

European Policy Institute- EPI
Skopje– Republic of Macedonia

Financial statements
and the Independent Auditor's report
for the year ending on December 31, 2015

Skopje, December 2016

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Audit Macedonia LLC
since 1995

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INDEPENDENT AUDITOR'S REPORT

To the management of **EUROPEAN POLICY INSTITUTE- EPI SKOPJE**

Report for the financial statements

We have performed an audit of the accompanied financial statements of European Policy Institute- EPI in Skopje, which comprise the Balance Statement as of 31 December, 2015, Balance of incomes and expenditures for the year ending then, as well as the review of significant accounting policies and other explanatory information, provided on pages 7 to 12.

Responsibility of the management for the financial statements

The management is responsible for preparation and objective presentation of these financial statements in accordance with the Law for accounting on non-profit organization and internal controls which are relevant for preparation and objective presentation of the financial statements freed from material faulty presentation, no matter if it is result of fraud or mistake.

Responsibility of the auditor

Our responsibility is to express an opinion for these financial statements on the basis of our audit. We have performed our audit in accordance with the International Audit Standards. These standards require us to respect the ethical requirements and plan and perform the audit in order to obtain reasonable assurance whether the financial statements are free from material faulty presentations.

The audit includes performance of procedures for gaining audit evidence for the amounts and disclosures in the financial statements. The procedures selected, depend on the judgment of the auditor, including also the assessment of risks from material wrongly presentations of the financial reports, no matter if they are result of fraud or error. When the auditor makes these assessments of the risk, the auditor takes in consideration the internal control relevant for preparation and objective presentation of the financial statements of the entity, in order to choose audit procedures relevant for the circumstances, not for the goal to express an opinion for the effectiveness of the internal control of the entity.

The audit also includes estimation of the appropriateness of the accounting policies used, and the reasonableness of accounting valuations made by the management, as well as valuation of the presentation of financial statements.

We believe that the audit proofs, that we have gathered, are sufficient and appropriate in order to secure basis for our audit opinion.



INDEPENDENT MEMBER



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Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the European Policy Institute- EPI Skopje, as well as the financial successfulness for the year ending on December 31st, 2015, in compliance with the Law for accounting of non-profit organizations (Official Gazette of RM no.24/03 and 17/11) and the Rulebook on accounting of non-profit organization (Official Gazette of RM 42/03,8/09,12/09 and 175/11).

Certified Auditor

Dimitar Andonovski

Skopje, 19.12.2016

Manager

Dimitar Andonovski

AUDIT MACEDONIA LLC Skopje



EUROPEAN POLICY INSTITUTE- EPI SKOPJE

BALANCE OF REVENUES AND EXPENDITURES for the year ending on December 31, 2015

	Notice	2015	2014
REVENUE	3	17,101	12,186
EXPENSES	4	(17,129)	(12,198)
SURPLUS OF REVENUES OVER EXPENDITURES		(28)	(13)
The net effect of funding	5	28	13
Surplus (deficit) for the year		(0)	(0)
Surplus (deficit) for the previous years		0	0
Total Surplus (deficit)		0	0

Person responsible for preparation of the balance
Audit Company RSM MACEDONIA Skopje

Responsible Person
Malinka Ristevska - Jordanova

EUROPEAN POLICY INSTITUTE- EPI SKOPJE

BALANCE SHEET

for the year ended on December 31,2015

ASSETS			
NON CURRENT ASSETS			
	Notice	2015	2014
Long-term financial investments			
Property, plant and equipment		1,458	482
Accumulated depreciation		(320)	(130)
Accounting value	1	1,138	352
TOTAL		1,138	352
CURRENT ASSETS			
Receivables	2	56	230
Prepaid expenses	2	411	0
Cash and cash equivalents	2	3,950	3,191
TOTAL		4,417	3,422
TOTAL ASSETS		5,555	3,774
CAPITAL AND LIABILITIES			
		2015	2014
Source of assets - funds		1,137	352
Current liabilities	3	3,951	3,241
Unearned incomes		467	180
Surplus of revenues over expenditures			
TOTAL CAPITAL AND LIABILITIES		5,555	3,774

The financial statements were approved and adopted by the European Policy Institute- EPI Skopje on Mart, 27 2016 in Skopje.

Person responsible for preparation of the balance
Audit Company CENSUM DOOEL Skopje

Responsible Person
Malinka Ristevska - Jordanova

General information

The European Policy Institute- EPI is autonomous, independent, non-political and non-profit organization.

Basic activity of European Policy Institute- EPI the according the Decision from the central Registry of Republic of Macedonia is 64.99 – Other financial-service activities, except insurance and pension funding, not mentioned elsewhere.

1. Basis for preparation of financial statements

1.1. Basis for preparation

The European Policy Institute- EPI in Skopje has prepared the financial statements in accordance with the legal legislative that are applied in Republic of Macedonia, and relating to the operation of non-profit organizations, pursuant the Law on accounting for non-profit organizations (Official Gazette of RM no. 24/03, 80/05, 17/11), The Regulation on the accounting for non-profit organizations (Official Gazette of RM br.42/03, 11/09, 11/06, 08/09, 175/11) and accepted accounting principles and accounting practices.

1.2. Principles for the preparation and presentation of the financial statements

The Financial statements show the assets, liabilities, revenues and expenses related to the operation of European Policy Institute- EPI in Skopje. The financial statements present truthfully the financial position, financial performance and the inflow and outflow of cash of European Policy Institute- EPI in Skopje, in compliance with accounting standards. The presentation and classification of items in the financial statements is unchanged from one period to another. Each significant item is presented separately in the financial statements. Assets and liabilities, and revenues and expenses are not offset unless offsetting is required and allowed by some accounting standard. The presentation of financial statements provides comparability of the current data with the previous accounting period.

1.3. Continuity

The financial statements have been prepared on the assumption of continuity in operation that is that European Policy Institute- EPI in Skopje will continue to operate for the foreseeable future. European Policy Institute- EPI in Skopje has no intention or need to liquidate or materially limit the scope of its operations.

2. Accounting policies

The principal accounting policies and estimates used in the preparation of financial statements of European Policy Institute- EPI in Skopje European Policy Institute- EPI in Skopje for 2015 are given below. The accounting policies applied in the preparation of financial statements used consistently throughout the period considered.

2.1. Recognition of income and expenses

The recognition of revenue and expenses are conducted in accordance with Article 13 of the Accounting Law of Non-profit Organisations (Official Gazette of RM no.24/03, 80/05, 17/11) and Article 18 of the Regulation on the accounting of non-profit organizations (Official Gazette of RM no.42/03, 11/09, 11/06, 08/09, 175/11) or by the accounting principle of modified occurrence of business changes or transactions

According to the accounting principle of modified occurrence of business changes, that is transactions, revenues are recognized in the accounting period in which they arise according to the criterion of measurability and availability. Revenues are available when they are realized in the accounting period or 30 days after the end of the accounting period to which they refer, provided they relate to the accounting period and serve to cover the liabilities of the accounting period.

According to the accounting principle of modified occurrence of business changes, that is transactions, costs are recognized in the accounting period in which they are incurred or paid within 30 days after the end of the accounting period, provided that the obligation to pay has occurred in that accounting period.

Expenditures for spending short-term assets are recognized at the time and in the amount of the actual costs incurred.

2.2. Classification of assets and liabilities

Assets and liabilities are initially valued in accordance with Article 14 of the Law on accounting for non-profit organizations (Official Gazette of RM No.24/03, 80/05, 17/11) and Article 19 of the Regulation on the accounting for non-profit organizations (Official Gazette of RM No.42/03, 11/09, 11/06, 08/09, 175/11), in which the treatment of long-term assets have the assets whose useful life is longer than one year and whose individual value at the time of purchase is higher than 100 EUR in MKD.

Any asset and obligation that is expected to be effected or settled within 12 months after the date of the balance sheet are classified as short-term. Assets and liabilities that are expected to be effected or settled a period longer than 12 months after the balance sheet date are classified as long term. Long-term assets, SSKM initially measures them at their fair value decreased for the total amount of calculated depreciation. Purchase value of long term assets includes the invoice value of purchased assets plus all costs incurred until the asset is put in use.

The basis for the write-off of long term assets (tangible and intangible) is corrected for subsequent expenditure that improves the condition of the asset over its useful life.

Long-term assets are classified as tangible and intangible:

- in long-term tangible assets are classified property, plant and equipment that:
 - are held for realization of the activity or providing of services, for rental or for administrative purposes and
 - Are expected to be used by more than one financial period.
- in intangible assets are included non-monetary assets that can be identified and have no physical content.

Long-term assets are depreciated on a straight-line method over the estimated useful lives, using the prescribed rates given in the Rules for accounting for non-profit organizations. The calculation of depreciation is made separately for each asset within the groups defined in the Regulations, until the value of long-term assets is not fully compensated. Assets are depreciated from the moment they are put into use. The following are the annual rates of depreciation of tangible assets, applied to some of the more important items:

Furniture	20%
Computers	25%

For the amount of calculated depreciation simultaneously are decreased the funds and resources.

2.3. Inventories

The inventories of fixtures and fittings are recognized in accordance with Article 14, paragraph 7 of the accounting for nonprofit organizations, according to which long-term assets whose individual value at the time of purchase is less than 100 euros in denars are classified as fixtures and fittings and are written off once regardless of used life.

2.4. Revaluation

Long-term assets are revaluated at their disposal and decommissioning or for re-evaluation if the annual inflation as measured by increase in prices of industrial production is greater than 30%.

The result of the revaluation of fixed assets is transferred to the benefit or burden of the sources of funds.

2.5. Money and money equivalents

Cash and cash equivalents consist of cash in bank accounts and cash in cash box.

2.6. Receivables

The receivables for memberships, according to the Law on accounting of non-profit organizations, are recognized at nominal value or when they are generated (collected) in the accounting period to which they relate, or 30 days after the ending of the accounting period to which they refer, provided they relating to the accounting period and serve to cover the liabilities of that period.

2.7. Amounts denominated in foreign currency

Transactions denominated in foreign currencies are recorded in the reporting of currency using the applicable on the date of transaction. The assets and liabilities denominated in foreign currencies at the date of the report are presented in MKD with exchange rate on the last day of the accounting period. The rate differences arising from monetary items outstanding at rates different from those that were initially recorded are recognized as income or as expenses in the period in which they occurred.

2.8. Liabilities

Liabilities to suppliers and other liabilities are presented at fair value on the initial recognition. These liabilities are measured at the amount received by the obtained transaction documents (invoices, contracts, interest lists).

2.9. Income tax

According to Article 34 of the Law on income tax, the income earned on the basis of purpose-built funds, such as income from membership fees, sponsorships and donations with purpose-built nature, are not included in the tax base for calculation of income tax. Tax on excess of income over expenses is paid by the tax balance for the accounting period and only for the amount of non-deductible expenses for tax purposes for the current period.

For the use of the purpose-built funds, the European Policy Institute- EPI in Skopje management prepares a special program according to program goals and objectives established by the establishing act of the University.

3. Financial risks and managing with them

European Policy Institute- EPI in Skopje steps into various transactions arising from daily operations and relating to customers, suppliers and donors. The main risks to which it is exposed European Policy Institute- EPI in Skopje and management policies are as follows:

3.1. Tax risk

The financial statements and the accounting records of the entity are subject of tax control by the tax authorities in the following 5 years period, after the submission of the Tax Balance for the financial year, and can cause additional tax liabilities. As of the date of issuance of the auditor's report control of the income tax, personal tax and contributions from the salaries was not conducted. According to this there is a tax risk for calculation of additional taxes and contributions, in case of future controls from the tax authorities.

4. Financial reports

European Policy Institute- EPI in Skopje, in accordance with the Law on accounting of non-profit organizations, prepares financial reports that provide accurate, true and complete review of assets, liabilities, sources of funds, revenues and expenditures. For the year ending on December 31, 2014 are prepared the following financial reports:

- Balance Sheet
- Balance of revenues and expenditures
- Explanatory notes to the financial statements

The Balance Sheet shows the condition of assets, liabilities and sources of funds.

The Balance of revenues and expenditures shows the revenues and expenditures and the shortage or surplus realized in the business year or in any other period of the business year.

The Explanatory notes to the financial statements are detailed elaboration and addition of data from the balance sheet and the balance of revenues and expenditures.

Explanatory notes to the Balance of Revenue and Expenditures

4. REVENUE

	<u>2015</u>	<u>2014</u>
Revenue from subsidies, grants and donations	16,921	11,395
Revenue from services	180	790
Other Revenue	0	0
TOTAL	17,101	12,186

5. EXPENSES

	<u>2015</u>	<u>2014</u>
Material cost	0	0
Office and other administrative expenses	634	189
Post expenses (phone, internet)	755	167
Expenses for representation and advertising	0	0
Other material cost	17	13
Rental cost	1521	310
Other services	1032	822
Bank provisions and services	90	42
Insurance premium costs	2	15
Expenses for employees according labour agreement	2847	2326
Purchase of equipment	962	232
Salaries	5318	2626
Transferred funds	3654	
Other taxes	155	183
Memberships	143	90
Other non-material expenses	0	0
TOTAL	17,129	7,016

6. NET EFFECT OF FINANCING

	<u>2015</u>	<u>2014</u>
Incomes from interest and course differences	270	147
Expenses from interest and course differences	243	134
NET EFFECT	28	13

EXPLANATORY NOTES TO THE BALACE SHEET

1. Property, plant and equipment	Licenses	Plant and equipment	Furniture	Vehicles	Total
Purchased Value on 01.01.2015	0	283	121	77	482
Accumulated depreciation	0	(76)	(49)	(5)	(130)
Accounting value 01.01.2015	0	208	72	72	352
New supplies in 2015	626	333	17	0	976
Accounting value 31.12.2015	626	616	138	77	1,458
Depreciation in 2015	(31)	(119)	(21)	(19)	(190)
Accumulated depreciation	(31)	(195)	(70)	(24)	(320)
Accounting value 31.12.2015	595	421	68	53	1,138

2. CURRENT ASSETS

	2015	2014
Money on bank accounts	2,856	1,747
Cash at hand	24	0
Money on foreign accounts	1,059	1,431
Money in Business Card	11	13
Money Total	3,950	3,191
Prepaid expenses	411	0
Receivables	56	230
Total Current assets	4,417	3,422

3. CURRENT LIABILITIES	2015	2014
Liabilities toward subscriber	3,951	3,218
Other liabilities	0	23
Total current liabilities	3,951	3,241

7. Events which have occurred after the date of statement of financial position

After the period ending on December, 31st 2015 – date of the statement, until the date of issuance of the audit report, events which by their significance would have caused a necessary change of the financial statements, did not occurred.