reporting for the Budget Revenue Beneficiaries of the Republic, Municipalities, Towns and Funds of the Republic of Srpska (Official Gazette of RS no. 16/11 and 126/11), whose provisions in certain respects depart from the requirements of the International Public Sector Accounting Standards ("IPSAS"). Our opinion is not modified in respect of this matter.

Banja Luka, May 31, 2016

Certified Auditor
Mirko Ilić

**REPUBLIC AGENCY FOR SMALL AND
MEDIUM-SIZED ENTERPRISES, BANJA LUKA**

**BALANCE OF INCOME, RECEIPTS, EXPENSES AND DISBURSEMENTS
EXCLUDED FROM TLS ON FUND ACCOUNTS FROM 01 TO 05
Year Ended December 31, 2015
(In BAM)**

	<u>Note</u>	<u>Year Ended December 31, 2015</u>	<u>Year Ended December 31, 2014</u>
Income			
Non-tax revenues	5	1,772	24,343
Support received in the year	6	2,210,721	1,511,370
Receipts from the Republic of Srpska Budget	7	1,010,000	1,130,000
		<u>3,222,493</u>	<u>2,665,713</u>
Income and receipts		<u>3,222,493</u>	<u>2,665,713</u>
Expenses			
Employee salaries and benefits	8	(1,180,882)	(901,991)
Costs of materials, goods and services	9	(304,165)	(603,259)
Cost of financing and other finance expenses		(4,031)	(1,373)
Support paid in the year	10	(897,828)	(788,643)
Depreciation and amortization	13	(34,776)	(26,993)
Other expenses		(3,096)	(5,140)
		<u>(2,424,778)</u>	<u>(2,327,399)</u>
Disbursements			
Disbursements related to non-current assets	11	(128,130)	(17,934)
Costs of fixtures	11	(2,828)	(3,360)
Value added tax payment		(8,532)	-
Cost of financial assets	12	(250,000)	-
		<u>(389,490)</u>	<u>(21,294)</u>
Expenses and disbursements		<u>(2,814,268)</u>	<u>(2,348,693)</u>
INCOME IN EXCESS OF EXPENSES		<u>408,225</u>	<u>317,020</u>

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

The financial statements of the Agency have been adopted by the Agency's management on February 29, 2016.

Signed on behalf of the Republic Agency for Small and Medium-Sized Enterprises, Banja Luka by:

Marinko Đukić
Director

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Mirka Petković
Accountant
BAM Consult d.o.o. Banja Luka

**FUNCTIONAL CLASSIFICATION OF EXPENSES AND NET OUTFLOWS
FROM NON-FINANCIAL ASSETS EXCLUDED FROM TLS
Year Ended December 31, 2015
(In BAM)**

	<u>Fund (Note 2.4)</u>	<u>Current Year</u>	<u>Previous Year</u>
Functional code 04: Economic operations	02	669,546	626,251
Functional code 04: Economic operations	03	<u>1,836,617</u>	<u>1,690,308</u>
		<u>2,506,163</u>	<u>2,316,559</u>

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**REVIEW OF ASSETS, LIABILITIES AND
RESOURCES EXCLUDED FROM TLS
Year Ended December 31, 2015
(In BAM)**

	Note	December 31, 2015	December 31, 2014
ASSETS			
Non-financial assets			
Intangible assets	13	220	3,603
Equipment	13	173,701	55,567
		<u>173,921</u>	<u>59,170</u>
Financial assets			
Cash and cash equivalents	14	1,104,201	840,112
Short-term receivables	15	3,606	23,007
Short-term investments	12	250,000	-
Short-term deferrals	16	9,193	9,326
Inter-budget unit deferrals	17	266,594	144,210
		<u>1,633,594</u>	<u>1,016,655</u>
Total assets		<u><u>1,807,515</u></u>	<u><u>1,075,825</u></u>
LIABILITIES AND NET ASSET EQUITY			
Long-term liabilities			
Long-term financial liabilities	18	20,690	9,959
Short-term liabilities			
Current portion of long-term borrowings	18	20,945	6,403
Staff costs	19	19,548	103,721
Accounts payable	20	31,061	38,187
		<u>71,554</u>	<u>148,311</u>
Own asset sources/net asset equity			
Sources of non-current assets	21	137	137
Accumulated surpluses		1,715,134	917,418
		<u>1,715,271</u>	<u>917,555</u>
Total liabilities and net asset equity		<u><u>1,807,515</u></u>	<u><u>1,075,825</u></u>

Notes on the following pages form
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CASH FLOW REVIEW
Year Ended December 31, 2015
(In BAM)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows from operating activities		
Receipts from non-tax revenues	22,006	35,787
Support received in the year	2,210,721	1,511,370
Receipts from inter-budget unit deferrals	887,616	1,096,394
Cash paid to and on behalf of employees	(1,265,056)	(822,680)
Cash paid for materials, goods and services	(315,961)	(447,496)
Support paid in the year	(897,828)	(788,643)
Other payments	(4,031)	(1,373)
<i>Net cash generated by operating activities</i>	<u>637,467</u>	<u>583,359</u>
Cash flows from investing activities		
Cash paid for non-financial assets	(123,378)	(17,934)
Cash paid for financial assets	(250,000)	-
<i>Net cash used in investing activities</i>	<u>(373,378)</u>	<u>(17,934)</u>
Net increase in cash and cash equivalents	264,089	565,425
Cash and cash equivalents at beginning of year	<u>840,112</u>	<u>274,687</u>
Cash and cash equivalents at end of year	<u>1,104,201</u>	<u>840,112</u>

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

**REPORT ON STRUCTURE AND
NUMBER OF EMPLOYEES
Year Ended December 31, 2015**

	<u>Headcount</u>
<i>a) Employee status</i>	
- appointed persons	1
- hired staff – permanent full-time employees	16
- hired staff – temporary employees	14
Total	<u>31</u>
<i>b) Education level</i>	
- university education, PhD degree	1
- university education, master's degree	3
- university education, bachelor's degree	24
- college education	1
- secondary school education	2
Total	<u>31</u>
<i>c) Years of age</i>	
- 26 to 30 years	-
- 31 to 35 years	6
- 36 to 40 years	7
- 41 to 45 years	10
- 46 to 50 years	3
- 51 to 55 years	2
- 56 to 60 years	3
Total	<u>31</u>
<i>d) Years of service</i>	
- up to 5 years	6
- 6 to 10 years	11
- 11 to 15 years	5
- 16 to 20 years	4
- 21 to 25 years	2
- 26 to 30 years	2
- 31 to 35 years	1
Total	<u>31</u>
<i>e) Coefficient</i>	
- 5.1 to 10.0	2
- 10.1 to 15.0	11
- 15.1 to 20.0	4
- 20.1 to 25.0	6
- 25.1 to 30.0	6
- 30.1 to 35.0	1
- 35.1 to 40.0	1
Total	<u>31</u>
<i>f) Gender</i>	
- women	14
- men	17
Total	<u>31</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

1. ESTABLISHMENT AND ACTIVITY

The Republic Agency for Small and Medium-Sized Enterprise Development, Banja Luka (hereinafter: the "Agency") commenced its operations in September 2004 and was established pursuant to the Law on Small and Medium Enterprise Support (Official Gazette of RS no. 64/02). The Agency operates as a legal entity and a non-profit organization.

The Agency provides support in the establishment and development of small and medium-sized enterprises (hereinafter: "SME") in the Republic of Srpska in accordance with, and following the manner set out in, the Law on SME Development Support – consolidated version (Official Gazette of RS no. 23/09).

The objective of the Agency is to increase the share of small and medium-sized enterprises in the total economy of the Republic of Srpska; to change the structure of industries based on the increased participation of production activities and services in the total GDP; to increase SME technological development and competitiveness, as well as open a new market for small and medium-sized enterprises; to increase the number of business entities and newly-employed in these enterprises; to promote entrepreneur education and training, as well as the establishment of regional cooperation with neighboring countries for the purpose of exchanging experiences and realizing regional comparative advantages.

On May 30, 2013, the Parliament of the Republic of Srpska adopted the Law on Development of SME (Official Gazette of RS, no. 50/13) effective as from June 25, 2013.

Pursuant to the aforementioned Law, the Agency has the following competencies and responsibilities:

- rendering professional services to stimulate establishment, operation and development of SME;
- rendering professional services to stimulate investment in SME;
- support to establishment of entrepreneurial infrastructure;
- support to innovation encouraging creation of new products and introduction of new technologies;
- support to increased employment, professional training, retraining, and additional training programs;
- maintenance of the Consultant Registry for the purposes of SME;
- support to female, youth and rural entrepreneurship and other forms of social entrepreneurship;
- promotion of entrepreneurship;
- data and information collection and research, analyses and reporting on the status of SME;
- participation in the preparation of the Strategy and other development documents;
- improvement of collaboration between the competent bodies of the local self-governance and local and inter-municipal agencies for SME development;
- cooperation with the international institutions and participation in the preparation and implementation of the international and local projects to support SME;
- preparation and implementation of projects aimed at achievement of the goals and realization of measures from the Strategy;
- performance of other activities in accordance with the Law.

The Agency has a Management Board and a Director, who represents and manages the operation of the Agency. The Management Board has seven members appointed and relieved from duty by the Government of the Republic of Srpska. Its members are representatives of the Ministries, i.e. Deputy Ministers who do not receive remuneration for the work they do.

As of December 31, 2015, the Agency had 31 employees (December 31, 2014: 34 employees). The Agency is headquartered in Banja Luka, at no. 16, Save Mrkalja Street.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

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

2.1. Basis of Preparation and Presentation of the Financial Statements

The financial statements of the Agency have been prepared in accordance with the accounting regulations of the Republic of Srpska, as well as regulations governing financial reporting of the budget beneficiaries in the Republic of Srpska.

The accompanying financial statements have been prepared on an accrual basis and at cost principle unless otherwise stated in the Agency's accounting policies.

The Agency's financial statements have been presented in the form prescribed by the Rulebook on the Budget Classification, Account Content and Application of the Chart of Account for Budget Beneficiaries, Municipalities and Towns and Funds (Official Gazette of RS, no. 90/10), Rulebook on the Financial Reporting for the Budget Revenue Beneficiaries of the Republic, Municipalities, Towns and Funds of the Republic of Srpska (Official Gazette of RS no. 16/11 and 126/11), Rulebook on the Accounting and Accounting Policies and Estimates for the Budget Revenue Beneficiaries of the Republic of Srpska (Official Gazette of RS, no. 127/11), as well as the Rulebook on the Public Sector Application of International Accounting Standards ("IPSAS") (Official Gazette of RS, no. 128/11).

The Rulebook on the Financial Reporting for the Budget Revenue Beneficiaries of the Republic, Municipalities, Towns and Funds of the Republic of Srpska (hereinafter: the "Rulebook"), stipulates that the Budget beneficiaries prepare the following financial statements:

1. Balance of Income, Receipts, Expenses and Disbursements Excluded from TLS (Treasury Ledger System) – Form 3b;
2. Functional Classification of Expenses and Net Outflows for Non-Financial Assets Excluded from TLS – Form 4b;
3. Review of Assets, Liabilities and Resources Excluded from TLS – Form 5b;
4. Cash Flow Review – Form 6; and
5. Report on Structure and Number of Employees – Form 7.

The Agency's balance of income, receipts, expenses and disbursements excluded from TLS has been prepared in accordance with Article 22, item (2) and Article 35 of the Rulebook, whose provisions depart in certain segments from the requirements of International Public Sector Accounting Standards (hereinafter: "IPSAS"):

- Recognition of income and expenses of the budget revenue beneficiaries is performed without determining the accumulated surpluses of the beneficiary for the accounting period. Such presentation of income and expenses of the budget revenue beneficiaries departs from the requirements of IPSAS 1 - "Presentation of Financial Statements," whereby a public sector entity is required to present the accumulated surpluses.
- Budget revenue beneficiaries are not obligated to prepare the statement of changes in equity (asset sources) according to IPSAS 1 - "Presentation of Financial Statements."

The amounts in the accompanying financial statements have been stated in Convertible Marks (BAM). The Convertible Mark is the official reporting currency in the Republic of Srpska and Bosnia and Herzegovina.

In preparing the cash flow statement for the year 2015, the Agency used direct cash flow reporting method.

In the preparation of these financial statements, the Agency has adhered to the accounting policies described in Note 3 which are in conformity with the accounting and tax regulations prevailing in the Republic of Srpska.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

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

2.1. Basis of Preparation and Presentation of Financial Statements (Continued)

Regulations, Standards and Interpretations in Effect in the Current Period

The accompanying financial statements have been prepared by applying International Public Sector Accounting Standards (IPSAS), and in accordance with accounting regulations for the public sector of the Republic of Srpska based on these standards. Namely, in accordance with the provisions of the Law on Accounting and Auditing of the Republic of Srpska, currently in force, (Official Gazette of RS no. 94/15), effective as from November 24, 2015, regulations on accounting and auditing applicable within the meaning of this Law in the territory of the Republic of Srpska entail application of the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs), International Standards on Auditing (ISA), International Public Sector Accounting Standards (IPSAS), International Valuation Standards (IVS), International Standards for the Professional Practice of Internal Auditing, Conceptual Framework for Financial Reporting, Code of Ethics for Professional Accountants and the pronouncements, interpretations and guidelines of the International Accounting Standards Board (IASB) and all pronouncements, interpretations and guidelines of the International Federation of Accountants (IFAC).

In addition, in accordance with the previously effective Law on Accounting and Auditing of the Republic of Srpska (Official Gazette of RS nos. 36/09 and 52/11), on December 22, 2011, the Ministry of Finances enacted the Rulebook on Application of International Public Sector Accounting Standards based on the Law on the Republic of Srpska Budget System (Official Gazette of RS, no. 54/08 – consolidated version, 126/08 and 92/09). According to the aforementioned Rulebook, all IPSAS issued until January 15, 2011 are mandatorily applied to financial statements prepared and presented in the Republic of Srpska for the accounting periods starting on or after January 1, 2011.

Until the issuance date of the accompanying financial statements for the year 2015, the officially translated and published IPSAS in the Republic of Srpska (issued by the International Public Sector Accounting Standards Board) were the following:

IPSAS 1	- Presentation of Financial Statements;
IPSAS 2	- Cash Flow Statements;
IPSAS 3	- Accounting Policies, Changes in the Accounting Estimates and Errors;
IPSAS 4	- The Effects of Changes in Foreign Exchange Rates;
IPSAS 5	- Borrowing Costs;
IPSAS 6	- Consolidated and Separate Financial Statements;
IPSAS 7	- Investments in Associates;
IPSAS 8	- Interests in Joint Ventures;
IPSAS 9	- Revenue from Exchange Transactions;
IPSAS 10	- Financial Reporting in Hyperinflationary Economies;
IPSAS 11	- Construction Contracts;
IPSAS 12	- Inventories;
IPSAS 13	- Leases;
IPSAS 14	- Events after the Reporting Date;
IPSAS 15	- Financial Instruments: Disclosure and Presentation;
IPSAS 16	- Investment Property;
IPSAS 17	- Property, Plant and Equipment;
IPSAS 18	- Segment Reporting;
IPSAS 19	- Provisions, Contingent Liabilities and Contingent Assets;
IPSAS 20	- Related Party Disclosures;
IPSAS 21	- Impairment of Non-Cash-Generating Assets;
IPSAS 22	- Disclosure of Financial Information About the General Government Sector;
IPSAS 23	- Revenue from Non-Exchange Transactions (Taxes and Transfers)
IPSAS 24	- Presentation of Budget Information in Financial Statements;
IPSAS 25	- Employee Benefits;
IPSAS 26	- Impairment of Cash-Generating Assets;
IPSAS 27	- Agriculture;
IPSAS 28	- Financial Instruments: Presentation

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

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

2.1. Basis of Preparation and Presentation of Financial Statements (Continued)

Regulations, Standards and Interpretations in Effect in the Current Period (Continued)

IPSAS 29	-	Financial Instruments: Recognition and Measurement
IPSAS 30	-	Financial Instruments: Disclosures
IPSAS 31	-	Intangible Assets.
IPSAS 32	-	Service Concession Arrangements: Grantor

On December 26, 2013, the RS Minister of Finance issued Guidance on the Application of IPSAS 23 – Revenue from Non-Exchange Transactions (Taxes and Transfers) (Official Gazette of RS no. 116/13) with basic guidelines for practical application of the standard.

However, the amendments to standards in effect, and the newly-issued standards released after January 15, 2011, have not been published and officially enacted in the Republic of Srpska, and accordingly, they have not been applied in the preparation of the accompanying financial statements. Standards and interpretations in issue but not yet officially translated and adopted and standards in issue but not yet in effect are disclosed in Note 2.2. Moreover, under the provisions of Article 2 of the Law on Accounting and Auditing of the Republic of Srpska, the accounting and auditing standards are the standards, instructions, interpretations, guidelines and principles defined by the aforementioned Law and published by the professional association of accountants and auditors in collaboration with the Ministry of Finance. In accordance with the aforescribed, and given the potentially material effects which the departures of public sector accounting regulations of the Republic of Srpska from IPSAS may have on the fairness of presentations made in the financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IPSAS.

The Agency's management analyzes changes in standards in effect, as well as the newly adopted standards issued after January 15, 2011, and once the standards relevant for the Agency have been determined, the Agency's management intends to apply them in the preparation of financial statements as soon as they are officially published and adopted in the Republic of Srpska.

2.2. Standards in Issue but not yet Translated and Adopted

As of the financial statements issuance date, only IPSAS 32 Service Concession Arrangements: Grantor" (effective for annual periods commencing on or after January 1, 2014) was issued by the International Public Sector Accounting Standards Board, but was not officially adopted in the Republic of Srpska.

2.3. Comparative Information

As comparative information the Agency presented the balance of income, receipts, expenses and disbursements excluded from TLS on fund accounts from 01 to 05 and cash flow review for the year ended 31, 2014 as well as the review of assets, liabilities and resources excluded from TLS as of December 31, 2014.

2.4. Functional Classification of Activities

According to the Rulebook on the Budget Classification, Account Content and Application of the Chart of Account for Budget Beneficiaries, Municipalities and Towns and Funds, a fund is an accounting unit encompassing accounts where monetary assets and other financial resources are recorded, together with all related liabilities and balances and changes thereof.

Fund of income as per special regulations (02) is used for recording assets that, pursuant to the relevant regulations) are used solely for special purposes and activities financed from the fund.

Fund of support (03) is used for recording support received by the budget beneficiaries and all activities financed from the fund which are not included within the general fund (01).

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Non-Tax Revenues

Non-tax revenues in the form of revenues from services rendered, interest, royalties and dividends are recognized and measured on an accrual basis set out IPSAS 9 "Revenue from Exchange Transactions."

Income from services is recognized on an accrual basis of accounting based on the agreement achieved between the Agency and a customer or a fund beneficiary.

Revenue is measured at the fair value of the consideration received or receivable, net of discounts, recoveries and the like.

Interest income and interest expenses are credited or charged to the balance of income, receipts, expenses and disbursements in the accounting period to which they relate.

3.2. Support Received (Grants)

Revenues from support received (grants) are recognized on an accrual basis, during periods wherein related expenses to be covered from the support in kind are also recognized, whereas the support in cash is recognized as income at the moment of cash reception or acquisition of relevant rights.

If support is received in a single fiscal year for the purpose of settling liabilities to be incurred in the ensuing fiscal years, the relevant portion of support is treated as deferred income.

3.3. Receipts from the Republic of Srpska Budget and Inter-Budget Unit Deferrals

Receipts from the Republic of Srpska Budget are recognized as income on an accrual basis as transfers and are presented in the accounting period when these are measurable and available.

Receipts from the Republic of Srpska Budget are available when realized in the course of the accounting period or soon thereafter, so as to be available for the payment of liabilities.

3.4. Maintenance and Repairs

Current maintenance and repairs of equipment are charged to the balance of income, receipts, expenses and disbursements of the respective accounting period as incurred.

3.5. Cost of Materials, Goods and Services

Cost of material, goods and services are recorded when the liability is incurred, i.e. costs are accounted for in the financial statements on an accrual basis.

3.6. Support Paid (Grants)

Support paid (grants) is recognized as expenses on an accrual basis.

3.7. Foreign Exchange Translation

All assets and liabilities denominated in foreign currencies are translated into convertible marks by applying the official exchange rates prevailing at the review of assets, liabilities and resources date.

Transactions denominated in foreign currencies are translated into convertible marks at the official exchange rates in effect at the date of each transaction and foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the balance of income, receipts, expenses and disbursements.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Expenses for Non-Financial Assets

Expenses for non-financial assets (for construction, purchase, investment maintenance, reconstruction and adaptations of non-financial assets) are recorded on an accrual basis and at the nominal value of the actual or expected cash or cash equivalent outflows.

3.9. Expenses for Financial Assets

Expenses for financial assets (for purchases of securities, shares, equity investments, financial derivatives and loans disbursed in the country and abroad) are recorded on an accrual basis and at the nominal value of the actual or expected cash or cash equivalent outflows.

3.10. Intangible Assets

An intangible asset is carried at cost in the review of assets, liabilities and resources less accumulated amortization and impairment loss, if any. Cost represents the prices billed by suppliers, plus customs, non-refundable taxes and all costs incurred in bringing new assets into use net of all rebates and discounts.

At the review of assets, liabilities and resources date, intangible assets of the Agency related to the system software for marking business zones.

3.11. Equipment

Items of equipment are measured at its cost less any accumulated depreciation and any accumulated impairment losses. Cost represents the prices billed by suppliers together with all costs incurred in bringing new assets into use net of any trade discounts and rebates. Subsequent expenditure is recognized as an increase in cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Agency. All other subsequently incurred expenses on equipment are expensed when incurred.

Costs arising from current maintenance of equipment (replacement and installation of small spare parts and consumables, as well as costs of day-to-day servicing) are included within current expenses.

Equipment relates to assets whose useful life is longer than one year.

Losses on disposal of equipment are charged to the balance of income, receipts, expenses and disbursements.

3.12. Depreciation/Amortization

Depreciation of equipment and amortization of intangible assets are charged to the cost of assets at the beginning of year, as well as to equipment and intangible assets placed in use during the year by applying the straight-line method and based on the remaining useful life.

Amortization of intangible assets and depreciation of equipment is calculated applying the straight-line method based on their remaining useful life and is charged to the balance of income, receipts, expenses and disbursements.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Depreciation/Amortization (Continued)

The useful life of certain groups of equipment and intangible assets that served as the basis for calculating amortization/depreciation and rates applied in the year ended December 31, 2015 were as follows:

	2015	
	Useful Life (Years)	Rate (%)
Intangible assets	5	20%
Computer equipment	5	20%
Motor vehicles	6.5	15.5%
Furniture and office equipment	8	12.5%

3.13. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held with commercial banks, as well as the highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of value change.

3.14. Financial Instruments

Financial instruments are initially measured at fair value increased by transaction costs (other than financial assets and financial liabilities at fair value through profit or loss) that are directly attributable to the acquisition or issue of financial assets or financial liabilities.

Financial assets and financial liabilities are recognized in the Agency's review of assets, liabilities and resources on the date upon which the Agency becomes counterparty to the contractual provisions of a specific financial instrument. Purchase or sale of financial assets is recognized by applying the computation as of the settlement date, or the date when the Agency has delivered the specific financial instrument to the counterparty.

Financial assets are derecognized when the Agency loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded. Financial liabilities cease to be recognized when the Agency fulfills the obligations, or when the contractual repayment obligation has either been cancelled or has expired.

Accounts Receivable and Other Short-Term Receivables

Accounts receivable are recognized and recorded at invoiced amounts net of allowance for impairment for bad and doubtful receivables. The allowance for impairment for bad and doubtful receivables is calculated based on the management's assessment on the recoverability of these receivables when the collection of the entire or partial receivable is no longer probable. Irrecoverable receivables are written off based on the relevant court's decision, according to the settlement agreement between the contracting parties or based on the decision of the Agency's Management Board.

Financial Liabilities

Instruments of financial liabilities are classified in accordance with the substance of the provisions of contracts governing such instruments. Financial liabilities are stated at nominal values.

Accounts Payable

Accounts payable to suppliers and other current liabilities are carried at nominal values.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Net Assets

Sources of non-current assets do not have defined maturities and are available for an indefinite time period.

Sources of non-current assets are formed from the initial (founding) investment obtained for foundation in line with the management decision, from the distribution of prior year accumulated surpluses and based on the assets not subject to depreciation/amortization and acquired without consideration paid and in other cases as defined by the relevant regulations.

3.16. Employee Benefits

Employee Taxes and Contributions for Social Security

In accordance with the regulations prevailing in the Republic of Srpska, the Agency is obligated to pay contributions to various state social security funds that guarantee social security insurance benefits to employees. These obligations involve the payment of contributions on behalf of the employee by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Agency is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to the respective government funds. These contributions payable on behalf of the employee by the employer are charged to expenses in the period in which they arise.

Employee Retirement Benefits

In accordance with the Collective Bargaining Agreement and the Agency's Rules of Procedure, the Agency is obligated to pay retirement benefits to vesting retirees who have entered open-end employment contracts in the amount of three average salaries paid by the Agency or three average salaries of the vesting employee, if such arrangement is more favorable for the employee, as well as jubilee awards for 20 and 30 years of service in the amount of one and two average salaries paid by the Agency, respectively.

IPSAS 25 – "Employee Benefits" prescribes the calculation and accrual of the present value of accumulated retirement benefits and jubilee awards. As of December 31, 2015, the Agency did not perform calculation and accrual of present value of accumulated employee entitlements to retirement benefits and jubilee awards in its financial statements, because it holds that the amount is immaterial given the number of employees.

3.17. Finance and Operating Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Agency as a Lessee

Assets held under finance leases are initially recognized as the assets of the Agency at the present value of the minimum lease payments, which is determined at the inception of the particular lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease liability.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in the balance of income, receipts, expenses and disbursements, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Agency's general policy on borrowing costs. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Taxation

Current Income Tax

The Agency is not obligated to calculate and pay income taxes for revenues from the budget, from sponsorships or donations made in cash or in kind, as defined in the Corporate Income Tax Law (Official Gazette of RS no. 91/06 and 57/12).

Indirect Taxes and Contributions

Indirect taxes and contributions represent the amounts payable under various republic and municipal laws and regulations in order to finance diverse municipal and republic requirements. These taxes and contributions are included under other operating expenses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND PROCEDURES

a) Significant Accounting Estimates

The presentation of the financial statements requires the Agency's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available to the management, as of the date of preparation of the financial statements and the future results may vary from these estimates.

The basic assumptions relating to the future events and other sources of uncertainties in making estimates as of the statement of financial position date carrying risk that may give rise to materially significant adjustments to the present value of assets and liabilities in the following fiscal year are presented in the following passages:

Estimated Useful Life of Equipment and Intangible Assets

The useful life of equipment is based on historical experience with similar assets and the anticipated technological advancement and changes in economic and industrial factors. The adequacy of the remaining useful life of equipment is analyzed on annual basis, or where there are indications of significant changes in the assumptions.

Impairment of Assets

At each reporting date, the Agency's management reviews the carrying amounts of the Agency's assets in order to determine the indications of impairment loss. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount.

Allowance for Impairment of Receivables

We calculate the allowance for impairment of doubtful receivables based on the estimated losses arising from customer's default. Our assessment is based on the aging analysis of accounts receivable, historical write-offs, customer creditworthiness and changes in the terms of sale, identified upon determining the adequacy of allowance for impairment of doubtful receivables. This includes the assumptions on the future customer behavior and the resultant future collections.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING ESTIMATES AND PROCEDURES (Continued)

a) Significant Accounting Estimates (Continued)

Fair Value

It is the policy of the Agency to disclose the fair values of those assets and liabilities for which published market information is readily available, and for which their fair value is materially different from the recorded amounts. However, in the Republic of Srpska sufficient market experience, stability and liquidity do not presently exist for the purchase and sale of financial assets or liabilities for which quoted prices on an active market are not readily available. Hence, the fair value cannot be reliably determined in the absence of an active market. The Agency's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

b) Significant Procedures

Financial Plan Adoption Procedure

The Agency's plan is an act adopted for a period of one fiscal year and is a constituent part of the Business Plan comprising the assessment of revenues and receipts and expenditures and disbursements.

The process of middle-term (triennial) planning that serves as a preliminary activity for the preparation of the Business Plan commences with the reception of adequate instructions for budget beneficiaries submitted to the Agency by the concerned ministry. The Agency is under obligation to deliver its request to the competent ministry within the timeline defined by the Law on the Budget System of the Republic of Srpska.

The Agency's management determines the final proposal of the Business Plan and reconciles it with the Budget of the Republic of Srpska in the segment handling financing from budget resources within 15 days from the date of adopting the Republic of Srpska Budget by the National Assembly of the Republic of Srpska.

The Management Board adopted the Agency's Business Plan for the year 2015 under Decision numbered 02-OD-5/15 dated March 19, 2015.

Public Procurement Procedure

The Agency's public procurements are conducted in accordance with the provisions of the Law on Public Procurements of Bosnia and Herzegovina. Contracts for the acquisition of materials and services are concluded with suppliers determined to have submitted most favorable proposals within 15 days from the date of bidder notification of the public procurement procedure outcome. The Agency's management reports to the Agency's Management Board on the public procurement procedures conducted on a quarterly basis within quarterly reports on the Business Plan implementation as well as at special requests of the Management Board. The Agency's Management Board adopted the Report on the execution of the Public Procurement Plan for 2015 within the Agency's Report on Business Operations from February 2016.

5. NON-TAX INCOME

	Year Ended December 31,	
	2015	2014
Interest income	641	223
Other non-tax income	1,131	24,120
	<u>1,772</u>	<u>24,343</u>

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

6. INCOME FROM SUPPORT RECEIVED IN THE YEAR (GRANTS)

	Year Ended December 31,	
	2015	2014
Foreign support received	2,149,588	1,511,370
Domestic support received	61,133	-
	2,210,721	1,511,370

Foreign support received in 2015 totaling BAM 2,149,588 mostly, in the amount of BAM 2,020,648, relates to the Swiss Confederation grants obtained through the Swiss Development and Cooperation Agency (SDC), i.e. its Office for Cooperation in Bosnia and Herzegovina, for funding the project "Opportunity Plus - Job Skills – Adult and Informal Education in Bosnia and Herzegovina." The Project's budget planned for 2015 amounted to BAM 2,168,792.

Domestic support received in 2015 totaling BAM 61,133 mostly, in the amount of BAM 40,000, refers to the grant received from the Republic of Srpska Ministry of Industry, Energy and Mining for implementation of the strategy for development of SME under the said Ministry's Decision no. 05.04/012-2538-1/15 dated December 31, 2015.

7. RECEIPTS FROM THE REPUBLIC OF SRPSKA BUDGET

	Year Ended December 31,	
	2015	2014
Income from the Republic of Srpska Budget	1,010,000	1,130,000
	1,010,000	1,130,000

Receipts from the Republic of Srpska Budget stated in the year 2015 as amounting to BAM 1,010,000 pertain to revenues realized based on special purpose funds from the Republic of Srpska Budget via communications from the competent Ministry of Industry, Energy and Mining. The Decision on the Rebalance of the Republic of Srpska Budget for the Year 2015 (Official Gazette of RS no. 103/15) stipulated the reallocation of funds to the Agency from Ministry of Industry, Energy and Mining in the amount of BAM 960,000 and additional BAM 50,000 for funding the implementation of the strategy for development of SME. Until December 31, 2015, the Agency received the total of BAM 783,406, whereas the remaining BAM 226,594 was recorded as a receivable for uncollected income due from the Republic of Srpska Budget (Note 17).

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

8. EMPLOYEE SALARIES AND BENEFITS

	Year Ended December 31,	
	2015	2014
Net salaries	700,209	511,391
Sick leave allowances	15,567	24,120
Taxes on salaries	71,095	52,884
Contributions to salaries	387,559	293,155
Jubilee awards	2,410	2,400
Employee commuting allowance	1,896	1,205
Compensations paid to temporary and seasonal employees	278	833
Financial support to employees	-	3,015
Performance bonuses	500	2,085
Taxes on other employee benefits	767	2,301
Contributions to other employee benefits	601	1,803
Other staff costs	-	6,799
	1,180,882	901,991

9. COST OF MATERIALS, GOODS AND SERVICES

	Year Ended December 31,	
	2015	2014
Current maintenance	11,586	3,940
Travel expenses, fuel and transportation services	57,014	66,618
Cost of electricity	4,232	3,581
Rental of property and equipment	18,042	24,750
Utility and communication services	33,471	24,793
Cost of materials	10,053	8,640
Professional services	48,627	364,200
Contractually agreed services	121,140	106,737
	304,165	603,259

Professional service costs in the fiscal year 2015 totaled BAM 121,140 and, for the most part of BAM 33,063, related to the costs of organizing admission and campaigns for the Project "Opportunity Plus – Job Skills" and, in the amount of BAM 11,691 to the same class of costs for the Project "UNDP – Srebrenica Area Recovery Program."

10. SUPPORT DISBURSED IN THE YEAR (GRANTS)

	Year Ended December 31,	
	2015	2014
Support disbursed in the year	897,828	788,643
	897,828	788,643

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

10. SUPPORT DISBURSED IN THE YEAR (GRANTS) (Continued)

Support disbursement expenses (grant disbursement) totaled BAM 897,828 in the fiscal year 2015 and predominantly, in the amount of BAM 562,728 (equivalent to CHF 307,550) refer to the funds paid to "Berner Fachhochschule, Architektur, Holz und Bau," Biel Switzerland under the Agreement on the Award of Grant Funds no. 07-02-19/05 dated September 7, 2015 for co-financing activities within the Project "Development of Leadership and Skills in the Wood Processing and Furniture Making Industry," i.e., within the collective "Opportunity Plus" Project. In addition, support disbursement relates to the following: BAM 111,932 – payment of funds to Mechanical Engineering Faculty of Banja Luka University for the Faculty and secondary school teachers of practical training under the Project "Training Professional Advancement," i.e., the collective "Opportunity Plus" Project (under the Agreement on the Award of Grant Funds no. 07-02-22/15 dated December 18, 2015) and BAM 50,000 – payment of funds to the Public Company Nikola Tesla d.o.o. Banja Luka, for purchase of the assets of Novoteks a.d. in bankruptcy, Trebinje, under the Agreement on the Award of Grant Funds no. 4-3/15 dated March 23, 2015 and pursuant to the RS Government's Conclusion no. 04/1-012-2-465/15 dated March 19, 2015, within the Project "Creation of the Textile Industry Cluster in East Herzegovina."

11. DISBURSEMENTS RELATED TO NON-CURRENT ASSETS AND COSTS OF FIXTURES

	December 31, 2015	December 31, 2014
Transportation vehicles	100,646	5,450
Computer equipment	22,585	12,484
Other disbursements	7,727	3,360
	130,958	21,294

12. DISBURSEMENTS RELATED TO FINANCIAL ASSETS

	December 31, 2015.	December 31, 2014.
Short-term loans	250,000	-
	250,000	-

Disbursements for financial assets totaling BAM 250,000 in FY 2015 relate to the interest-free short-term loans extended to KOSMOS a.d., Banja Luka, as follows: BAM 200,000 under the Agreement on the Special-Purpose Interest-Free Loan no. 122-5/15 dated August 7, 2015 and BAM 50,000 under the Agreement on the Special-Purpose Interest-Free Loan no. 203-4/15 dated December 15, 2015 pursuant to the RS Government's Conclusion no. 04/1-012-2-1579/15 dated July 23, 2015 for realization of the Program for Development of Metal Processing Industry of the Republic of Srpska through Creation of Clusters and Cluster Initiatives. The aforesaid Loan Agreements stipulate that KOSMOS a.d., Banja Luka shall repay BAM 200,000 to the Agency up to February 7, 2016 and BAM 50,000 up to June 15, 2016. As collateral, KOSMOS a.d., Banja Luka provided the Agency with 12 and 3 bills of exchange, respectively, with authorization to the Agency to fill the missing content in the bills of exchange upon maturity.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

13. EQUIPMENT AND INTANGIBLE ASSETS

	Equipment	2015 and 2014 Intangible Assets
Cost		
Balance, January 1, 2014	204,590	25,939
Additions	12,483	-
Donation extended in kind	(23,767)	-
Balance, December 31, 2014	<u>193,306</u>	<u>25,939</u>
Additions	149,795	-
Retirement and disposal	(13,713)	-
Balance, December 31, 2015	<u>329,388</u>	<u>25,939</u>
Accumulated depreciation/amortization		
Balance, January 1, 2014	120,803	18,219
Charge for the year	22,876	4,117
Donation extended in kind	(5,940)	-
Balance, December 31, 2014	<u>137,739</u>	<u>22,336</u>
Charge for the year	31,393	3,383
Retirement and disposal	(13,445)	-
Balance, December 31, 2015	<u>155,687</u>	<u>25,719</u>
Net Book Value		
- December 31, 2015	<u>173,701</u>	<u>220</u>
- December 31, 2014	<u>55,567</u>	<u>3,603</u>

14. CASH AND CASH EQUIVALENTS

	December 31, 2015	December 31, 2014
Current accounts in local currency	17,020	36,113
Cash on hand	422	2,182
Allocated cash funds	1,086,555	801,617
Foreign currency account	204	200
	<u>1,104,201</u>	<u>840,112</u>

In addition to its regular current accounts maintained, the Agency opens special BAM and foreign currency transaction accounts for each different project.

The allocated cash funds totaling BAM 1,086,555 as of December 31, 2015, for the most part of BAM 1,062,162, pertain to the special purpose funds for the project "Informal and Adult Education."

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

15. SHORT-TERM RECEIVABLES

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Receivables from employees	854	400
Receivables for prepaid taxes	458	11,700
Receivables for sick leave allowance refunds	2,936	2,936
Short-term receivables, foreign	-	9,274
Other short-term receivables	2,294	1,633
	<u>6,542</u>	<u>25,943</u>
<i>Less: Impairment allowance of - other short-term receivables</i>	<u>(2,936)</u>	<u>(2,936)</u>
	<u>3,606</u>	<u>23,007</u>

16. SHORT-TERM PREPAYMENTS

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Prepaid expenses for goods and services	9,193	9,326
	<u>9,193</u>	<u>9,326</u>

17. RECEIPTS FROM THE REPUBLIC OF SRPSKA BUDGET - INTER-BUDGET UNIT DEFERRALS

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Receivables for uncollected receipts from the Republic of Srpska Budget (Note 7)	226,594	144,210
Receivables for uncollected grant from the Republic of Srpska Ministry of Industry, Energy and Mining (Note 6)	40,000	-
	<u>266,594</u>	<u>144,210</u>

The Agency collected the entire amount of receivables, 226,224 BAM from the Republic of Srpska Budget, on February 3, 2016.

18. LONG-TERM BORROWINGS

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Long-term lease liabilities		
- Hypo Alpe Adria Leasing d.o.o. Banja Luka	9,955	16,362
- Raiffaisen Leasing d.o.o. Sarajevo	31,680	-
	<u>41,635</u>	<u>16,362</u>
<i>Less: Current portion of lease liabilities:</i>		
- Hypo Alpe Adria Leasing d.o.o. Banja Luka	(6,915)	(6,403)
- Raiffaisen Leasing d.o.o. Sarajevo	(14,030)	-
	<u>(20,945)</u>	<u>(6,403)</u>
	<u>20,690</u>	<u>9,959</u>

The interest rate applied to the long-term borrowings/finance lease was ranging from 6.97% to 7.66% annually.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

18. LONG-TERM BORROWINGS (Continued)

	Current Portion		Long-Term Portion	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Long-term lease liabilities				
Hypo Alpe Adria Leasing d.o.o. Banja Luka	6,915	6,403	3,040	9,959
Raiffaisen Leasing d.o.o. Sarajevo	<u>14,030</u>	<u>-</u>	<u>17,650</u>	<u>-</u>
	<u>20,945</u>	<u>6,403</u>	<u>20,690</u>	<u>9,959</u>

Long-term finance lease liabilities totaling BAM 41,635 as of December 31, 2015 relate to the finance lease agreement on the acquisition of passenger vehicles entered into with Hypo Alpe Adria Leasing d.o.o., Banja Luka and Raiffeisen Leasing d.o.o., Sarajevo. Pursuant to the aforesaid lease agreements, the vehicles acquired under finance lease shall remain in the ownership of the lessor until the settlement of the entire finance lease liability, whereafter the ownership will be transferred to the Agency.

	Sum of Minimum Lease Payments		Present Value of Minimum Lease Payments	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Maturity:				
Up to one year	23,236	7,444	20,945	6,403
From 1 to 2 years	<u>21,524</u>	<u>10,557</u>	<u>20,690</u>	<u>9,959</u>
	44,760	18,001	41,635	16,362
Less: future cost of financing	<u>(3,125)</u>	<u>(1,639)</u>	<u>-</u>	<u>-</u>
Present value of minimum lease payments	<u>41,635</u>	<u>16,362</u>	<u>41,635</u>	<u>16,362</u>
Included in the financial statements as:				
Current portion of long-term borrowings			20,945	6,403
Long-term borrowings			<u>20,690</u>	<u>9,959</u>
			<u>41,635</u>	<u>16,362</u>

19. LIABILITIES ON BEHALF OF EMPLOYEES

	December 31, 2015	December 31, 2014
Employee net salaries	402	62,349
Payroll taxes - salaries	2,505	6,118
Payroll contributions - salaries	16,311	33,881
Payroll contributions - benefits	<u>330</u>	<u>1,373</u>
	<u>19,548</u>	<u>103,721</u>

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

20. ACCOUNTS PAYABLE

	December 31, 2015	December 31, 2014
Domestic accounts payable	20,495	16,527
Liabilities payable to private individuals	8,233	13,208
Other operating liabilities	2,333	8,452
	31,061	38,187

21. SOURCES OF NON-CURRENT ASSETS

	Sources of Non-Current Assets	2015 and 2014 Accumulated Surpluses
Balance, January 1, 2014	138	579,104
Other	(1)	-
Income surplus in the year	-	338,314
Balance, December 31, 2014	137	917,418
Other	-	1
Income surplus in the year	-	797,715
Balance, December 31, 2015	137	1,715,134

22. LITIGATION

As of December 31, 2015, the Agency was not involved in any lawsuits either as a defendant or as a plaintiff against its debtors.

23. FINANCIAL INSTRUMENTS

23.1. Net Asset (Equity) Risk Management

The Agency manages net asset (equity) risk in order to ensure the continuity of its business operations in the foreseeable future and preserve optimal structure of its net assets (equity).

The persons controlling finances on the Agency level review the net asset (equity) structure on an annual basis.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

23. FINANCIAL INSTRUMENTS (Continued)

23.1. Net Asset (Equity) Risk Management (Continued)

23.1.1. Debt to Net Asset (Equity) Ratio

P The debt to equity ratio of the Agency as of the year-end was as follows:

	December 31, 2015	December 31, 2014
Debt (a)	41,635	16,362
Cash and cash equivalents	<u>(1,104,201)</u>	<u>(840,112)</u>
Net debt	<u>(1,062,566)</u>	<u>(823,750)</u>
Net assets (equity) (b)	<u>1,715,271</u>	<u>917,555</u>
Debt to net asset (equity) ratio	<u><i>Not applicable</i></u>	<u><i>Not applicable</i></u>

(a) Debt refers to the long-term borrowings and current portion of long-term borrowings.

(b) Net assets include sources of non-current assets and accumulated surpluses.

23.1.2. Significant Accounting Policies Regarding Financial Instruments

The review of significant accounting policies, including the basis for measurement and recognition of income and expenses for each category of financial assets and financial liabilities, is set out in Note 3 to the financial statements.

23.1.3. Categories of Financial Instruments

Categories of financial instruments are presented in the table below:

	December 31, 2015	December 31, 2014
Financial assets		
Short-term investments	250,000	-
Other receivables	6,084	14,242
Cash and cash equivalents	<u>1,104,201</u>	<u>840,112</u>
	<u>1,360,285</u>	<u>854,354</u>
Financial liabilities		
Long-term borrowings	20,690	9,959
Current portion of long-term borrowings	20,945	6,403
Accounts payable	<u>31,061</u>	<u>38,187</u>
	<u>72,696</u>	<u>54,549</u>

23.2. Financial Risk Management

In its regular course of business, the Agency is exposed to a different extent to certain financial risks, which are: price risk (comprised of currency risk, interest rate risk and equity price risk), credit risk, liquidity risk and cash flow risk.

The risk management in the Agency is focused on minimizing potential adverse effects on the Agency's financial position and business operations, contingent on market volatility. The accounting policies adopted by the Agency regulate risk management.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

23. FINANCIAL INSTRUMENTS (Continued)

23.2. Financial Risk Management (Continued)

The Agency does not enter into transactions with derivative instruments, such as interest rate swaps or forwards. In addition, in the course of the year ended December 31, 2015, the Agency undertook no transactions with financial instruments.

(1) Market Risk

(a) Currency Risk

Although the Agency performs some of its transaction in foreign currencies, its management assesses that the Agency is not significantly exposed to currency risk, in transactions in the country and abroad, as it mostly performs its business operations in the local currency (Convertible Mark), as well as in EUR to which the Convertible Mark is indexed linked (EUR 1 = BAM 1.95583). Accordingly, the Agency's management did not perform the analysis of sensitivity to foreign exchange risk.

The carrying values of the Agency's financial assets and liabilities denominated in foreign currency as of the reporting date were as follows:

	Assets		Liabilities	
	December 31,		December 31,	
	2015	2014	2015	2014
EUR	12,406	200	-	-
	12,406	200	-	-

(b) Interest Rate Risk

Given that the Agency is not in possession of significant interest-bearing assets, the Agency's income is mostly independent of interest rate risks.

Accordingly, the Agency's management did not perform the interest rate risk sensitivity analysis.

(c) Equity Price Risk

The Agency is not significantly exposed to risk of changes in equity instruments given that the Agency has no investments classified in the balance of assets, liabilities and resources as assets available for sale or as financial assets carried at fair value through balance of income, receipts, expenses and disbursements.

The Agency is not exposed to equity price risk given that the largest portion of its operations is financed from the Republic of Srpska Budget and support (grants) received.

(2) Liquidity Risk

On the Agency level, liquidity management is centralized. Ultimate responsibility for liquidity risk management rests with the Agency's management, which has established an appropriate liquidity risk management framework for the management of the Agency's short, medium and long-term funding and liquidity management requirements. The Agency handles its assets and liabilities in a manner which ensures that the Agency is able to settle its liabilities at any moment.

The Agency is in possession of a sufficient amount of highly liquid assets (cash and cash equivalents) and realizes continuous cash inflows from the Republic of Srpska Budget which enables it to settle its liabilities when due.

The Agency does not make use of financial derivatives.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

23. FINANCIAL INSTRUMENTS (Continued)

23.2. Financial Risk Management (Continued)

(2) Liquidity Risk (Continued)

The maturities of financial assets and liabilities as of December 31, 2015 and 2014 were as follows:

Financial assets	Up to 1 Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Total
December 31, 2015						
Non-interest bearing	1,110,285	-	250,000	-	-	1,360,285
Total	<u>1,110,285</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>1,360,285</u>
December 31, 2014						
Non-interest bearing	854,354	-	-	-	-	854,354
Total	<u>854,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>854,354</u>
Financial liabilities						
December 31, 2015						
<i>Other liabilities at amortized cost:</i>						
Non-interest bearing	31,061	-	-	-	-	31,061
Fixed interest rates	1,935	3,870	17,431	21,524	-	44,760
Total	<u>32,996</u>	<u>3,870</u>	<u>17,431</u>	<u>21,524</u>	<u>-</u>	<u>75,821</u>
December 31, 2014						
<i>Other liabilities at amortized cost:</i>						
Non-interest bearing	38,187	-	-	-	-	38,187
Fixed interest rates	620	1,861	4,963	10,557	-	18,001
Total	<u>38,807</u>	<u>1,861</u>	<u>4,963</u>	<u>10,557</u>	<u>-</u>	<u>56,188</u>

The review of maturities of financial instruments (assets and liabilities) was prepared based on undiscounted cash flows of financial assets and financial liabilities.

(3) Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Agency.

Credit risk is present in receivables from legal entities and private individuals, loan receivables, cash and cash equivalents, as well as commitments.

The Agency is minimally exposed to credit risk. Security against credit risk has been established through measures and activities taken Agency-wide. In case of untimely collection of receipts from the Republic of Srpska Budget, the Agency's management reports to the Ministry concerned and adjusts the spending dynamics to the plans of receipts.

The Agency's management is of the opinion the Agency is not exposed to cash flow risk, i.e. the risk of significant fluctuations in future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

23. FINANCIAL INSTRUMENTS (Continued)

23.2. Financial Risk Management (Continued)

(4) Cash Flow Risk

The Agency's management is of the opinion the Agency is not exposed to cash flow risk, i.e. the risk of significant fluctuations in future cash flows. The Agency has a continued inflow of cash from the Republic of Srpska Budget under the procedures of treasury operations of budget beneficiaries and based on the financial plan execution schedule and dynamics.

23.3. Fair Value of Financial Instruments

As presented in the following table, the Agency's management assesses that the carrying values of financial assets and liabilities recognized in the accompanying financial statements approximate their fair values.

	December 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Short-term loans	250,000	250,000	-	-
Other receivables	6,084	6,084	14,242	14,242
Cash and cash equivalents	1,104,201	1,104,201	840,112	840,112
	<u>1,360,285</u>	<u>1,360,285</u>	<u>854,354</u>	<u>854,354</u>
Financial liabilities				
Long-term borrowings	20,690	20,690	9,959	9,959
Current portion of long-term borrowings	20,945	20,945	6,403	6,403
Accounts payable	31,061	31,061	38,187	38,187
	<u>72,696</u>	<u>72,696</u>	<u>54,549</u>	<u>54,549</u>

The assumptions used in the assessment of the current market value of financial assets and liabilities were as follows:

- The carrying values of short-term financial receivables and liabilities approximate their fair values due to their relatively short maturity periods.

24. PROJECT FUNDING

During 2015 the Agency financed eight projects totaling BAM 1,726,855, while the current budget spending amounted to BAM 660,051.

The review of expenditures for the current budget spending per project is presented below:

	Gross Salaries and Benefits	Material, Goods, Services	Interest Expenses per Borrowings	Support Disbursed	Total Expenses
a) <i>Current budget spending</i>	502,155	103,165	4,031	50,700	660,051
b) <i>Projects:</i>					
Opportunity Plus – Job Skills	601,390	138,437	-	798,428	1,538,255
Grain Trade Route	23,241	14,235	-	48,700	86,176
UNDP Project	-	37,931	-	-	37,931
Consultant Network	-	8,753	-	-	8,753
Market Makers	54,096	1,617	-	-	55,713
Other projects	-	27	-	-	27
	<u>678,727</u>	<u>201,000</u>	<u>-</u>	<u>847,128</u>	<u>1,726,855</u>
	<u>1,180,882</u>	<u>304,165</u>	<u>4,031</u>	<u>897,828</u>	<u>2,386,906</u>

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2015

All amounts expressed in BAM, unless otherwise stated.

24. PROJECT FUNDING (Continued)

The independent auditor Auditor d.o.o. Banja Luka performed audit of the Project "Professional Training for Work" financed by the Swiss Development and Cooperation Agency (SDC) for the period from October 1, 2014 through October 31, 2015 and in its audit opinion dated January 29, 2016 confirmed that the financial statement for the aforesaid Project gave a true and fair presentation of the amounts and the structure of the Project operating income and expenses.

25. TAXATION RISKS

The Republic of Srpska and Bosnia and Herzegovina currently have several tax laws in effect, as imposed by various governmental agencies. The applicable taxes include: a turnover tax, corporate tax, and payroll (social) taxes, among others. Following their introduction, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Srpska. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thusly creating uncertainties and areas of legal contention. Tax declarations, together with other legal compliance matters (e.g., customs and currency control matters) are subject to the review and investigation by a number of authorities that are legally enabled to impose extremely severe fines, penalties and interest charges.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Agency may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Agency may need to pay additional taxes, penalties and interest, which can be significant. In accordance with the Law on Tax Authority of the Republic of Srpska, expiration period of the tax liability is five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. The afore-described situation creates tax risks in the Republic of Srpska that are substantially more significant than those typically existing in countries with more developed tax systems.

26. EVENTS AFTER THE REPORTING PERIOD

As disclosed in Note 12 to the financial statements, the Agency extended an interest free loan to KOSMOS a.d., Banja Luka in the amount of BAM 200,000 under the Agreement on the Special-Purpose Interest-Free Loan no. 122-5/15 dated August 7, 2015 for realization of the Program for Development of Metal Processing Industry of the Republic of Srpska. The aforesaid Loan Agreement stipulate that KOSMOS a.d., Banja Luka shall repay BAM 200,000 to the Agency up to February 7, 2016. Company KOSMOS a.d., Banja Luka appealed to the Republic of Srpska Government for extension of the loan repayment period, and in its Conclusion no. 04/1-012-2-239/16 dated February 4, 2016, with a view to preserving the production and employment, granted the Company extension of the loan repayment period up to June 15, 2016 at the latest.

27. EXCHANGE RATES

The official exchange rates for major currencies as determined on the Interbank Foreign Exchange Market used in the translation of review of assets, liabilities and resources components denominated in foreign currencies into BAM were as follows:

	December 31, 2015	In BAM December 31, 2014
Euro (EUR)	1.9558	1.9558
Serbian Dinar (RSD)	0.0161	0.0162
American Dollar (USD)	1.7901	1.6084
Swiss Franc (CHF)	1.8086	1.6261