
Contents

Unaudited Annual Report	1
Statement of income and expenditure	7
Statement of assets and liabilities	14
Notes to the financial statements	15
A. General information	15
B. Statement of income and expenditure	15
C. Statement of assets and liabilities	15
D. Bank loans and overdraft facilities	15
E. Contingent liabilities	15
F. Related parties	15
G. Financial instruments	15
H. Financial risk management	15

Network of Associations of Local Authorities of South East Europe (NALAS)

Financial Statements for the year ended
31 December 2008

Contents

Independent Auditors' Report	1
Statement of sources and uses of funds	2
Statement of expenditures details	3-4
Notes to the Project accounts	
1. General information	5
2. Objectives and nature of the Project	5
3. Basis for preparation of the Project accounts	6
4. Nalas cash account (including cash in hand)	7
5. Advances given	7
6. Currency exchange loss	7
7. VAT Recoverable	7
8. Funds received on behalf of members	7

GENERAL INFORMATION

Management

Kelmend Zajazi
Executive Director

Registered office

Zenevska bb,
1000 Skopje

Bankers

Prokredit Bank AD Skopje,
Jane Sandanski no.109a
1000 Skopje

Auditors

Ernst & Young Certified Auditors Ltd.
Marshall Tito 19
1000 Skopje

INDEPENDENT AUDITORS' REPORT

To the Management of the Network of Associations of Local Authorities of South East Europe

We have audited the accompanying Statement of Sources and Uses of Funds and Statement of Expenditure Details (hereinafter: "the Statement") for the year ended 31 December 2008 of the Network of Associations of Local Authorities of South East Europe Projects: Local Democracy and Regional Integration in South East Europe & Open Regional Fund "Municipal Services" ("NALAS").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Statements of Sources and Uses of Funds and the Statement of Expenditure Details in accordance with cash receipts and disbursements basis. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the Statement of Sources and Uses of Funds and the Statement of Expenditure Detail, present fairly the cash receipts and payments of NALAS for the year ended 31 December 2008 in accordance with the cash receipts and disbursements basis.

Ernst & Young

Ernst & Young Certified Auditors Ltd
11 May 2009, Skopje




Network of Associations of Local Authorities of South East Europe (NALAS)

STATEMENT OF SOURCES AND USES OF FUNDS

For the year 31 December 2008

(Expressed in EUR)

	Note	SDC project	GTZ project	Membership fees	Total
SOURCES OF FUNDS					
Balance on beginning of year		25.231	7.816	-	33.047
Membership fee		-	-	6.428	6.428
Grants from SDC		167.960	-	-	167.960
Grants from GTZ		-	148.497	-	148.497
Grants from GTZ/KNC		-	16.004	-	16.004
TOTAL SOURCES OF FUNDS		193.191	172.317	6.428	371.936
STRUCTURAL EXPENSES					
Salaries		61.557	21.705	-	83.262
Office expenditures		23.356	12.144	-	35.500
Statutory meetings		19.558	28.874	-	48.432
External relations		6.808	5.435	-	12.243
Total structural expenses		111.279	68.158	-	179.437
TASK FORCES AND KNOWLEDGE CENTER					
Task Force on fiscal decentralization		21.934	25.100	-	47.034
Task Force on urban planning		4.254	8.899	-	13.153
Task Force on association development		20.721	43.581	-	64.302
Task Force on Solid Waste Management		1.422	3.838	-	5.260
Task Force on Energy Efficiency		27.493	604	-	28.097
Knowledge Center		-	18.899	-	18.899
Total task forces and knowledge center		75.824	100.921	-	176.745
TOTAL EXPENDITURES		187.103	169.079	-	356.182
Surplus of funds over expenditures					15.754
Advances given	5				12.983
Currency exchange loss	6				666
Cash available from the surplus of funds over expenditures					2.105
Cash available from the surplus of funds over expenditures is represented by:					
Bank account					783
Petty cash account					1.322
Total cash available					2.105

Authorized on behalf of

 Executive Director



Date: 8. MAY 2009

Network of Associations of Local Authorities of South East Europe (NALAS)

STATEMENT OF EXPENDITURE DETAILS

For the year ended 31 December 2008

(Expressed in EUR)

PROJECT EXPENDITURES	SDC project	GTZ project	Total
STRUCTURALE EXPENSES			
1. Personnel			
Executive Director	24.108	-	24.108
IT/knowledge center manager	20.477	-	20.477
Program officer	-	21.454	21.454
Program officer	-	251	251
Administration officer	8.488	-	8.488
Financial officer	8.484	-	8.484
Total personnel expenses	61.557	21.705	83.262
2. Office expenditures			
Start up expenses	429	3.739	4.168
Operational expenses	22.927	8.405	31.332
Total office expenditures	23.356	12.144	35.500
3. Statutory meetings			
General Assembly	16.987	22.279	39.266
CLO Meetings	1.910	3.745	5.655
Executive Bureau meetings	661	2.850	3.511
Total expenses for statutory meetings	19.558	28.874	48.432
4. External relations			
External relations	6.808	5.435	12.243
Total external relations	6.808	5.435	12.243
Total Structural expenses	111.279	68.158	179.437

STATEMENT OF EXPENDITURE DETAILS (Continued)

For the period from 1 January 2008 to 31 December 2008

(Expressed in EUR)

PROJECT EXPENDITURES	SDC project	GTZ project	Total
TASK FORCES AND KNOWLEDGE CENTER			
1. Task force on fiscal decentralization			
Ordinary meetings	16.946	8.143	25.089
Final Conference	1.741	15.683	17.424
Experts and consultants	2.000	1.274	3.274
Outputs	1.247	-	1.247
Total task force on fiscal decentralization	21.934	25.100	47.034
2. Task force on urban planning			
Ordinary meetings	4.254	8.899	13.153
Final Conference	-	-	-
Experts and consultants	-	-	-
Outputs	-	-	-
Total task fore on urban planning	4.254	8.899	13.153
3. Task force on association development			
Ordinary meetings	16.997	9.388	26.385
Quick response	1.486	21.112	22.598
Shadowing/internship	1.294	2.726	4.020
Meetings of MA's staff	944	10.355	11.299
Other initiatives	-	-	-
Total force on association development	20.721	43.581	64.302
4. Task force Solid Waste Management			
Ordinary meetings	1.422	3.838	5.260
Final Conference	-	-	-
Experts and consultants	-	-	-
Outputs	-	-	-
Total force Solid Waste Management	1.422	3.838	5.260
5. Task force on Energy Efficiency			
Ordinary meetings	27.493	604	28.097
Final Conference	-	-	-
Experts and consultants	-	-	-
Outputs	-	-	-
Total force on Energy Efficiency	27.493	604	28.097
6. Knowledge center			
KNC Establishment	-	8.230	8.230
Expert and content resource	-	8.192	8.192
Running KNC	-	2.477	2.477
Total knowledge center	-	18.899	18.899
Total Task Force and Knowledge center	75.824	100.921	176.745
TOTAL EXPENDITURES	187.103	169.079	356.182

1. General information

NALAS is a network of associations of local authorities of South East Europe created following the first Forum of Cities and Regions of South East Europe organized by the Congress of Local and Regional Authorities of the Council of Europe. NALAS promotes the process of decentralization in co-operation with central governments and international organizations, considering local self-government as a key issue in the current process of transition affecting the various countries in South East Europe.

NALAS has been established on 2001 as an informal network and on 2005 formally registered based on the Alsacian Law in Strasbourg, France. The NALAS Secretariat, which makes the executive capacity of NALAS, was registered as a branch office of NALAS under the Macedonian Law on 16 October 2007.

In the period from July 2006 till its registration, NALAS operations have been managed through bank account in Societe General in Strasburg and with the support by Swiss Embassy under coordination of the President and Executive Director of NALAS.

As of 10 October, NALAS was officially registered as branch office of foreign NGO and operate only through a non-resident account.

2. Objectives and nature of the Project

2.1. Project Objectives

The overall goal of the Project is to support the democratization and decentralization process in South East Europe in accordance with the principles of the European Charter of Local Self- Government.

NALAS shall further the process of democratization and decentralization in South-East Europe and will develop partnerships between associations of local authorities in South-East Europe in order to promote stability and security, thereby assisting the process of European integration and European Union enlargement for the benefit of the countries in the region.

NALAS will develop initiatives on behalf of its members with a view to strengthening associations of local authorities in South-East Europe, becoming a representative of local authority needs that has the ear of central governments and being able to supply effective services to local authorities in South-East Europe.

NALAS activities are guided by the NALAS Strategic Plan for the period 2006 -2008. The overall objective is to stimulate the exchange of information and experiences among NALAS members, and to disseminate and promote the results of the NALAS activities.

The Project has a set of specific objectives related to the following two mid term objectives:

- To Become a first rate Knowledge Center / one of the most reliable sources of information and expertise on local self-government issues in South-East Europe, and
- To build advocacy groups, or Task Forces.

2. Objectives and nature of the Project (continued)

2.1. Project Objectives (continued)

The main indicators for success of the Knowledge Center:

- Increase in number and diversity of the "regional focal points";
- Increase in hits on NALAS Web Site;
- Increase in the dissemination of "packages for new Councilors";
- Development of concrete collaboration between the Associations;
- Linkages established with different partners, evidence of how many times NALAS is contacted and/or consulted by various international and regional stakeholders.

The main indicators for success of the NALAS Task Forces include:

- A change in Associations' and local authorities' policies in the fields covered by the task forces;
- These task forces are increasingly being consulted, or referred to, by the main donors (incl. EU);
- Changing in some elements of donors' policy clearly related to the work of the task forces;
- The number of quotations of their work in all publications specialized on governance in SEE;
- The number of references to their work by the relevant NGOs in the field;
- The number of project proposals developed by task forces.

3. Basis for preparation of the Project accounts

3.1. General

The accompanying Project Statement has been prepared for the purposes of reporting to the Swiss Agency for Development and Cooperation ("the Donor") on the activities of the Project related to funding received for the completion of the Project's objectives in accordance with the Agreement on support of the Local Democracy and Regional Integration in South East Europe.

This Statement includes all project-related expenditures incurred for the duration of the Project in the period from 1 January 2008 to 31 December 2008.

3.2. Accounting Convention

The policy of the Association is to prepare the statement on a cash receipts and disbursements basis. On this basis revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred. The accounting policies have been applied consistently throughout the reporting period.

3.3. Reporting Currency

The Project statement is prepared in EUR as this is the reporting currency of the Project.

The cash transactions executed during the year denominated in Macedonian Denars are translated into Euros using the average exchange rate for the year 2008 published by the National Bank of the Republic of Macedonia which was 1 EUR = MKD 61,2830. The year end cash balance is translated at the official period end exchange rate published by the National Bank of the Republic of Macedonia, which at 31 December 2008 was 1 EUR = MKD 61,4123.

4. NALAS cash account (including cash in hand and cash in bank)

	<u>In EUR</u>
Opening balance as at 1 January 2008	33.047
Plus:	
Inflow from Donors and membership fees	338.889
Less:	
Expenditure Payments from the funds received form the Donors	356.182
Advances given	12.983
Currency exchange loss	666
Balance as at 31 December 2008	<u><u>2.105</u></u>

5. Advances given

As of 31 December 2008, NALAS has disbursed funds as advances to its members in total amount of EUR 12.983 for realization of their projects. During 2009, the advances were subsequently reimbursed.

6. Currency exchange loss

The amount of EUR 666 represents foreign exchange losses resulting from the use of the average exchange rate for the year 2008 published by the National Bank of the Republic of Macedonia (the reporting rate) and the actual exchange rates at the transaction date used at the date of the bank transfers.

7. VAT Recoverable

Included in the expenditures for 2008 is the total amount of EUR 3.566 (EUR 1.693 paid from GTZ funds and EUR 1.873 paid from SDC funds) related to value added tax paid which can be reclaimed from local tax authorities. NALAS initiated a procedure of reclaiming the VAT paid.

8. Funds received on behalf of members

NALAS received the amount of EUR 2.500 from Standing Conference of Towns and Municipalities (SCTM) from Serbia and distributed the same amount to the Association of Kosovo Municipalities (AKM). Such cash receipts and transfers are not reflected in the Statement of sources and uses of funds since the cash is received with the purpose to be distributed to AKM and these funds are not available for NALAS use.