

JP KOMUNALAC P. GRADACAC
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019

JP Komunalac d.d. Gradačac

Audit of Financial Statements at
31 December 2019

JP KOMUNALAC D.D. GRADAČAC

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Company's Management is responsible for ensuring that financial statements for the year of 2019 are prepared in accordance with Accounting and Audit Law of Federation of Bosnia and Herzegovina and accounting standards applicable on the territory of Federation and which include: International Accounting Standards and International Financial Reporting Standards together with instructions, explanations, guidelines and principles that the IFAC and the IASB adopt and which the Commission for Accounting and Auditing of BiH translates and publishes so as to provide a true and fair view of state of affairs and results of the Company.

After making enquiries, the Management has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management continues to adopt the going concern basis in preparing the financial statements.

In preparing those financial statements, the responsibilities of the Management include ensuring that:

- suitable accounting policies are selected and then applied consistently,
- judgments and estimates are reasonable and prudent,
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. The Management must also ensure that the financial statements comply with the Accounting and Audit Law of the Federation of Bosnia and Herzegovina. The Management is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management

Mr. sc. Damir Okanović, Director

JP Komunalac d.d. Gradačac
H. K. Gradašćevića 114
76250 Gradačac
Bosnia and Herzegovina

28 April 2020



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To the Owners and Management of JP Komunalac d.d. Gradačac

Auditor's Report on Financial Statements

Qualified Opinion

We have audited the financial statements of JP Komunalac d.d. Gradačac (the „Company“) set on pages 5 to 29, which comprise of the statement of financial position as at 31 December 2019, statement of comprehensive income, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of matters described in *Basis for Qualified Opinion* paragraph, the accompanying financial statements present fairly, in all material respects the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

At 31 December 2019 and 31 December 2018, the Company reported share capital in amount of BAM 1,372,587, consisting of 44,277 shares with a nominal value of BAM 31. In accordance with the data from the latest available Decision of the Municipal Court in Tuzla and List of securities owners of the Registry of Securities of the FBiH, the Company's share capital amounts to BAM 3,630,714 and consists of 44,277 shares with a nominal value of BAM 82. The difference in the value of the share capital in the amount of BAM 2,258,127 is a result of recording of decrease in share capital during the year of 2017, and based on the Decision on reduction of share capital number 01-22-2/18 which was adopted by the Company's Assembly at its meeting held on 20 February 2018, upon the proposal of the Supervisory Board. Recording of the said Decision resulted in the decrease in share capital in amount of BAM 2,258,127, increase in statutory reserves in amount of BAM 24,684 and recognition of capital gains which resulted in increase in accumulated profit in amount of BAM 754,088 and decrease in previous year's losses in the amount of BAM 201,963, with simultaneous disposal of tangible assets with net book value of BAM 1,277,392. The aforementioned Decision was made in order to enforce a final court decision by which Decision of the Cantonal Privatization Agency was partially annulled in part which regulates assets in general use that were entered into Company's initial balance. In court ruling of Cantonal Court in Tuzla, which was confirmed by court ruling of the Supreme Court of the FBiH, it is stated that the value of Company's share capital amounts to BAM 1,397,243. The aforementioned Decision states that share capital as per initial balance decreases from amount of BAM 4,427,672 for value of assets in general use that were entered into initial share capital in amount of BAM 3,030,429. All of these resulted in the discrepancy in the value of share capital presented in financial statements and the Court's Decision, as well as data in the Registry of Securities. Up to date of our audit, decrease in share capital was not registered in the Court, nor with the Securities Commission, although the Assembly of the Company ordered the Management to act in accordance with legal provisions in order to register the decrease in the share capital. We could not be convinced of the correctness of the declared value of capital, as well as the value of its individual components, value of tangible assets, as well as the completeness of disposal of assets in general use.

As at 31 December 2019 the Company stated property, plant and equipment with net book value of BAM 890,847. Within this amount are consisted assets that were defined as assets in general use as per contract on public water services and are integral part of network, and which were not included in the aforementioned court ruling, nor with previous decisions of Gradačac Municipality on the proclamation of assets in general use. Net book value of these assets is BAM 424,540 at 31 December 2019.

The Inventory Commission proposed disposal of these assets and transfer into ownership of City of Gradačac, in order to comply with provisions of the Contract on public water services. In accordance with Contract on public water services signed at 30 March 2018 with Gradačac Municipality, the Company was obliged to make decisions on disposal of all assets in general use and derecognize them from its financial statements at the latest by the end of 2018. Up to date of our audit report, activities proposed by Inventory Commission were not undertaken.

We conducted our audit in accordance with 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 Company 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 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 qualified opinion.

Emphasis of Matter

We draw attention to Note 21 to the financial statements, which sets out a significant balance of trade receivables from the buyer City of Gradačac (formerly Gradačac Municipality). Namely, the total receivables from the buyer City of Gradačac as of 31 December 2019 amount to BAM 658,435 (59.56% of the total trade receivables), of which the total receivables from earlier periods not collected until 31 December 2019 amount to BAM 340,229. The said claims arose from 1 July 2016 and no protocols on the terms and manner of settlement of financial liabilities were signed for the same. We draw attention to these significant balances given the specific nature of the relationship with the Municipality of Gradačac as majority owner, and the impact that these claims have on the Company's liquidity. Our opinion has not been modified on the subject.

We draw attention to Note 30 to the financial statements, which states that a court proceeding in the total amount of BAM 1,967,800 is being filed against the Company, as well as against the Privatization Agency of Tuzla Canton and Gradačac Municipality. The said dispute was initiated by a group of individuals for damages. The said dispute is currently pending on the FBiH Supreme Court, and after the first instance verdicts of the Tuzla Municipal Court and the Tuzla Cantonal Court, the plaintiff's claim was rejected in its entirety. The Management Board of the Company believes that the said dispute will not be closed to the detriment of the Company, and therefore no provisions for litigation have been formed. Our opinion has not been modified on the subject.

Key Audit Matters

Key audit matters are those issues that, according to our professional judgment, are of the most importance for our audit of the financial statements of the current period. We have dealt with these issues in the context of our audit financial statements as a whole and in forming our opinion on them, we do not give a separate opinion on these issues. Except for issues described in paragraphs *Basis for Qualified Opinion* and *Emphasis of Matter*, we have concluded that there are no other questions to be specifically reported in this report.

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 IFRSs, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 Company'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 Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Baker Tilly Re Opinion d.o.o.
Grbavička 4, 71000 Sarajevo

Nihad Fejzić, Director and Certified Auditor

Sarajevo, 28 April 2020



Ema Sinanović, Certified Auditor

JP KOMUNALAC D.D. GRADAČAC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 BAM	2018 BAM
Revenue from sale of goods and merchandise	5	2,734,749	2,590,666
Other income	6	364,381	224,434
<i>Total operating income</i>		<i>3,099,130</i>	<i>2,815,100</i>
Costs of goods sold	-	(3,646)	(7,040)
Change in value of inventories	-	9,163	3,821
Material costs	7	(588,143)	(561,523)
Costs of salaries and other benefits of natural persons and employees	8	(1,625,839)	(1,623,086)
Cost of production services	9	(233,875)	(189,784)
Depreciation and amortization	10	(96,523)	(72,856)
Non-material costs	11	(122,233)	(102,428)
Other expenses	12	(200,854)	(129,497)
<i>Total operating expenses</i>		<i>(2,861,950)</i>	<i>(2,682,393)</i>
OPERATING PROFIT		237,180	132,707
Financial income	13	35,856	39,698
Financial expenses	14	(4,200)	(15,897)
PROFIT BEFORE TAX		268,836	156,508
Income tax	15	(18,807)	(11,841)
PROFIT AFTER TAX		250,029	144,667
Profit per share	16	5.65	3.28

Accompanying notes on pages 9 to 29 form an integral part of these financial statements.

Signed on behalf of the Company on 28 April 2020:

Mr. sc. Damir Okanović, Director



A blue circular stamp from JP Komunalac d.d. Gradačac is visible. The text inside the stamp reads: "JAVNO PREDUZEĆE", "Komunalac" d.d., and "GRADACAC".

JP KOMUNALAC D.D. GRADAČAC
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31/12/2019 BAM	31/12/2018 BAM
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	17	890,847	924,261
Intangible assets	18	5,442,066	629,084
Long-term advances	19	1,419,774	698,606
Total non-current assets		7,752,687	2,251,951
<i>Current assets</i>			
Inventories	20	288,432	286,585
Trade receivables	21	1,105,390	1,492,778
Other receivables	22	360,339	162,911
Cash and cash equivalents	23	953,696	458,864
Total current assets		2,707,857	2,401,138
TOTAL ASSETS		10,460,544	4,653,089
EQUITY AND LIABILITIES			
<i>Equity and reserves</i>			
Equity	24	1,372,587	1,372,587
Statutory reserves	-	51,038	51,038
Accumulated profit	-	1,703,173	1,453,145
Previous years' losses	-	(22,503)	(22,503)
Total equity and reserves		3,104,295	2,854,267
<i>Long-term liabilities</i>			
Long-term borrowings	25	2,868,770	300,645
Deferred income	26	2,835,757	707,702
Total long-term liabilities		5,704,527	1,008,347
<i>Short-term liabilities</i>			
Current portion of long-term borrowings	25	318,752	30,064
Trade payables	27	1,074,680	449,634
Other liabilities	28	258,290	310,777
Total short-term liabilities		1,651,722	790,475
TOTAL EQUITY AND LIABILITIES		10,460,544	4,653,089

Accompanying notes on pages 9 to 29 form an integral part of these financial statements.

Signed on behalf of the Company on 28 April 2020:

Mr. sc. Damir Okanović, Director



JP KOMUNALAC D.D. GRADAČAC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Equity BAM	Statutory reserves BAM	Accumulated profit BAM	Previous years' losses BAM	Total BAM
Balance at 31 December 2017	1,372,587	51,038	1,308,478	(22,503)	2,709,600
Result for the year	-	-	144,667	-	144,667
Balance at 31 December 2018	1,372,587	51,038	1,453,145	(22,503)	2,854,267
Result for the year	-	-	250,029	-	250,029
Net profit / loss recognized directly in equity	-	-	(1)	-	(1)
Balance at 31 December 2019	1,372,587	51,038	1,703,173	(22,503)	3,104,295

* Company Assembly, at the proposal of the Supervisory Board, at its meeting on 20 February 2018 adopted a decision on the reduction of share capital number 01-22-2/18. In accordance with the aforementioned Decision, the reduction of share capital was made in order to enforce the final court verdict of the Cantonal Court in Tuzla, confirmed by the Supreme Court of FBiH, which partially annulled the Decision of the Cantonal Agency for Privatization of the Tuzla Canton, in the part in which in the Company's initial balance were entered assets in general use. The Company's share capital after deduction is BAM 1,397,234. The reduction of share capital is done so that the nominal value of shares from BAM 82 reduced to BAM 31. The difference of BAM 24,656, which resulted from the decrease of the nominal value of shares at BAM 31 is allocated to the reserve fund. In accordance with the aforementioned Decision of the Assembly, the Management Board of the Company is obliged to act in accordance with the regulations of the Law on Business Companies in order to register the decrease in the share capital in the Registry of Issuers of the Securities Commission of FBiH.

Accompanying notes on pages 9 to 29 form an integral part of these financial statements.

Signed on behalf of the Company on 28 April 2020:

Mr. sc. Damir Okanović, Director



JP KOMUNALAC D.D. GRADAČAC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 BAM	2018 BAM
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflow from trade receivables and advances received	4,131,283	3,866,461
Inflow from donations, subsidies, premiums etc.	176,122	55,898
Other inflow from operating activities	12,563	25,859
<i>Subtotal – cash inflows from operating activities</i>	<i>4,319,968</i>	<i>3,948,218</i>
Outflows from payments to trade payables and advances	(2,024,002)	(768,124)
Outflows from salaries and other employee benefits	(1,812,116)	(1,834,464)
Outflows from taxes and other charges	(398,139)	(490,453)
Other outflows from operating activities	(353,239)	(48,693)
<i>Subtotal – cash outflows from operating activities</i>	<i>(4,587,496)</i>	<i>(3,141,734)</i>
Net cash (outflow)/inflow from operating activities	(267,528)	806,484
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows from short-term financial placements	2,000	3,049
Inflows from sale of fixed assets	12,620	-
Inflows from other long-term financial placements	2,866,557	14,823
<i>Subtotal – cash inflows from investing activities</i>	<i>2,881,177</i>	<i>17,872</i>
Outflows from the basis of purchase of fixed assets	(4,910,043)	(1,191,360)
Outflows from short-term financial placements	(2,000)	(2,437)
<i>Subtotal – cash outflows from investing activities</i>	<i>(4,912,043)</i>	<i>(1,193,797)</i>
Net cash outflow from investing activities	(2,030,866)	(1,175,925)
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Inflows from long-term borrowings	3,003,936	335,811
Inflows from short-term borrowings	-	71
<i>Subtotal – cash inflows from financial activities</i>	<i>3,003,936</i>	<i>335,882</i>
Outflows from long-term borrowings	(210,710)	(228,467)
Outflows from short-term borrowings	-	(71)
<i>Subtotal – cash outflows from financial activities</i>	<i>(210,710)</i>	<i>(228,538)</i>
Net cash inflow from financial activities	2,793,226	107,344
Net cash inflow/(outflow)	494,832	(262,097)
Cash and cash equivalents at the beginning of the year	458,864	720,961
Cash and cash equivalents at the end of the year	953,696	458,864

Accompanying notes on pages 9 to 29 form an integral part of these financial statements.

Signed on behalf of the Company on 28 April 2020:

Mr. sc. Damir Okanović, Director



JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL

Javno preduzeće „Komunalac“ d.d. Gradačac („Company“) is a company registered for the activity of collecting, purifying and supplying water. The headquarters of the Company is at Husein Kapetana Gradašćevića 114 street, Gradačac.

The company was registered with the Tax Administration of FBiH, the Cantonal Tax Office Tuzla under the identification number 4209052390002 on 23 January 2008. The company is registered in the Unified Register of indirect tax payers in Indirect Taxation Authority under identification number 209052390002 on 13 October 2010.

As at 31 December 2019, the Company had 65 employees (31 December 2018: 66 employees).

Governing bodies:

- Assembly of the Company
- Supervisory Board
- Management Board
- Audit Committee

Member of the Management Board:

- Damir Okanović, director

Members of the Audit Committee:

- Zijad Džafić, chairman
- Adna Šečić, member
- Mustafa Šakić, member

Members of the Supervisory Board:

- Mehmed Selimović, chairman
- Mehmed Huseljić, member
- Mehmed Sivić, member
- Selmir Karić, member
- Vahid Begović, member

These financial statements are presented in the official currency of Bosnia and Herzegovina, the Convertible Mark (“BAM”), which is officially tied to Euro (EUR 1 = BAM 1.95583).

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in current period

In the current year, the International Accounting Standards Board has published a larger number of amendments to IAS and IFRS that are in effect for accounting periods beginning on 1 January 2019 or later. The annual improvements include a large number of amendments to IAS and IFRS, which are shown as follows:

IAS 12	Income Taxes (annual improvements, applicable from 1 January 2019)
IAS 23	Borrowing Costs (annual improvements, applicable from 1 January 2019)
IAS 19	Employee Benefits (annual improvements, applicable from 1 January 2019)
IAS 28	Long-term Interests in Associates and Joint Ventures (annual improvements, applicable from 1 January 2019)
IFRS 3	Definition of a Business (annual improvements, applicable from 1 January 2019)
IFRS 9	Financial Instruments (annual improvements, applicable from 1 January 2019)
IFRS 11	Joint Arrangements (annual improvements, applicable from 1 January 2019)

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in current period (continued)

- IFRS 16 Leases: specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. (applicable from 1 January 2019)
- IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. (applicable from 1 January 2019)

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 17 Insurance Contracts: a way of measuring insurance and a more uniform measurement and presentation approach for all insurance contracts. (applicable from 1 January 2021)

The Company will not adopt these standards, amendments and interpretations in advance, before the date they enter into force. The Management anticipates that the adoption of these standards and interpretations in future periods will not significantly affect the Company's financial statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going concern

The financial statements have been prepared under the assumption of going concern, which implies that the Company will be able to realize receivables and settle liabilities in the normal course of business.

Basis for preparing and presenting financial statements

The Company's financial statements are prepared according to the historical cost principle and in accordance with International Accounting Standards and International Financial Reporting Standards (IAS / IFRS), together with instructions, explanations, guidelines and principles adopted by IFAC and IASB and translated and published by the Commission for Accounting and Auditing of BiH. Below is a description of the basic accounting policies adopted: **3.1. Intangible assets**

Intangible assets are defined as an asset that can be identified as non-monetary and without physical characteristics and is stated in the balance sheet only if it is probable that the future economic benefits attributable to the asset will flow to the Company and the cost of the purchase can be reliably measured.

Intangible assets are classified into property after acquisition:

- with an indefinite useful life;
- with certain useful life.

Intangible assets are initially reported and valued in the financial statements at the cost, which includes the costs of the purchase and the cost of the necessary adjustment of long-term intangible assets. Intangible assets with a limited useful life are measured at cost less accumulated amortization and accumulated impairment losses. Amortization begins at the moment when the asset is ready for use.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Intangible assets (continued)

Intangible assets with unlimited useful lives are not amortized. Such assets are annually tested for impairment.

3.2. Tangible assets

All long-term tangible assets are initially recognized at the cost of the acquisition. Purchasing costs consist of the total purchase costs that contain the purchase price, import duties, direct costs attributable to the acquisition of tangible assets and other costs that can be added to the purchase, less discounts, rebates and subsidies.

The Company is obliged to capitalize the borrowing costs as part of the cost of acquiring a material asset that can be directly attributed to the acquisition, construction or production of long-term tangible assets. The Company is obliged to recognize other borrowing costs as an expense in the period in which they were incurred. The capitalization of borrowing costs is terminated at the moment of handing over the qualifying asset to use.

After initial recognition, long-term tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment withdrawn from active use and held for sale are stated at the lower of the carrying amount or net realizable value. When the asset is permanently withdrawn from use, and since its disposal, no future economic benefits are expected, the residual value is reimbursed in the period of withdrawal of the asset on cost of the period.

Items of long-term tangible assets are withdrawn from use and disposed when they are no longer expected to be used.

Depreciation is subject to all fixed assets in accordance with the estimated useful life, except for land, works of art and investment in progress. Depreciation of long-term tangible assets, the linear method is applied.

3.3. Inventories

Inventories are initially measured at the cost of procurement, and subsequently, the method of procurement cost or net realizable value can be selected to measure the inventory, whichever is lower. Costs include the cost of procurement, conversion costs (material, work and general production costs), and other costs incurred by bringing inventory to their present location and current situation, but not the exchange differences

Procurement of inventories is recorded at real costs. Cost includes purchase costs (purchase price, custom duty, non-deductible tax, transport costs, etc.) and other costs incurred in bringing the inventories to the current location and current state. The calculation of the inventories is determined using the average weighted prices.

Decrease in value of inventories is performed in case of inadequate quality of production, damage or shortfall in inventories, or when the recoverable value is below the carrying amount. Decrease in inventories value is recognized as the expense of the period.

3.4. Short-term receivables

Short-term receivables such as trade receivables, receivables for more paid amounts on the basis of profit, receivables from employees, receivables from the state and other institutions, and other receivables are presented at a nominal value, increased for interest and other fees in accordance with the concluded contracts.

Impairment (value decrease) of receivables is carried out during the period of recognition of the inability to collect part or total receivables on the expense of the period. The write-off of receivables is carried out only if the appropriate body of the company decides on this, and when the debtor is liquidated or in some other way ceased to operate or when the dispute is lost after the final judgment. Evaluation of the possibility of collecting receivables is carried out whenever the claim is not paid within the agreed term, and at the latest on the balance sheet date.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Cash and in cash in hand

Cash consists of cash in banks and cash in hand. Cash equivalents include cash and deposits with a maturity of up to three months in BAM and foreign currencies. Cash in the accounts and in cash in hand is expressed in nominal amounts. Foreign currency accounts at the bank and in hand are recognized by middle exchange rate of Central Bank of BiH on the balance sheet. Any overdrafts on transaction accounts are recorded in the balance sheet as liabilities to financial institutions within current liabilities.

3.6. Paid costs for the future period and undue collection of revenues

Paid costs for the future period are recognized as accrued and accounted for in the cost of periods to which they relate.

Revenues are calculated for the benefit of the current period, and which do not have the elements to qualify as a receivable, are recorded as active time accruals. When the conditions for the issuance of documents on the basis of which the receivables arise, time accruals are transferred to receivables accounts.

3.7. Equity and reserve

Share capital is stated in a special account in an amount that is entered in the Register during establishment or change of subscribed value of capital.

Reserves are stated at nominal value of net profit, especially for statutory reserves, especially for statutory reserves and other reserves. The Company will enter into the legal reserve the tenth part of the profit for the current year, until such legal reserve reaches a quarter of its share capital.

3.8. Long-term provisions and contingencies

The Company will recognize liabilities for long-term provisions only if there is a binding event that will create a legal or derivative liability of outflow of asset's in future periods and if there is no real alternative other than settlement of the same. The amount of future expenditures required for their settlement is determined by the management based on the assessment, and if necessary, it is possible to hire independent experts. The Company will assess at each balance sheet date whether there are realistic bases for further recording of the provision. Reversal of the provision is made by recording in favour of other income of the period.

3.9. Long-term liabilities

Long-term liabilities are initially stated at the nominal value according to the concluded contract. Liabilities for borrowings, loans, deposits, and debt securities liabilities are stated at amortized cost using the effective interest method.

The Company will write off the financial liability by the date of settlement or legal transfer to another debtor, subject to the absence of any guarantees to the new debtor for settlement of the same.

3.10. Short-term liabilities

Liabilities to related companies, liabilities based on borrowings, deposits, etc., liabilities to credit institutions, liabilities for advances, trade payables, liabilities towards employees, liabilities for taxes, contributions and other charges, liabilities on the basis of participation in the result, and other short-term liabilities are stated at the value stated in the corresponding bookkeeping document.

3.11. Deferred payment of costs and income of future periods

At the expense of the accounting period, expenses for which there are no corresponding accounting documents are accounted for to be recognized as an obligation, and for which it can be reliably determined that they relate to the current accounting period. Once the documents for the recognition of liabilities are obtained, the accruals are terminated in favour of the liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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3.11. Deferred payment of costs and income of future periods (continued)

Revenues that do not have a basis for recognition in the current accounting period are deferred through accruals for future periods. For the benefit accruals, there are also collected receipts relating to future periods for which no receivables in the books of account have been reported.

3.12. Revenue

Revenue from the sale of goods and merchandise is recognized if:

- all significant risks and benefits of ownership of goods or merchandise have been transferred to the buyer,
- the company does not retain continuous participation in management to the degree that can be associated with ownership or effectively control the sale of goods or merchandise,
- the amount of revenue can be reliably determined,
- it is probable that the goods or merchandise sold will be collected,
- the costs incurred or that will incur in connection with the sale can be reliably measured.

Revenue from the sale of services, the outcome of which can be reliably determined, is calculated according to the degree of completion of the transaction on the day of payment. Revenue is recognized if:

- revenue can be reliably determined,
- there is a likelihood of collection,
- the degree of completeness of the transaction can be reliably measured,
- the costs associated with those services and the costs required to complete the services can be reliably determined.

If at the time of occurrence of the event it is estimated that the collection is not certain, the revenues are deferred. For realization from previous accounting periods and for those calculated in the current accounting period in favour of revenue receivables are corrected in favour of costs.

Interest income is recognized under the following conditions:

- probability of collection and
- reliability of revenue determination.

Interest income is calculated every month at the agreed interest rates, and at the latest on the balance sheet date. Interest is calculated using the effective interest method and recognized in income in proportion to the time of use of funds by the borrower, and in accordance with the contract.

State aid, including non-cash grants, is recognized in income when:

- the company meets the given conditions,
- is likely to receive support.

State aid related to assets are recognized in income for the period in which they can be linked to the corresponding expenditure.

3.13. Expenses

Recognition of expenditures occurs simultaneously with the recognition of obligations or a decrease in assets. Expenses can also be recognized in direct confrontation with related income, arising from the same transactions and other events. When economic benefits are expected to be realized in several accounting periods, expenditures are recognized on the basis of a systemic schedule (such as depreciation). Losses are other items that do not have to be derived from regular activities and are most often a reduction in economic benefits and a decrease in value of assets. Losses are those that came from disasters such as earthquakes, floods, as well as those arising from the sale of long-term assets and the decline in the book value of long-term assets.

Employee benefits are recognized in the period in which the entity received services from its employees. Severance payments are recognized if the entity has adequate evidence of the obligation to terminate employment with one or more employees before their regular date of retirement or payment of severance pay based on the offer to employees to encourage them to voluntarily terminate their employment.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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When applying the accounting policies described in Note 3, the Management makes decisions and gives estimates and assumptions that affect the amounts of assets and liabilities that cannot be derived from other sources. Estimates and assumptions are based on previous and other relevant factors. Actual amounts may differ from those estimated.

Estimates and assumptions are constantly reviewed. Changes in accounting estimates are recognized in the change period if they relate only to that period, or in the period of change and future periods if changes affect current and future periods.

4.1 Key sources of uncertainty assessment

The following are the key assumptions pertaining to the future and other key sources of uncertainty estimates at the balance sheet date, which have a significant risk of materially adjusting the carrying amount of assets and liabilities in the following financial year.

Duration of tangible and intangible assets

The Company reviews the estimated useful lives of the material and non-material at the end of each annual reporting period.

Impairment of receivables

The Company's Management recognizes the impairment loss for doubtful receivables on the basis of estimated losses that result from the debtor's inability to settle its obligations. In assessing the adequacy of the value adjustment for doubtful receivables, the Company's Management bases its assessment on the age structure of receivables and write-offs from previous periods.

5. REVENUE FROM SALE OF GOODS AND MERCHANDISE

	2019	2018
	BAM	BAM
Revenue from sale of goods on domestic market	2,693,389	2,571,701
Revenues from PVN	28,254	-
Revenue from sale of merchandise on domestic market	13,106	18,965
TOTAL	2,734,749	2,590,666

6. OTHER INCOME

	2019	2018
	BAM	BAM
Income from premiums, subventions, penalties etc.	230,258	124,338
Collected written-off receivables (Note 21)	71,759	6,856
Income from tax refunds and other fees	16,882	-
Gains from sale of tangible assets	12,923	169
Income from write-off of obligations for water fees	11,740	24,866
Income from donations	11,231	9,770
Income from write-offs of liabilities	4,275	-
Income from refunds from the Employment Service	2,000	1,600
Gains from sale of material	891	253
Income from previous periods	263	6,307
Surpluses	10	1,088
Income from the cancellation of provisions for litigation	-	48,233
Other	2,149	954
TOTAL	364,381	224,434

7. MATERIAL COSTS

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	2019	2018
	BAM	BAM
Costs of energy and fuel	458,464	440,955
Costs of material	112,107	101,309
Write-off of small inventory, safety equipment and car tires	14,965	13,812
Costs of spare parts	2,607	5,447
TOTAL	588,143	561,523

8. COST OF SALARIES AND OTHER BENEFITS OF NATURAL PERSONS AND EMPLOYEES

	2019	2018
	BAM	BAM
Salary costs	1,321,236	1,346,847
Costs of other employee benefits	241,586	222,251
Costs of compensation for committee members	42,998	35,396
Costs of other natural persons benefits	15,016	11,148
Staff travel expenses	5,003	7,444
TOTAL	1,625,839	1,623,086

9. COST OF PRODUCTION SERVICES

	2019	2018
	BAM	BAM
Maintenance costs	87,650	84,292
Deposit service costs	93,898	84,157
Costs of analysis services	12,331	12,825
Costs of transportation services	34,593	4,220
Rental costs	1,200	2,312
Cost of finishing and making services	1,996	-
Other services	2,207	1,978
TOTAL	233,875	189,784

10. DEPRECIATION AND AMORTIZATION

	2019	2018
	BAM	BAM
Deprecation of tangible assets (Note 17)	89,872	65,860
Depreciation of intangible assets (Note 18)	6,651	6,996
TOTAL	96,523	72,856

11. NON-MATERIAL COSTS

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	2019 BAM	2018 BAM
Cost of taxes, fees and etc.	55,998	42,308
Costs of non-productive services	17,026	7,410
Telecommunication services	16,264	16,849
Insurance premiums	9,318	10,624
The cost of the payment system services	7,277	6,866
Entertainment	6,024	5,625
Membership fees	2,028	2,254
Other non-material costs	8,298	10,492
TOTAL	122,233	102,428

12. OTHER EXPENSES

	2019 BAM	2018 BAM
Expenses based on receivables impairment (Note 21)	181,002	98,956
The costs of enforced collection	7,889	3,212
Inventories write-off	4,472	7,108
Expenditures for humanitarian purposes	3,500	3,502
Penalties	2,225	1,885
Losses from disposal of fixed assets	720	7,880
Expenses from previous periods	585	866
Shortages	8	594
Additional tax liabilities	-	2,762
Costs of court and other costs	-	2,246
Other	453	486
TOTAL	200,854	129,497

13. FINANCIAL INCOME

	2019 BAM	2018 BAM
Income from penalty interest	35,607	39,068
Interest income on deposits	249	630
TOTAL	35,856	39,698

14. FINANCIAL EXPENSES

	2019 BAM	2018 BAM
Expenses from penalty interest	4,200	15,897
TOTAL	4,200	15,897

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15. INCOME TAX

Income tax is calculated at a rate of 10% which is applied to the estimated taxable profit for the year ended 31 December 2019 and 31 December 2018. The reconciliation of profit tax for the period from profit stated in the income statement can be shown as follows:

	2019 BAM	2018 BAM
Profit before tax	268,836	156,508
Tax effect of unrecognized expenses	18,539	25,526
Total taxable profit	287,375	182,034
Tax incentives - expenses on behalf of new employees	(99,301)	(63,626)
Total tax base	188,074	118,408
Income tax (10%)	18,807	11,841
Cost of income tax	18,807	11,841
Effective tax rate	6.99%	7.56%

16. PROFIT PER SHARE

	2019 BAM	2018 BAM
Net profit	250,029	144,667
Weighted average of ordinary shares	44,277	44,277
Profit per share (in BAM)	5.65	3.28

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17. PROPERTY, PLANT AND EQUIPMENT

	Land BAM	Buildings BAM	Machinery and vehicles BAM	Investment in progress BAM	Total BAM
COST					
As at 1 January 2018	34,513	610,000	1,866,410	29	2,510,952
Additions	-	-	-	272,084	272,084
Transfer from/to	-	850	262,064	(262,914)	-
Disposals	-	(457)	(36,197)	-	(36,654)
As at 31 December 2018	34,513	610,393	2,092,277	9,199	2,746,382
Additions	-	-	-	57,177	57,177
Transfer from/to	-	-	66,195	(66,195)	-
Disposals	-	-	(67,815)	-	(67,815)
As at 31 December 2019	34,513	610,393	2,090,657	181	2,735,744
ACCUMULATED AMORTIZATION					
As at 1 January 2018	-	192,556	1,597,721	-	1,790,277
Depreciation for the year (Note 10)	-	5,641	60,219	-	65,860
Disposals	-	(457)	(33,559)	-	(34,016)
As at 31 December 2018	-	197,740	1,624,381	-	1,822,121
Depreciation for the year (Note 10)	-	4,293	85,579	-	89,872
Disposals	-	-	(67,096)	-	(67,096)
As at 31 December 2019	-	202,033	1,642,864	-	1,844,897
CARRYING AMOUNT					
As at 31 December 2019	34,513	408,360	447,793	181	890,847
As at 31 December 2018	34,513	412,653	467,896	9,199	924,261

According to information from the Management, the Company does not have any pledged assets.

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18. INTANGIBLE ASSETS

	Concession, patents and licenses BAM	Investments in others' fixed assets BAM	Other intangible assets BAM	Investments in progress BAM	Total BAM
COST					
As at 1 January 2018	36,733	52,833	9,790	-	99,356
Additions	-	-	-	553,725	553,725
Transfer from/to	-	2,945	-	(2,945)	-
Disposals	(3,733)	-	-	-	(3,733)
As at 31 December 2018	33,000	55,778	9,790	550,780	649,348
Additions	-	-	-	4,819,633	4,819,633
Transfer from/to	-	-	1,600	(1,600)	-
As at 31 December 2019	33,000	55,778	11,390	5,368,813	5,468,981
ACCUMULATED AMORTIZATION					
As at 1 January 2018	9,421	2,988	4,592	-	17,001
Amortization for the year	1,098	3,941	1,957	-	6,996
Disposals	(3,733)	-	-	-	(3,733)
As at 31 December 2018	6,786	6,929	6,549	-	20,264
Amortization for the year	1,099	3,977	1,575	-	6,651
As at 31 December 2019	7,885	10,906	8,124	-	26,915
CARRYING AMOUNT					
As at 31 December 2019	25,115	44,872	3,266	5,368,813	5,442,066
As at 31 December 2018	26,214	48,849	3,241	550,780	629,084

Investments in progress relate to:

- investments in assets in general use - Water supply network - EBRD 45810 - Water supply project Gradačac (one-time loan fee in the amount of BAM 117,350, non-withdrawn fee in the amount of BAM 286,876, interest in the amount of BAM 14,456, repressed pipeline construction works in the amount of BAM 1,073,637, works on reconstruction and extension of the sewage system in the amount of BAM 2,824,338, works on the extension of the water supply system (Zelinje area)/construction of water supply facilities and distribution network in the amount of BAM 329,125, and works on the extension of the water supply system (Zelinje area)/construction of water supply infrastructure in the amount of BAM 718,561), in total amount of BAM 5,364,343.
- Investments in others' fixed assets (data logger, turbine meter and module), in total amount of BAM 4,470.

19. LONG-TERM ADVANCES

	31/12/2019 BAM	31/12/2018 BAM
But promet d.o.o. Bijeljina	1,155,727	164,669
Balegem d.o.o. Gradačac	505,409	533,937
Less: VAT on EBRD loans and grants	(241,362)	-
TOTAL	1,419,774	698,606

The amount of BAM 1,155,727 (BAM 987,800 less VAT) refers to the advance for investments in assets in general use - Water supply network (Project Water Supply Gradačac), paid from the funds of the European Bank for Reconstruction and Development loan. On 10 September 2018, a

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contract was signed between JP Komunalac d.d. Gradačac and JV Buk promet d.o.o. Bijeljina and Balegem d.o.o. Gradačac number BA-GWSP-45810-T1/L2-ECEPP-613078-01 for the execution of works on the construction of the pressure pipeline LOT2. Contract value of works is EUR 558,487.19.

19. LONG TERM ADVANCES (CONTINUED)

The amount of BAM 505,409 (BAM 431,974 less VAT) refers to advance for investments in assets in general use – the Sewage Network (Gradačac Water Supply Project), paid from the funds of the SIDA - EBRD investment grant. Namely, in September 2018 a contract was signed between JP Komunalac d.d. Gradačac and JV Buk promet d.o.o. Bijeljina and Balegem d.o.o. Gradačac and VHS Brno from Czech Republic number BA-GWSP-45810-T6/ECEPP-6131439-06 for the project for reconstruction and extension of the sewage system. The contract value of the works is EUR 1,364,987.31.

VAT is paid from own funds of the Company.

20. INVENTORY

	31/12/2019 BAM	31/12/2018 BAM
Raw materials and other materials	260,423	263,216
Unfinished (unpaid) services	18,194	9,031
Spare parts, small inventory, safety equipment	9,758	14,326
Merchandise	57	12
TOTAL	288,432	286,585

21. TRADE RECEIVABLES

	31/12/2019 BAM	31/12/2018 BAM
Trade receivables – domestic	973,618	942,068
Trade receivables – related parties	658,435	997,154
Less: impairment for trade receivables	(526,663)	(446,444)
TOTAL	1,105,390	1,492,778

On 31 December 2019 the most significant amount of receivables was from the City of Gradačac, in the amount of BAM 658,435. Within the structure of the above-mentioned balance, the amount of BAM 340,229 refers to receivables from earlier periods, beginning on 1 July 2016, for which no protocols on the conditions and manner of fulfilment of financial obligations were signed during 2019 and which were not collected until 31 December 2019.

Changes in the fair value of bad and doubtful trade receivables can be shown as follows:

	2019 BAM	2018 BAM
Balance at January 1	446,444	358,651
Increase of impairment (Note 12)	181,002	98,956
Collected written-off trade receivables (Note 6)	(71,759)	(6,856)
Write-off	(29,024)	(4,307)
Balance on December 31	526,663	446,444

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22. OTHER RECEIVABLES

	31/12/2019 BAM	31/12/2018 BAM
VAT in received invoices	357,813	157,092
Receivables from state authorities and institutions	2,526	5,619
Other short-term deferrals	-	200
TOTAL	360,339	162,911

23. CASH AND CASH EQUIVALENTS

	31/12/2019 BAM	31/12/2018 BAM
Transaction bank accounts	953,432	458,589
Cash in hand	264	275
TOTAL	953,696	458,864

24. EQUITY

The Company's core capital presented in the financial statements amounts to BAM 1,372,587 and comprises of 44,277 shares with nominal value of BAM 31.

The ownership structure, according to the data from the List of securities owners of the Registry of Securities of the FBiH, can be shown as follows:

	31/12/2019		31/12/2018	
	% participation	Value	% participation	Value
Municipality Gradačac	67.7011	929,256	67.7011	929,256
Huseljić Mehmed	16.9230	232,283	16.9230	232,283
Iskrić Ekrem	10.8183	148,491	10.8183	148,491
Hašimbegović Selma	1.9807	27,187	-	-
Mulahalilović Nadir	1.2557	17,235	1.2557	17,235
Hanić Ahmed	0.4653	6,387	0.4653	6,387
Mujkanović Osman	0.3343	4,589	0.3343	4,589
Mušeta Mensud	0.3184	4,370	0.3184	4,370
Lonić Dženeta	0.1987	2,727	0.1987	2,727
Alibabić - Šabanović Afrodita	0.0045	62	0.0045	62
Hašimbegović Nermin	-	-	1.9807	27,187
TOTAL	100.00	1,372,587	100.00	1,372,587

According to data from the List of securities owners of the Registry of Securities of the FBiH, the total number of shares is 44,277 and the nominal value of the share is BAM 82. Accordingly, the Company's core capital amounts to BAM 3,630,714.

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The last decision on changes of the data of the Municipal Court in Tuzla is Decision No. 032-0-Reg-16-000563 dated 31 March 2016. In accordance with the said Decision, the Company's share capital is BAM 3,630,714. The stated value of capital was also confirmed by access to the Current Court Excerpt from the Tuzla Municipal Court of 13 March 2020.

25. LONG-TERM BORROWINGS

	31/12/2019 BAM	31/12/2018 BAM
European Bank for Reconstruction and Development	3,187,522	330,709
<i>Subtotal</i>	<i>3,187,522</i>	<i>330,709</i>
Long term borrowings are repayable as follows:		
Long term borrowings are repayable as follows:	318,752	30,064
On demand or within one year	318,752	30,064
In the second year	956,257	90,192
From the third to fifth year inclusive	1,593,761	180,389
After fifth year	(318,752)	(30,064)
Amount due after 12 months	2,868,770	300,645

On 24 December 2014, a Loan Agreement between Bosnia and Herzegovina and the European Bank for Reconstruction and Development was signed for an amount of EUR 6,000,000. In accordance with the said Agreement, the loan is repaid in 24 equal semi-annual instalments on 20 April and 20 October each year, with the first repayment date of the loan on 20 April 2018 and the last on 20 October 2029.

On 24 April 2018, the Subsidiary Agreement between Bosnia and Herzegovina and the Federation of Bosnia and Herzegovina was signed, according to which a loan amounting to EUR 6 million will be withdrawn from time to time in order to pay the costs incurred during the implementation of the project, make payments directly to the contractors engaged by JP Komunalac dd.

On 26 April 2018 a sub-loan was signed between FBiH and JP Komunalac d.d. Gradačac and Subcontract on the loan between FBiH and Gradačac municipality, with the intention of realizing the project "Water supply Gradačac". The Federation of Bosnia and Herzegovina will make available funds for the Municipality of Gradačac in the amount of EUR 4 million and JP Komunalac d.d. Gradačac in the amount of EUR 2 million. The loan repayment period is 15 years, with a grace period of 3 years. The interest rate is 6m Euribor + 1%.

On 27 April 2018 a sub-loan was signed between the Municipality of Gradačac and the Company, according to which the Municipality agrees to make available to the Company loan funds in the total amount of EUR 4 million and that the Company will pay the contracted interest and the rest in accordance with the Contract. These funds will be used to expand the existing water supply network in the municipality to cover settlements located in the southern part of the municipality and to improve the existing water supply system. In case the Company fails to meet its obligation within 30 days, the Municipality shall pay the agreed interest at a rate of 5% to the final payment.

25.1. COMPLIANCE WITH LOAN COVENANTS

Article 3 of the Project Agreement stipulates certain provisions concerning financial records and statements relating to:

- Compliance by the Company with its obligations set out in Section 3.03 of this Agreement during fiscal year and which may be presented as follows:
 - a) The Company should open and maintain a Debt servicing account and ensure that, 30 days prior to each date of payment of interest, there are funds on bank account in amount not

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less than the amount of debt servicing under the Loan agreement on such date of interest payment (including principal, interest and fees), no funds can be withdrawn from the Debt servicing account without the Bank's written approval except for payment to the Borrower for repayments/payments under the Loan agreement;

25.1. COMPLIANCE WITH LOAN COVENANTS (CONTINUED)

On 18 September 2018 the Company signed an Agreement on opening an account for payment transactions with Raiffeisen bank dd, with the aim of opening a Debt servicing account. Balance on Raiffeisen bank d.d. bank statement number 6 on 20 March 2019 was BAM 100,973. Balance on Raiffeisen bank d.d. bank statement number 24 on 19 September 2019 was BAM 50,019. Balance on the Debt servicing account on 17 March 2020 (30 days before the date of payment of interest) is BAM 773,760 (bank statement number 8).

- b) By 1 January 2016 at the latest (i) completely separate the activities of water supply and sewage from the activities of solid waste collection and disposal as well as the maintenance of public areas in affiliated companies; and (ii) end up subsidizing newly established companies;

As stated in Note 1, the Company is registered for the activity of collecting, purifying and supplying water. The separation of water supply and sewage activities from the activities of solid waste collection and disposal, as well as the maintenance of public areas in affiliated companies has not been done.

- c) By 1 January 2016 at the latest, adopt the Program for the Improvement of Financial and Operational Results, in a form and content that is satisfactory to the Bank;

The Program for the Improvement of Financial and Operational results was prepared by KPMG B-H d.o.o. Sarajevo in May 2016.

- d) By 1 January 2016 at the latest, to conclude a Service Contract with Municipality of Gradačac in form and content that the Bank considers to be satisfactory, including, inter alia, the formula for automatic tariff adjustment based on full cost coverage for all customer groups;

Contract on public water services was signed between the Company and Municipality of Gradačac as at 30 March 2018. An integral part of the said Contract is Appendix 1 – Tarif Calculation Methodology for Public Water Services.

- e) Meet the following performance indicators:

	Required	Realized	Requirement realized YES/NO
Bill Collection Ratio	At least 95%	Water supply and sewage – 98.70% Waste – 102.24% Other services – 181.59% Total – 109.25%	Yes
Debt Service Coverage Ratio	At least 1.2:1.0	1.97:1	Yes
Current liquidity ratio	At least 1.0:1.0	1.70:1	Yes
Bad Debt	5% for all due receivables	39.98%	No
Ratio of the water invoiced to the water pumped	At least 0.6:1.0	0.48:1	No

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- Preparing a statement of all financial transactions between the Company and each of its Subsidiaries and Affiliates during such fiscal year.

The Company does not have any Subsidiaries and Affiliates, and therefore there were no such financial transactions during fiscal year.

26. DEFERRED INCOME

	31/12/2019 BAM	31/12/2018 BAM
Deferred income from investment grant SIDA - EBRD	2,233,223	533,937
Deferred income – City of Gradačac funds for loan repayments	400,000	-
Deferred income from donations and assistance	202,534	173,765
TOTAL	2,835,757	707,702

The following events preceded signing of the Subgrant Agreement for the "Water Supply Gradačac" project:

- The conclusion of a loan agreement in the amount of EUR 6 million on 24 December 2014 between Bosnia and Herzegovina and the European Bank for Reconstruction and Development;
- Conclusion of the Grant Contract for project financing on 15 December 2015 between Bosnia and Herzegovina, JP Komunalac d.d. Gradačac and European Bank for Reconstruction and Development;
- Adoption of the Decision on the Grant of the Swedish Development Agency (SIDA) for the construction of a sewerage network in the northern part of the Municipality by the Municipal Council of Gradačac on 4 August 2017;
- The signing of the Side Letter between the European Bank for Reconstruction and Development and Bosnia and Herzegovina on 7 September 2017;
- Signing a Subsidiary Contract between Bosnia and Herzegovina and the Federation of Bosnia and Herzegovina on 24 April 2018;
- Adoption of a decision on approval of the European Bank for Reconstruction and Development grant (Investment grant from the SIDA-EBRD Environmental and Climate Fund Program) for the project "Water Supply of Gradačac" by the Government of FBiH at the 122nd session held on 10 October 2017;
- Signing of the Agreement between the Federation of Bosnia and Herzegovina and the Municipality of Gradačac on 26 April 2018, according to which the FBiH is obliged to make available to the Municipality a grant in the total amount of EUR 1,400,000.

On 27 April 2018, the Agreement on Subgrant between the Municipality of Gradačac and JP Komunalac d.d. Gradačac (number 02-510/18) was signed. By the above-mentioned Agreement, the Municipality makes available grants in the total amount of EUR 1,400,000 to the Company. The funds will be used to finance the improvement of the wastewater collection system in the municipality by preserving the environment and respecting the elementary living conditions of the population.

Based on the Agreement between the City of Gradačac and the Ministry of agriculture, forestry and water management of Tuzla Canton, the City was awarded a grant of BAM 400,000. Since the Company is the implementer of the water supply project, the funds were transferred to the Company's account for the purpose of loan repayment. On 20 December 2019, a fund transfer Agreement was signed between the City of Gradačac and the Company.

Movements in deferred revenue can be shown as follows:

2019	2018
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	BAM	BAM
Balance at 1 January	707,702	150,476
New donations during the year	2,139,286	566,996
Depreciation of deferred income	(11,231)	(9,770)
Balance at 31 December	2,835,757	707,702

27. TRADE PAYABLES

	31/12/2019 BAM	31/12/2018 BAM
Trade payables- domestic	1,074,680	300,918
Trade payables- foreign	-	148,716
TOTAL	1,074,680	449,634

28. OTHER LIABILITIES

	31/12/2019 BAM	31/12/2018 BAM
Liabilities to employees	81,349	77,013
Accrued expenses	62,557	3,500
Liabilities to the State based on taxes and contributions	47,093	44,424
VAT liabilities	27,673	4,686
Accrued income	15,601	11,660
Income tax liabilities	15,118	-
Liabilities for other taxes, contributions, fees, etc.	4,212	9,049
Liabilities for fees to board members	3,072	5,440
Liabilities for prepayments	555	6,095
Commitments from joint ventures - Municipality Gradačac	-	148,910
Other	1,060	-
TOTAL	258,290	310,777

29. RELATED PARTY TRANSACTIONS

During the year, the following revenues and expenses were realized with related parties, while on 31 December the Company had the following balances of receivables and liabilities with related parties:

	Income		Expenses	
	2019	2018	2019	2018
City of Gradačac	271,971	276,299	-	-
TOTAL	271,971	276,299	-	-

	Receivables		Liabilities	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
City of Gradačac	658,435	997,154	-	148,910
TOTAL	658,435	997,154	-	148,910

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Management fees and members of the Board

	2019	2018
	BAM	BAM
Gross salaries and other benefits of the management	55,513	46,416
Compensation to Board members	41,863	28,416
TOTAL	97,376	74,832

30. COMMITMENTS AND CONTINGENCIES

The total amount of non-withdrawn funds from the European Bank for Reconstruction and Development as of 31 December 2019 amounts to BAM 8,395,233 (EUR 4,292,414) and the Company pays commitment charge on non-withdrawn funds.

The total amount of non-withdrawn funds of SIDA-EBRD investment grant as at 31 December 2019 is BAM 504,939 (EUR 258,171).

These funds are used to finance the project "Water Supply Gradačac". The company signed two contracts with JV Buk promet d.o.o. Bijeljina and Balegem d.o.o. Gradačac and JV Buk promet d.o.o. Bijeljina and Balegem d.o.o. Gradačac and VHS Brno, Czech Republic in total value of BAM 3,761,989. Payments to these suppliers will be from the proceeds of the aforementioned loans and grants.

On 31 December 2019, according to the information of the attorney Suljić Dževad, one court dispute initiated by a group of individuals for the compensation of damages was conducted against the Company. In addition to JP Komunalac d.d. Gradačac, the respondent parties are the Cantonal Privatization Agency and Gradačac Municipality. The amount of the claim is BAM 1,967,800. This dispute has not yet been finalized and is currently being conducted at Supreme Court of FBiH. Previously, the Municipal Court in Tuzla and Cantonal Court in Tuzla issued a first instance verdicts, which completely rejects the plaintiff's claim. Since the Management Board considers that the dispute will not be terminated to the detriment of the Company, provisions have not been formed.

Furthermore, as at 31 December 2019, the Company did not use bank guarantees.

31. FINANCIAL INSTRUMENTS

31.1 Capital Risk Management

The Company manages the capital in a way to enable the business to continue and maximize returns to the owners by finding the optimal ratio of debt and capital. The general strategy of the Company has not changed in relation to 2018. The financial structure consists of cash and cash equivalents, liabilities for loans and total capital of the Company.

The management monitors the structure of the funding source on a monthly basis. As part of this monitoring, the Management takes into account the cost of financing and the risks associated with each of the funding source classes.

The gearing/solvency ratio at the end of the year can be shown as follows:

	31/12/2019	31/12/2018
	BAM	BAM
Borrowings	3,187,522	330,709
Cash and cash equivalents	(953,696)	(458,864)
Net debt	2,233,826	-
Equity	3,104,295	2,854,267
Net debt to equity ratio	0.72	-

(i) Equity includes all capital and reserves of the Company.

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31. FINANCIAL INSTRUMENTS (CONTINUED)

31.2 Categories of financial instruments

	31/12/2019/ BAM	31/12/2018 BAM
Financial assets at amortized cost:		
Cash and cash equivalents	953,696	458,864
Trade receivables and other receivables	1,105,390	1,492,778
Total	2,059,086	1,951,642
Financial liabilities at amortized cost:		
Liabilities for loans	3,187,522	330,709
Trade payables and other liabilities	1,221,658	684,497
Total	4,409,180	1,015,206

31.3 Financial risk management objectives

The Company's management monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

31.4 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures are supplemented by sensitivity analysis. There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

31.5 Foreign currency risk management

In management's opinion, Company is not exposed to currency risk considering that all transactions are conducted in EUR. Sensitivity analysis is unrepresentative of the inherent foreign exchange risk since in accordance with the Law on Central Bank of Bosnia and Herzegovina the Convertible Mark ("BAM") is officially tied to the EUR. Change in the exchange rate would require the amendments of the law and approval by Parliamentary Assembly of Bosnia and Herzegovina.

31.6 Interest rate risk management

The Company is exposed to interest rate risk because it lends funds at variable interest rates from financial institutions. An analysis of the effects of the change in the interest rate was made for financial instruments for which the Company is exposed to interest rate risk on the balance sheet date. For variable interest rates, the analysis was done on the assumption that the outstanding balance of liabilities at the balance sheet date was unchanged throughout the year.

The change in the rate of 50 base units (0.5%) is used for internal reporting to the Risk Management Authority and represents the Management's assessment of reasonably possible changes in interest rates. In case of an increase or decrease in interest rates for 50 base units

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(0.5%), and all other variables remained unchanged profit for the year ended 31 December 2019 would decrease / increase by BAM 16 thousand basis of exposure to interest rate risk.

31.7 Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where it proves necessary, as a means of mitigating the risk and financial losses.

31. FINANCIAL INSTRUMENTS (CONTINUED)

31.7 Credit risk management (continued)

The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Management annually. The carrying amounts of financial assets presented in the financial statements less impairment losses represent the maximum exposure of the Company to credit risk without taking into account the value of collateral collected.

31.8 Liquidity risk management

The Company manages liquidity risk by maintaining adequate reserves by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

31.8.1 Interest rate risk and liquidity risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets, including interest on those assets, which will be earned except for the assets that the Company expects to see cash flow in another period.

Maturity for non-derivative financial assets

	Weighted average effective interest rate %	Less than 1 month BAM 000	1 to 6 months BAM 000	6 to 12 months BAM 000	Over 1 year BAM 000	Total BAM 000
31 December 2019						
No interest	-	2,059,086	-	-	-	2,059,086
TOTAL		2,059,086	-	-	-	2,059,086
31 December 2018						
No interest	-	1,735,188	98,388	118,066	-	1,951,642
TOTAL		1,735,188	98,388	118,066	-	1,951,642

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

Maturity for non-derivative financial liabilities

	Weighted average effective interest rate %	Less than 1 month BAM 000	1 to 6 months BAM 000	6 to 12 months BAM 000	Over 1 year BAM 000	Total BAM 000
31 December 2019						

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Variable interest rate	1%	-	169,070	174,558	3,005,087	3,348,715
No interest	-	1,221,658	-	-	-	1,221,658
TOTAL		1,221,658	169,070	174,558	3,005,087	4,570,373
31 December 2018						
Variable interest rate	1%	-	16,029	16,615	316,441	349,085
No interest	-	666,341	18,156	-	-	684,497
TOTAL		666,341	34,185	16,615	316,441	1,033,582

31. FINANCIAL INSTRUMENTS (CONTINUED)

31.9 Fair value of financial instruments

Management believes that the carrying amount of financial assets and financial liabilities recognized in the financial statements at amortized cost approximates their fair value.

32. EVENTS AFTER THE DATE OF BALANCE SHEET

Until the date of our audit, according to the Management's statement, there were no events or transactions that would significantly affect the financial statements of the Company as at 31 December 2019.

33. APPROVAL OF FINANCIAL STATEMENTS

Signed on behalf of the Company's Management as at 28 April 2020:

Mr. sc. Damir Okanović, Director



A blue circular stamp of JP Komunalac D.D. Gradačac is placed over the signature. The stamp contains the text "JAVNO PREDUZEĆE", "Komunalac" d.d., and "GRADACAC".