



**JP Komunalac d.d.
Gradačac**

Audit of Financial Statements at
31 December 2022

JP KOMUNALAC D.D. GRADAČAC
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2022

	<u>Page</u>
Responsibility for the Financial Statements	1
Auditor's Report on Financial Statements	2
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Changes in Equity	7
Cash Flow Statement	8
Notes to Financial Statements	9 - 29

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Company's Management is responsible for ensuring that financial statements for the year of 2022 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

22 June 2023



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

Auditor's Report on Financial Statements

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Qualified Opinion

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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 2022, 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 2022, 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 2022 and 31 December 2021, the Company reported share capital in amount of 1,396,939 BAM (2021: 1,372,587) consisting of 44,277 shares with a nominal value of BAM 31.55 (2021: 31 BAM). In accordance with the data from the latest available Decision of the Municipal Court in Tuzla, 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. On 10 June 2022, the Company made a decision on the reduction of the Company's share capital number 01-54-4/22, in order to execute the final Judgment of the Cantonal Court in Tuzla number 03 0 U 012442 14 U dated February 18, 2014, confirmed by by the Supreme Court of the Federation of BiH by Judgment 03 0 U 012442 15 Uvp from October 8, 2015, which partially annulled the Decision of the Cantonal Privatization Agency of Tuzla Canton (number: 19/01-021-5490/2001 dated 19 November 2001) in the part in which assets for general use entered in the initial balance sheet and total share capital. The share capital of the Company is reduced from BAM 3,630,714 for the assets in general use that were written off (and previously shown in the balance sheets) which entered the total share capital of the Company in the amount BAM of 2,233,471, so that the share capital of the Company amounts to 1,396,939 KM. The reduction of the share capital was carried out in such a way that the nominal value of the share was reduced from 82 BAM to BAM 31.55. By decision in the register of the Securities Commission of the Federation of Bosnia and Herzegovina, the reduction of the share capital in the amount of BAM 2,233,775 (the difference of BAM 304 refers to the change in reduction of the nominal value of shares by rounding to two decimal places) was registered on 28 July 2022, under registration number 03/1-19-175/22. A request was submitted to the Municipal Court in Tuzla for the registration of the reduction of the share capital in accordance with the Decision and Ruling of the Securities Commission of the Federation of Bosnia and Herzegovina, however, by the date of the report, the same change had not been completed, All of the above resulted in the non-compliance of the capital value in the financial statements and the court decision. Considering all the above, we could not be convinced of the correctness of the stated value of the capital, as well as the value of its individual components, and the value of tangible assets, as well as the completeness of the accounting of assets in general use,

As at 31 December 2022 the Company stated property, plant and equipment with net book value of BAM 790,187. Within this amount are 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 at 31 December 2022 is BAM 412,095.

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 (MRevS-ima). 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.

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 detected 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 IFRS, 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.

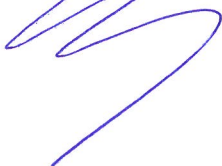
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation 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.
Bulevar Meše Selimovića 81a, 71000 Sarajevo

Jasmina Oručević, Director and Certified Auditor

Aldijana Gabela, Certified Auditor

Sarajevo, 22 June 2023



JP KOMUNALAC D.D. GRADAČAC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 BAM	2021 BAM
Revenue from sale of goods and merchandise	5	3,064,222	3,005,779
Other income	6	346,791	308,646
<i>Total operating income</i>		<i>3,411,013</i>	<i>3,314,425</i>
Costs of goods sold	-	(2,092)	(1,469)
Change in value of inventories	-	-	269
Material costs	7	(704,148)	(654,759)
Costs of salaries and other benefits of individuals and employees	8	(1,772,204)	(1,691,796)
Cost of production services	9	(288,934)	(237,221)
Depreciation and amortization	10	(92,321)	(94,661)
Non-material costs	11	(133,080)	(131,221)
Other expenses	12	(248,035)	(225,659)
<i>Total operating expenses</i>		<i>(3,240,814)</i>	<i>(3,036,517)</i>
OPERATING PROFIT		170,204	277,908
Financial income	13	32,238	24,764
Financial expenses		(18,838)	-
PROFIT BEFORE TAX		183,599	302,672
Income tax	14	-	(10,612)
PROFIT AFTER TAX		183,599	292,060
Earnings per share	15	4.15	6.60

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

Signed on behalf of the Company on 22 June 2023:

Mr, sc, Damir Okanović, Director



JP KOMUNALAC D.D. GRADAČAC
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	31/12/2022 BAM	31/12/2021 BAM
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	16	790,187	830,540
Intangible assets	17	19,271,948	16,084,970
Long-term advances	18	-	50,049
Long-term receivables for water connections	19	179,775	218,484
Total non-current assets		20,241,910	17,184,043
<i>Current assets</i>			
Inventories	20	227,940	279,165
Trade receivables	21	712,687	1,140,556
Other receivables	22	194,658	357,558
Cash and cash equivalents	23	426,225	531,657
Total current assets		1,561,510	2,308,936
TOTAL ASSETS		21,803,420	19,492,979
EQUITY AND LIABILITIES			
<i>Equity and reserves</i>			
Equity	24	1,396,939	1,372,587
Statutory reserves	-	26,686	51,038
Accumulated profit	-	2,332,314	2,148,715
Previous years' losses	-	(22,503)	(22,503)
Total equity and reserves		3,733,436	3,549,837
<i>Long-term liabilities</i>			
Long-term borrowings	25	7,493,448	7,511,696
Deferred income	26	8,011,288	5,639,408
Total long-term liabilities		15,504,736	13,151,104
<i>Short-term liabilities</i>			
Current portion of long-term borrowings	25	1,248,908	1,073,099
Trade payables	27	1,094,932	1,440,116
Other liabilities	28	221,408	278,823
Total short-term liabilities		2,565,248	2,792,038
TOTAL EQUITY AND LIABILITIES		21,803,420	19,492,979

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

Signed on behalf of the Company on 22 June 2023

Mr, sc, Damir Okanović, Director



JP KOMUNALAC D.D. GRADAČAC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Equity BAM	Statutory reserves BAM	Accumulated profit BAM	Previous years' losses BAM	Total BAM
Balance at 31 December 2020	1,372,587	51,038	1,856,655	(22,503)	3,257,777
Result for the year	-	-	292,060	-	292,060
Balance at 31 December 2021	1,372,587	51,038	2,148,715	(22,503)	3,549,837
Result for the year	-	-	183,599	-	183,599
Increase in share capital	24,352	(24,352)	-	-	-
Balance at 31 December 2022	1,396,939	26,686	2,332,314	(22,503)	3,733,436

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

Signed on behalf of the Company on 22 June 2023:

Mr, sc, Damir Okanović, Director



JP KOMUNALAC D.D. GRADAČAC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 BAM	2021 BAM
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflow from trade receivables and advances received	4,301,864	5,564,678
Inflow from donations, subsidies, premiums etc,	171,997	84,250
Other inflow from operating activities	564,828	744
<i>Subtotal – cash inflows from operating activities</i>	<i>5,038,689</i>	<i>5,649,672</i>
Outflows from payments to trade payables and advances	(1,314,921)	(1,304,692)
Outflows from salaries and other employee benefits	(1,762,859)	(1,682,732)
Outflows from taxes and other charges	(417,725)	(371,842)
Other outflows from operating activities	(5,688)	(756,099)
<i>Subtotal – cash outflows from operating activities</i>	<i>(3,501,193)</i>	<i>(4,115,365)</i>
Net cash inflow from operating activities	1,537,496	1,534,307
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows from short-term financial placements	-	1,920
Inflows from other long-term financial placements	-	590,163
<i>Subtotal – cash inflows from investing activities</i>	<i>-</i>	<i>592,083</i>
Outflows from the basis of purchase of fixed assets	(4,031,361)	(4,314,740)
Outflows from short-term financial placements	-	(1,920)
<i>Subtotal – cash outflows from investing activities</i>	<i>(4,031,361)</i>	<i>(4,316,660)</i>
Net cash outflow from investing activities	(4,031,361)	(3,724,577)
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Inflows from long-term borrowings	1,329,548	2,960,021
Inflows from short-term borrowings	2,350,014	-
<i>Subtotal - cash inflows from financial activities</i>	<i>3,679,562</i>	<i>2,960,021</i>
Outflows from long-term borrowings	(1,266,404)	(1,028,429)
Outflows from short-term borrowings	(24,725)	-
<i>Subtotal – cash outflows from financial activities</i>	<i>(1,291,129)</i>	<i>(1,028,429)</i>
Net cash inflow from financial activities	2,388,433	1,931,592
Net cash outflow	(105,432)	(258,678)
Cash and cash equivalents at the beginning of the year	531,657	790,335
Cash and cash equivalents at the end of the year	426,225	531,657

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

Signed on behalf of the Company on 22 June 2023:

Mr, sc, Damir Okanović, Director



JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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 22 November 2005.

As at 31 December 2022, the Company had 66 employees (31 December 2021: 67 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:

- Nahid Unkić, chairman
- Ismet Hasić, member
- Abid Šaldić, member

Members of the Supervisory Board:

- Mehmed Selimović, chairman
- Mehmed Huseljić, member
- Selmir Karić, member
- Ermin Fazlić, member
- Razim Imširović, 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 2022 or later. The annual improvements include a large number of amendments to IAS and IFRS, which are shown as follows:

IAS 16	Amendments prohibiting the company from deducting from the cost of property, plant and equipment the amounts received from the sale of items produced while the company is preparing the asset for its intended use (effective from 1 January 2022)
IAS 37	Amendments on costs to be included in assessing whether a contract is harmful (effective from 1 January 2022)
IFRS 3	Amendments to update references to the Conceptual Framework (applicable from 1 January 2022)

Amendments to various standards due to "Improvements to IFRSs (2018-2020 cycle)" arising from the annual project to improve IFRSs (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with the aim of eliminating inconsistencies and clarifying formulations (Amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022).

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet adopted

IAS 1	Amendments to the classification of liabilities (applicable from 1 January 2023)
IAS 1	The amendments require the entity to disclose its material accounting policies instead of its significant accounting policies (effective from 1 January 2023)
IAS 8	The amendments replace the definition of changes in accounting estimates with the definition of accounting estimates (effective from 1 January 2023)
IAS 12	The amendments clarify that the exemption from initial recognition does not apply to transactions in which equal amounts of deductible and taxable temporary differences occur on initial recognition (effective from 1 January 2023)
IFRS 4	Extension of the temporary exemption from IFRS 9 (effective from 1 January 2023)
IFRS 10 and IAS 28	Sale or contribution of assets between the investor and its associate or joint venture and further amendments (date of entry into force postponed indefinitely until the completion of the capital project research project)
MSFI 17	Insurance contracts including amendments to IFRS 17: method of measuring insurance and a more uniform approach to measurement and presentation for all insurance contracts (effective from 1 January 2023)
MSFI 17	Amendments regarding the presentation of comparative information in the simultaneous first-time adoption of IFRS 17 and IFRS 9 (effective when IFRS 17 was first applied)

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.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 assets 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.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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).

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Expenses (continued)

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

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

	2022	2021
	BAM	BAM
Revenue from sale of goods on domestic market	2,997,060	2,943,352
Revenues from PVN	55,066	51,658
Revenue from sale of merchandise on domestic market	12,096	10,769
TOTAL	3,064,222	3,005,779

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

6. OTHER INCOME		
	2022	2021
	BAM	BAM
Income from premiums, subventions, penalties etc,	171,997	153,354
Collected written-off receivables (Note 21)	151,463	117,737
Surpluses	1,117	13,286
Income from donations (Note 26)	11,612	11,300
Gains from charged costs of court proceedings	2,014	4,382
Income from the cancellation of provisions for litigation	-	4,070
Gains from sale of material	5,139	1,625
Income from previous periods	400	1,161
Gains from sale of tangible assets	206	270
Income from write-offs of liabilities	16	21
Income from refunds from the Employment Service	-	-
Other	2,827	1,440
TOTAL	346,791	308,646
7. MATERIAL COSTS		
	2022	2021
	BAM	BAM
Costs of energy and fuel	544,722	448,006
Costs of material	133,414	193,544
Write-off of small inventory, safety equipment and car tires	25,050	10,434
Costs of spare parts	962	2,775
TOTAL	704,148	654,759
8. COST OF SALARIES AND OTHER BENEFITS OF INDIVIDUALS AND EMPLOYEES		
	2022	2021
	BAM	BAM
Salary costs	1,410,989	1,404,972
Costs of other employee benefits	319,646	246,428
Costs of compensation for committee members	37,451	32,092
Costs of other natural persons benefits	3,513	4,842
Staff travel expenses	605	3,462
TOTAL	1,772,204	1,691,796
9. COST OF PRODUCTION SERVICES		
	2022	2021
	BAM	BAM
Maintenance costs	152,787	134,284
Deposit service costs	65,688	83,394
Costs of analysis services	14,788	13,994
Other services	17,485	2,437
Costs of remediation service	5,950	1,560
Rental costs	32,236	1,552
Costs of transportation services	-	-
TOTAL	288,934	237,221

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

10. DEPRECIATION AND AMORTIZATION

	2022	2021
	BAM	BAM
Depreciation of intangible assets (Note 18)	5,351	88,616
Depreciation of tangible assets (Note 17)	86,970	6,045
TOTAL	92,321	94,661

11. NON-MATERIAL COSTS

	2022	2021
	BAM	BAM
Cost of taxes, fees and etc,	59,130	67,047
Costs of non-productive services	28,645	18,910
Telecommunication services	15,390	17,312
Insurance premiums	10,342	9,777
The cost of the payment system services	7,879	7,512
Other non-material costs	4,637	4,980
Entertainment	4,899	3,442
Membership fees	2,158	2,241
TOTAL	133,080	131,221

12. OTHER EXPENSES

	2022	2021
	BAM	BAM
Expenses based on receivables impairment (Note 21)	129,230	155,083
Inventories write-off	1,210	39,174
Shortages	536	15,912
Costs of court proceedings	240	11,766
Losses from disposal of fixed assets	554	1,582
Cost of raw materials sold	-	1,040
Expenses from previous periods	106,063	642
Expenditures for humanitarian purposes	7,500	3
Impairment of inventories	-	-
Other	2,702	457
TOTAL	248,035	225,659

13. FINANCIAL INCOME

	2022	2021
	BAM	BAM
Income from penalty interest	32,227	24,746
Interest income on deposits	11	18
TOTAL	32,238	24,764

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

14. 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 2022 and 31 December 2021. The reconciliation of profit tax for the period from profit stated in the income statement can be shown as follows:

	2022 BAM	2021 BAM
Profit before tax	183,599	302,672
Tax effect of unrecognized expenses	5,615	18,321
Total taxable profit	189,214	320,993
Tax incentives - expenses on behalf of new employees	(254,750)	(214,876)
Total tax base	-	106,117
Income tax (10%)	-	10,612
Cost of income tax	-	10,612
Effective tax rate	-	3.51%

15. PROFIT PER SHARE

	2022 BAM	2021 BAM
Net profit	183,599	292,060
Weighted average of ordinary shares	44,277	44,277
Profit per share (in BAM)	4.15	6.60

16. PROPERTY, PLANT AND EQUIPMENT

	Land BAM	Buildings BAM	Machinery and vehicles BAM	Investment in progress BAM	Total BAM
COST					
As at 1 January 2021	34,513	610,393	2,200,832	360	2,846,098
Additions	-	-	-	22,421	22,421
Transfer from/to	-	-	22,781	(22,781)	-
Disposals	-	-	(39,489)	-	(39,489)
As at 31 December 2021	34,513	610,393	2,184,124	-	2,829,030
Additions	-	-	-	47,300	47,300
Transfer from/to	-	-	47,245	(47,245)	-
Disposals	-	-	(6,353)	-	(6,353)
As at 31 December 2022	34,513	610,393	2,225,016	55	2,869,977
ACCUMULATED AMORTIZATION					
As at 1 January 2021	-	206,115	1,729,221	-	1,935,336
Depreciation for the year (Note 10)	-	3,871	84,745	-	88,616
Disposals	-	-	(25,462)	-	(25,462)
As at 31 December 2021	-	209,986	1,788,504	-	1,998,490
Depreciation for the year (Note 10)	-	3,855	83,380	-	87,235
Disposals	-	-	(5,935)	-	(5,935)
As at 31 December 2022	-	213,841	1,865,949	-	2,079,790
CARRYING AMOUNT					
As at 31 December 2022	34,513	396,552	359,067	55	790,187
As at 31 December 2021	34,513	400,407	395,620	-	830,540

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

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

17. 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 2021	33,000	55,778	11,390	12,187,431	12,287,599
Additions	-	-	-	3,836,845	3,836,845
Transfer from/to	-	14,330	-	(14,330)	-
As at 31 December 2021	33,000	70,108	11,390	16,009,946	16,124,444
Additions	-	-	-	3,192,329	3,192,329
Transfer from/to	-	420	-	(420)	-
As at 31 December 2022	33,000	70,528	11,390	19,201,855	19,316,773
ACCUMULATED AMORTIZATION					
As at 1 January 2021	8,984	14,883	9,562	-	33,429
Amortization for the year (Note 10)	1,098	3,973	974	-	6,045
As at 31 December 2021	10,082	18,856	10,536	-	39,474
Amortization for the year (Note 10)	1,098	3,933	320	-	5,351
As at 31 December 2022	11,180	22,789	10,856	-	44,825
CARRYING AMOUNT					
As at 31 December 2022	21,918	47,739	534	19,201,855	19,271,948
As at 31 December 2021	22,918	51,252	854	16,009,946	16,084,970

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 330,690, interest in the amount of BAM 219,267, 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 2,282,316, and works on the extension of the water supply system (Zelinje area)/construction of water supply infrastructure in the amount of BAM 7,010,169, leak detection equipment in the amount of BAM 97,791, works on expansion of water supply (Rajska area) - construction of water supply facilities and distribution network in the amount of BAM 971,638, works on the reconstruction of the existing water supply facilities in the area of Gradačac in the northern part of the city in the amount of BAM 1,609,716, works on the reconstruction of the post of larger water supply facilities in the area of Gradačac in the eastern part of the city in the amount of BAM 1,935,773, and consulting services and engineering supervision in the amount of BAM 466,581), investment in equipment not set in use in amount of BAM 6,699 in total amount of BAM 19,201,855.

18. LONG-TERM ADVANCES

	31/12/2022 BAM	31/12/2021 BAM
Balegem d.o.o. Gradačac	-	56,354
Less: VAT on EBRD loans and grants	-	(6,305)
TOTAL	-	50,049

The amount of BAM 56,354 (BAM 50,049 less VAT) refers to the rest of the advance for investments in goods in general use - Water Supply Network (Gradačac Water Supply Project), paid from the European Bank for Reconstruction and Development loan.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

18. LONG TERM ADVANCES (CONTINUED)

Namely, on 17 March 2021, the Agreement 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-T3 / ECEPP-13641582 for the execution of works on the Expansion of the water supply system (Rajska area) - construction of water supply facilities and distribution network. The contracted value of the works is BAM 1,016,593 (EUR 519,776), VAT was paid from the Company's own funds.

19. LONG TERM RECEIVABLES FOR CONNECTORS

	31/12/2022	31/12/2021
	BAM	BAM
Receivables from individuals for connections	179,775	218,484
TOTAL	179,775	218,484

The amount of BAM 179,775 refers to receivables for connection fee according to the signed contracts for the construction of connections to the water supply network with individuals. This fee can be paid in installments without interest in a period of up to 72 installments. When the monthly connection fee is due, in future periods, from the deferred revenue account (Note 26), the amount of the fee will be transferred to revenue.

20. INVENTORY

	31/12/2022	31/12/2021
	BAM	BAM
Raw materials and other materials	219,018	270,470
Spare parts, small inventory, safety equipment	8,825	8,403
Services in progress	79	-
Merchandise	18	292
TOTAL	227,940	279,165

21. TRADE RECEIVABLES

	31/12/2022	31/12/2021
	BAM	BAM
Trade receivables – domestic	1,159,954	1,134,242
Trade receivables – related parties	97,417	610,186
Less: impairment for trade receivables	(544,684)	(603,872)
TOTAL	712,687	1,140,556

On 31 December 2022 the most significant amount of receivables was from the City of Gradačac, in the amount of BAM 97,417. The agreement on installment payment of the debt had been collected in total amount as of 31 October 2022. Receivables from City of Gradačac may be presented as follows:

- Receivables for water consumption from legal entities in amount of BAM 293.37 (invoiced 29/12/2022)
- Receivables for water consumption from individuals in amount of BAM 41.00 (invoiced 29/12/2022)
- Receivables for garbage disposal from legal entities in amount of BAM 424.97 (invoiced 29/12/2022)
- Receivables for other services in amount of BAM 94,706.05 (for period 30/09/2022-31/12/2022)

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

21. TRADE RECEIVABLES (CONTINUED)

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

	2022 BAM	2021 BAM
Balance at January 1	603,872	572,669
Increase of impairment (Note 12)	129,230	155,083
Collected written-off trade receivables (Note 6)	(151,463)	(117,737)
Write-off	(36,955)	(6,143)
Balance on December 31	544,684	603,872

22. OTHER RECEIVABLES

	31/12/2022 BAM	31/12/2021 BAM
VAT in received invoices	152,977	350,270
Receivables from state authorities and institutions	9,726	4,290
Receivables for paid in advance income tax	10,008	-
Prepaid costs	7,374	2,968
Receivables for advances	14,573	-
Other	-	30
TOTAL	194,658	357,558

23. CASH AND CASH EQUIVALENTS

	31/12/2022 BAM	31/12/2021 BAM
Transaction bank accounts	426,043	531,380
Cash in hand	182	277
TOTAL	426,225	531,657

24. EQUITY

The Company's share capital presented in the financial statements amounts to BAM 1,396,939 (31.12.2021: 1,372,587 BAM) and comprises of 44,277 shares with nominal value of BAM 31.55 (31.12.2021: 31 BAM). 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:

	31/12/2022		31/12/2021	
	% participation	Value	% participation	Value
Opština Gradačac	67.7011	945,743	67.7011	929,256
Huseljić Mehmed	16.9230	236,404	16.9230	232,283
Iskrić Ekrem	10.8183	151,125	10.8183	148,491
Hašimbegović Selma	1.9807	27,669	1.9807	27,187
Mulahalilović Nadir	1.2557	17,541	1.2557	17,235
Hanić Ahmed	0.4653	6,500	0.4653	6,387
Mujkanović Osman	0.3343	4,670	0.3343	4,589
Mušeta Mensud	0.3184	4,448	0.3184	4,370
Lonić Dženeta	0.1987	2,776	0.1987	2,727
Alibabić - Šabanović Afrodita	0.0045	63	0.0045	62
TOTAL	100.00	1,396,939	100.00	1,372,587

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

24. EQUITY (CONTINUED)

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 31.55 (2021.: 82 BAM). Accordingly, the Company's share capital amounts to BAM 1,396,939 (2021: 3,630,714 BAM).

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.

On 10 June 2022, the Company made a decision on the reduction of the Company's share capital number 01-54-4/22, in order to execute the final Judgment of the Cantonal Court in Tuzla number 03 0 U 012442 14 U dated 18 February 2014, confirmed by the Supreme Court of the Federation of BiH by Judgment 03 0 U 012442 15 Uvp as of 8 October 2015, which partially annulled the Decision of the Cantonal Privatization Agency of Tuzla Canton (number: 19/01-021-5490/2001 of 19 November 2001) in the part in which assets in general use entered the initial balance and total capital. The share capital of the Company is reduced from BAM 3,630,714, for the assets in general use that were written off (and previously shown in the balance sheets) which entered the total capital of the Company in the amount of BAM 2,233,471, so that the share capital of the Company amounts to BAM 1,396,939. The reduction of the share capital was carried out in such a way that the nominal value of the shares was reduced from BAM 82 to BAM 31.55.

By decision in the register of the Securities Commission of the Federation of Bosnia and Herzegovina, the reduction of the share capital in the amount of BAM 2,233,775 (the difference of 304 KM refers to the reduction of the nominal value of shares by rounding to two decimal places) was registered on 28 July 2022, under registration number 03/1-19-175/22.

A request was submitted to the Municipal Court in Tuzla for the registration of the reduction of the share capital in accordance with the Decision and Decision of the Securities Commission of the Federation of Bosnia and Herzegovina, however, by the date of the report, the same change had not been completed.

25. LONG-TERM BORROWINGS

	31/12/2022	31/12/2021
	BAM	BAM
European Bank for Reconstruction and Development	8,742,354	8,584,795
<i>Subtotal</i>	<i>8,742,354</i>	<i>8,584,795</i>
Long term borrowings are repayable as follows:		
On demand or within one year	1,248,908	1,073,099
In the second year	1,248,908	1,073,099
From the third to fifth year inclusive	3,746,724	3,219,298
After fifth year	2,497,816	3,219,299
Less: Current portion of long-term borrowings	(1,248,908)	(1,073,099)
Amount due after 12 months	7,493,448	7,511,696

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,

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

25. LONG-TERM BORROWINGS (CONTINUED)

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 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;

On September 18, 2018, the company signed the Agreement on opening an account for internal payment transactions with Raiffeisen bank d.d., with the aim of opening a reserve account for debt servicing. Balance on bank statement number 6 Raiffeisen bank d.d. on March 30, 2022, it was 458,945 KM. Balance on bank statement number 28 Raiffeisen bank d.d. on October 27, 2022 was 249,363 KM.

- 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, The same was not done due to problems in the functioning of the Securities Commission (mandate expired, the president was suspended), but within the Company, separate recording and monitoring of activities by place of cost was provided internally,

- 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.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

25.1. COMPLIANCE WITH LOAN COVENANTS (NASTAVAK)

- 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 – 98.80% Waste –102.20% Other services – 222.24% Total – 112.97%	Yes
Debt Service Coverage Ratio	At least 1,2:1,0	-0,13:1	No
Current liquidity ratio	At least 1,0:1,0	0.61:1	No
Bad Debt	5% for all due receivables	24.55%	No
Ratio of the water invoiced to the water pumped	At least 0,6:1,0	0.50:1	No

- f) Providing an overview of all financial transactions between the Company and its affiliated legal entities during the 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

	31/12/2022 BAM	31/12/2021 BAM
Deferred income from investment grant SIDA - EBRD	3,204,741	2,966,654
Deferred income from investment grant WBIF – EBRD	2,601,733	1,111,726
Deferred income – City of Gradačac funds for loan repayments	1,530,407	1,130,407
Deferred income from donations and assistance	177,664	212,137
Deferred revenues for co-financing works on the reconstruction of the water supply network (Gradačac City)	220,00	-
Deferred income for connection fees (Note 19)	276,743	218,484
TOTAL	8,011,288	5,639,408

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;

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

26. DEFERRED INCOME (CONTINUED)

- 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 26 November 2020, the Agreement on the transfer of funds between the City of Gradačac and the Company was signed for an additional BAM 400,000 for the loan instalment. On 1 June 2021, the Agreement on the transfer of funds between the City of Gradačac and the Company was signed for an additional BAM 330,407 for the loan instalment. On May 9, 2022, a decision was made to transfer funds in the amount of 400,000 KM from the account of the City of Gradačac to the account of the Company in order to repay the loan installment, based on the agreement on the transfer of funds for co-financing. That is refund of part of the costs incurred during the implementation of the Gradačac water supply project number 02-14-2791/19 dated 11/15/2019. years.

On March 23, 2022, a decision was made to transfer funds in the amount of 220,000 KM from the account of the City of Gradačac to the account of the Company for the co-financing of works on the reconstruction of the existing water supply asbestos-cement pipes, insufficient profile height and dilapidated network in Gradačac.

Movements in deferred revenue can be shown as follows:

	2022 BAM	2021 BAM
Balance at 1 January	5,420,924	3,867,063
New donations during the year	2,602,032	1,577,605
Write-off by annual inventory	-	(12,444)
Depreciation of deferred income (Note 6)	(11,668)	(11,300)
Balance at 31 December	8,011,288	5,420,924

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

27. TRADE PAYABLES

	31/12/2022 BAM	31/12/2021 BAM
Trade payables - domestic	1,094,932	1,383,194
Trade payables - foreign	-	56,922
TOTAL	1,094,932	1,440,116

28. OTHER LIABILITIES

	31/12/2022 BAM	31/12/2021 BAM
Liabilities to employees	85,492	88,540
Accrued income	30,258	62,955
Liabilities to the State based on taxes and contributions	55,284	53,489
VAT liabilities	26,287	37,714
Accrued expenses	18,836	18,168
Liabilities for other taxes, contributions, fees, etc,	3,951	12,119
Liabilities for fees to board members	-	3,043
Income tax liabilities	-	1,515
Liabilities under the service contract	728	765
Liabilities for prepayments	419	469
Other	153	46
TOTAL	221,408	278,823

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	
	2022	2021	2022	2021
City of Gradačac	290,447	290,052	-	-
TOTAL	290,447	290,052	-	-

	Receivables		Liabilities	
	31/12/2022 BAM	31/12/2021 BAM	31/12/2022 BAM	31/12/2021 BAM
City of Gradačac	97,471	610,186	-	-
TOTAL	97,471	610,186	-	-

Management fees and members of the Board

	2022 BAM	2021 BAM
Gross salaries and other benefits of the management	56,769	55,130
Compensation to Board members	35,146	32,092
TOTAL	91,915	87,222

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

30. COMMITMENTS AND CONTINGENCIES

The total amount of non-withdrawn funds from the European Bank for Reconstruction and Development as of 31 December 2022 amounts to BAM 209,269.59 (EUR 106,997.84) and the Company pays commitment charge on non-withdrawn funds,

As of 31 December 2022, there was one current agreement that is financed from borrowings:

- Contract number BA-GWSP-45810-T2 / L1 / ECEPP-6130801-02 for the expansion of the water supply system (Zelinje area) and the construction of water supply facilities and distribution network, which was signed on 5 July 2019 with the contractor "Balegem" d.o.o. Gradačac, The total contracted value of works according to the contract is BAM 2,356,134 (EUR 1,204,672), while the contracted value of works not yet performed is BAM 73,818 (EUR 37,743),

For the financing of the project "Water Supply Gradačac", a Grant Agreement was concluded on 26 October 2020, which refers to the Investment Grant from the European Joint Fund Program for the Western Balkans - WBIF, in the amount of BAM 3,896,991 (EUR 1,992,500),

As of 31 December 2022, there are two current agreements that are financed from grant:

- Contract number BA-GWSP-45810-T4 / L1 / ECEPP-10356572 for the reconstruction of the existing water supply and network facilities in Gradačac (central urban zone), which was signed on 5 November 2020 with the contractor "Buk promet" d.o.o. Bijeljina. The total contracted value of works according to the contract is BAM 2,803,955 (EUR 1,433,640), while the contracted value of unperformed works is BAM 949,904 (EUR 485,678).
- Contract number BA-GWSP-45810-T4 / L2 / ECEPP-10356572 for the reconstruction of the existing water supply and network facilities in Gradačac (eastern part of the city) signed on 5 November 2020 with the contractor "Balegem" d.o.o. Gradačac. The total contracted value of works according to the contract is BAM 2,029,149 (EUR 1,037,487), while the contracted value of unperformed works is BAM 107,053 (EUR 54,735).

The difference between the funds approved by the grant and the value of the contracted works will be financed by the City of Gradačac.

On 31 December 2022, according to the information of the Management Board, two lawsuits with an estimated value of BAM 5,515 were filed against the Company,

Furthermore, as at 31 December 2022, 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 2021. 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.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL INSTRUMENTS (CONTINUED)

31.1 Capital Risk Management (continued)

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

	31/12/2022 BAM	31/12/2021 BAM
Borrowings	8,742,356	8,584,795
Cash and cash equivalents	(426,225)	(531,657)
Net debt	8,316,131	8,053,138
Equity	3,733,436	3,549,837
Net debt to equity ratio	2.23	2.27

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

31.2 Categories of financial instruments

	31/12/2022 BAM	31/12/2021 BAM
Financial assets at amortized cost:		
Cash and cash equivalents	426,225	531,657
Trade receivables and other receivables	1,087,120	1,662,038
Total	1,513,345	2,193,695
Financial liabilities at amortized cost:		
Liabilities for loans	8,742,356	8,584,795
Trade payables and other liabilities	1,316,340	1,637,347
Total	10,058,696	10,222,142

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.

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL INSTRUMENTS (CONTINUED)

31.6 Interest rate risk management (continued)

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 (0,5%), and all other variables remained unchanged profit for the year ended 31 December 2022 would decrease / increase by BAM 437 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.

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	1 to 6 months BAM	6 to 12 months BAM	Over 1 year BAM	Total BAM
31 December 2022						
No interest	-	1,237,797	20,230	24,276	218,484	1,513,345
TOTAL		1,237,797	53,652	42,121	179,775	1,513,345
31 December 2021						
No interest	-	1,930,705	20,230	24,276	218,484	2,193,695
TOTAL		1,930,705	20,230	24,276	218,484	2,193,695

JP KOMUNALAC D.D. GRADAČAC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

31. FINANCIAL INSTRUMENTS (CONTINUED)

31.8 Liquidity risk management (continued)

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	1 to 6 months BAM	6 to 12 months BAM	Over 1 year BAM	Total BAM
31 December 2022						
Variable interest rate	1%	-	668,046	665,155	7,737,207	9,070,408
No interest	-	1,316,340	-	-	-	1,316,340
TOTAL		1,316,340	668,046	665,155	7,737,207	10,386,748
31 December 2021						
Variable interest rate	1%	-	562,422	576,901	7,793,568	8,932,891
No interest	-	1,637,347	-	-	-	1,637,347
TOTAL		1,637,347	562,422	576,901	7,793,568	10,570,238

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

As of the date of our audit, according to the Management Board, there were no events or transactions that would significantly affect the Company's financial statements as of 31 December 2022.

33. APPROVAL OF FINANCIAL STATEMENTS

Signed on behalf of the Company's Management as at 22 June 2023:

Mr, sc, Damir Okanović, Director

