

**Accounts and report on budgetary and financial management  
2004**

**(In accordance with article 82 of the Financial Rules applicable  
to the European Agency for Reconstruction of 4/6/2004)**

**European Agency for Reconstruction**

**SEPTEMBER 2005**

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# **1. INTRODUCTION**

## **1.1 EAR Financial Rules**

According to Article 185.1 of the General Financial Regulation adopted on 25/06/2002 (Council Regulation 1605/2002), and to point 4 of the explanatory memorandum of the Framework financial regulation for Community bodies adopted the 19/11/2002 (Council Regulation 2343/2002), the Governing Board of the European Agency for Reconstruction (EAR) approved on 04/06/2004 the Financial Rules for the EAR. By Decision C(2004)881 of 12/03/2004, the Commission accepted the points on which the Agency slightly departed from Regulation 2343/2002; these differences, reflected in articles 8, 10 and 61, involve an exception concerning the time limits for concluding contracts. All other provisions are the same as those in the two Council Regulations mentioned above.

## **1.2 Reporting entity**

### **1.2.1 Key dates**

The creation of the Agency was decided following the meeting of the European Council of Köln on 3 June 1999, which confirmed the European Union's intention to play a leading role in the reconstruction efforts in Kosovo. The Agency was set up in February 2000 as an independent agency of the European Union, accountable to the European Council and the European Parliament and overseen by a Governing Board composed of the European Commission and representatives from the 15 EU Member States. The mandate of the Agency was extended in December 2000 to the Federal Republic of Yugoslavia (Serbia and Montenegro). On 10 December 2001 the Council decided that the mandate of the Agency should be extended to the former Yugoslav Republic of Macedonia (FYROM).

By Council Regulation (EC) 2068/2004 of 29/12/2004, the mandate of the EAR has been extended until 31/12/2006.

### **1.2.2 Main activities**

Agency-managed programmes follow the orientations of the Country Strategy Papers and Multi-annual Indicative Programme for Serbia & Montenegro and FYROM and principally concentrate on three main areas of intervention. These are: (i) to carry out physical and economic reconstruction (rehabilitation and repair of infrastructure and public utilities, such as energy, housing, water, transport); (ii) to lay the foundation for the development of a market-oriented economy (support to enterprise development, agriculture); and (iii) to support the establishment of democracy, institution building and the rule of law (strengthening of local administration, NGOs, the media and the judiciary).

### **1.2.3 Programming priorities**

The European Agency for Reconstruction is engaged in implementing Community Assistance for Reconstruction, Development and Stabilisation programmes for rebuilding infrastructure, regenerating economic activity, and bolstering the media and civil society. In 2004 physical reconstruction needs were still great, and are therefore still being met by EU-funded projects managed by the Agency. However, the Agency has successfully made the shift away from tangible emergency rehabilitation works towards longer-term sustainable development, in promoting a market economy and supporting social development. The crux of its work, to which it dedicates increasing amounts of attention, is in the less physical and visible realm of support to good governance. At national and local levels, the citizens of the region need efficient, just and transparent administration, conducted within an established set of rules. This shifting trend, already evident in 2001 programmes, was markedly clearer in the 2002&2003 programmes and further accentuated in 2004. The Thessaloniki agenda endorsed by the June 2003 European Council reinforced the Stabilisation and Association Process for the Western Balkan region. Since the adoption by the Council of the European Partnerships in June 2004, CARDS assistance is also geared to support the administrations in the implementing of the partnership recommendations.

# PART I: FINANCIAL STATEMENTS

## 1. ECONOMIC OUTTURN REPORT

	Note	2004	2003
EC subsidy		231,908,890.13	274,220,959.10
Recovery of expenses (re-use Title 3)		1,229,229.08	1,317,719.55
Revenues from administrative operations (re-use T1&2)		180,704.43	198,793.46
Other operating revenue		6,113,568.64	28,413,263.69
<b>TOTAL OPERATING REVENUE</b>	<b>1</b>	<b>239,432,392.28</b>	<b>304,150,735.80</b>
Administrative expenses	2.1		
Staff expenses		17,575,486.36	17,332,740.08
Other administrative expenses		6,289,835.34	6,475,343.46
		<b>23,865,321.70</b>	<b>23,808,083.54</b>
Operational expenses	2.2		
Centralized direct management		268,964,809.13	297,167,617.52
Other operational expenses			
		<b>268,964,809.13</b>	<b>297,167,617.52</b>
<b>TOTAL ADMINISTRATIVE AND OPERATIONAL EXPENSES</b>		<b>292,830,130.83</b>	<b>320,975,701.06</b>
<b><i>SURPLUS/(DEFICIT) FROM OPERATING ACTIVITIES</i></b>		<b>-53,397,738.55</b>	<b>-16,824,965.26</b>
Financial operations revenue			
Financial operations expenses			
<b><i>SURPLUS/ (DEFICIT) FROM NON OPERATING ACTIVITIES</i></b>			
<b><i>SURPLUS/(DEFICIT) FROM ORDINARY ACTIVITIES</i></b>			
Minority interest			
Extraordinary gains	3.1	738,263.14	
Extraordinary losses	3.2	-1,269,584.03	
<b>SURPLUS/DEFICIT FROM EXTRAORDINARY ITEMS</b>		<b>-531,320.89</b>	<b>-4,118,494.40</b>
<b>ECONOMIC RESULT OF THE YEAR</b>	<b>(*)</b>	<b>-53,929,059.44</b>	<b>-20,943,459.66</b>

(\*) Under the cash accounting approach, this figure does not reflect a real loss but a reduction on the EAR treasury accounts; cashed funds were in fact less than the total paid amounts. This deficit was covered through the use of part of the accumulated reserves (see "Cash and cash equivalents" from 2003 on the balance sheet, page 6).

## 2. BALANCE SHEET

### ASSETS

	Note	2004	2003
<b>A. NON CURRENT ASSETS</b>			
<b>Intangible fixed assets</b>			
<b>Tangible fixed assets</b>			
Land and buildings			
Plant and Equipment			
Computer Equipment		952,925.21	867,736.88
Furniture and Vehicles		699,045.00	902,767.41
Other fixtures and Fittings			
Leasing			
Tangible fixed assets under construction			
<b>TOTAL</b>	<b>4.1</b>	<b>1,651,970.21</b>	<b>1,770,504.29</b>
<b>Investments</b>			
Guarantee Fund			
Investments in associates			
Interest in joint ventures			
Other investments			
<b>Loans</b>			
Loans granted from the budget			
Loans granted from borrowed funds			
<b>Long-term pre-financing</b>			
<b>Long-term receivables (CF&amp;CLS&amp;SF)</b>	<b>4.2</b>	<b>61,618,633.26</b>	
<b>TOTAL NON CURRENT ASSETS</b>		<b>63,270,603.47</b>	<b>1,770,504.29</b>
<b>B. CURRENT ASSETS</b>			
<b>Stock</b>			
<b>Short-term pre-financing</b>			
<b>Short-term receivables</b>			
Current receivables	<b>5.1</b>	1,761,096.74	135,257.08
Long term receivables falling due within a year			
Sundry receivables			
Others			
<b>Cash Investments</b>			
<b>Cash and cash equivalents</b>	<b>5.2</b>	158,254,607.03	210,708,003.28
<b>TOTAL CURRENT ASSETS</b>		<b>160,015,703.77</b>	<b>210,843,260.36</b>
<b>TOTAL</b>		<b>223,286,307.24</b>	<b>212,613,764.65</b>

## LIABILITIES

	Note	2004	2003
<b>A. CAPITAL</b>			
Reserves (Own capital)	6.2	63,270,603.47	1,770,504.29
Accumulated surplus/deficit		204,261,234.87	
Economic result of the year		-53,929,059.44	
	6.1	150,332,175.43	204,261,234.87
<b>TOTAL CAPITAL</b>		<b>213,602,778.90</b>	<b>206,031,739.16</b>
<b>B. MINORITY INTEREST</b>			
<b>C. NON CURRENT LIABILITIES</b>			
Employee benefits			
Provisions for risks and liabilities			
Financial liabilities			
Financial guarantees			
Borrowings			
Held-for-trading liabilities			
Other long-term liabilities			
<b>TOTAL NON CURRENT LIABILITIES</b>			
<b>D. CURRENT LIABILITIES</b>	7		
Employee benefits		27,515.48	
Provisions for risks and liabilities			
Financial liabilities			
Borrowings falling due within the year			
Held-for-trading liabilities due within the year			
Accounts payable			
Current payables		9,618,955.75	6,067,025.49
Long-term liabilities falling due within the year			
Sundry payables			
Others		37,057.11	515,000.00
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,683,528.34</b>	<b>6,582,025.49</b>
<b>TOTAL</b>		<b>223,286,307.24</b>	<b>212,613,764.65</b>

### 3. CASH FLOW STATEMENT

	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
<b>Surplus/(deficit) from operating activities</b>	<b>-53,929,059.44</b>
Adjustments	
Depreciation	799,423.34
Increase/(decrease)* in Provisions for risks and liabilities	
Increase/(decrease) in Employee benefits	27,515.48
(Increase)/decrease in Long-term receivables	-61,618,633.26
(Increase)/decrease in Receivables	-1,625,839.66
Increase/(decrease) in Accounts payable	3,073,987.37
<b>Net cash Flow from operating activities</b>	<b>-113,272,606.17</b>
<b>CASH FLOWS FROM LOANS AND BORROWINGS</b>	
(Increase)/decrease in financial assets (funds owned)	
(Increase)/decrease in financial assets (funds borrowed)	
Increase/(decrease) in financial liabilities (funds borrowed)	
<b>Net cash flow from loans and borrowings</b>	<b>0</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of tangible and intangible fixed assets	-796,698.44
Proceeds from tangible and intangible fixed assets	115,809.19
<b>Net cash flow from investing activities</b>	<b>-680,889.25</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Increase/(decrease) in financial liabilities	61,500,099.17
<b>Net Cash Flow from financing activities</b>	<b>61,500,099.17</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-52,453,396.25</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>210,708,003.28</b>
<b>Cash and cash equivalents at end of period</b>	<b>158,254,607.03</b>

\* If the amount is in brackets, it has to be subtracted.



## **4. NOTES TO THE GENERAL ACCOUNTS**

### **1. OPERATING REVENUE**

- EC Subsidy (€231.9 million): Funds for implementing EC programmes entrusted to the Agency and for its administrative expenditure based on cashed Recovery Orders from the EC.
- Recovery of Expenses (€1.2 million): For Operational Expenditure (Title 3), Recovery Orders issued to beneficiaries to recover non used funds. If the contracting period is still open, the funds are re-injected in the original expenditure budget line; if not, the funds are reimbursed to the Commission.
- Revenues from Administrative Operations (€0.2 million): For Administrative Expenditure (Titles 1&2), mainly Recovery Orders issued to recover private expenditure from the staff (e.g. telephone, car hiring).
- Other Donors Funds (€5.8 million) based on Recovery Orders issued to Other Donors. Unpaid Recovery Orders at 31st December 2004 are included in Revenue and in Receivables in the Balance Sheet.
- Counterpart Funds (€0.3 million): Repayment of loans by the ultimate beneficiaries of the Counterpart fund schemes handled by the Agency (see Annex 2 to the General Accounts).

### **2. EXPENDITURE**

#### **2.1 Administrative Expenditure**

- Payments made under appropriations of the year 2004
- Automatic carry-over of non-paid 2004 commitments to be paid in 2005.

#### *Relationship to operating expenditure*

Within the general EC Budget, comments concerning the budget lines covering programmes entrusted to the Agency lay down that the appropriations are also intended to cover the Agency's administrative expenditure, the amount of the latter being not more than 8% of the overall multi-annual budget for Agency managed programmes. The administrative expenditure of the Agency is composed of staff salaries, equipment costs, office rentals, bank charges etc. The administrative expenditure for 2004 amounts to €23.9 million and cumulative administrative expenditure represents 4.5% of the total portfolio received by the Agency since its creation.

## **2.2 Operational Expenditure**

- Payments made under appropriations of the year 2004
- Payments made under appropriations of previous years (either committed in 2004 or in previous years).

## **3. EXTRAORDINARY GAINS/LOSSES**

### **3.1 Extraordinary Gains**

- Recovery Orders issued in 2003, not received until 2004 and not included in the 2003 Revenue (€538,552)
- Cancellation of unused credits from the carry-over provision of Titles 1&2 (Administrative expenditure) at the end of 2003 (€197,465)
- Exchange rate gains on foreign currency transactions (€2,246).

### **3.2 Extraordinary Losses**

- Negative Recovery Orders issued to EC in 2003, not paid at 31/12/2003 and not included in 2003 Accounts (€1,263,611)
- Un-reconciled balance arising from the restatement of the 2003 Accounts to the changed accounting policy relating to carry-overs of differentiated appropriations (€4,936) and sundry small adjustments (€512)
- Exchange rate loss arising from the restatement of foreign currency bank and cash accounts at the year-end 31/12/04 official exchange rate (€525).

## **4. NON-CURRENT ASSETS**

### **4.1 Fixed assets**

Asset purchases (value above €420) are valued at their cost in national currencies, converted into Euro at the accounting exchange rate applicable on the date of purchase.

The full cost is charged to the relevant expenditure account during the year of purchase. Depreciation is calculated for the fixed assets following EC rules (except that the Agency calculates the depreciation on a monthly basis instead of on an annual one).

The total net value (gross value minus depreciations) of the fixed assets is entered on the assets side of the balance sheet, for the entire time they are in use.

Annex 1 to the General Accounts gives full details of 2004 additions, disposals and depreciations.

### **4.2 Long term receivables**

Counterpart Funds (€ 0.4 million handled by the EAR and €15.5 million not handled by the Agency), Credit Line Schemes (€45.3 million) and Special Funds (€0.4 million). (See more details in chapter 5.2)

For both chapters a counterpart for an equivalent amount is entered in the liabilities side of the balance sheet under the heading "Own capital" (see point 6.2).

## 5. CURRENT ASSETS

### 5.1 Short term receivables

- Recovery orders issued and not received at 31/12/04

Other Donors	566,447
Bank Interest	653,814
Owed by suppliers	376,050
	<b>€1,596,311</b>

- Staff advances & Missions (€61,199): The total cost of the mission is charged to expenditure in the 2004 carry-overs for Title 1, and the balance of the expense claims are to be paid to staff in 2005
- Deposits for rent of accommodation (€54,243)
- VAT receivable (€17,723)
- Pre-payments (€31,621): Payments made in 2004 relating to 2005 expenditure (e.g. rents).

### 5.2 Bank-Cash

The following bank accounts are maintained:

- Main Accounts: Fortis Bank Brussels (€): 5 accounts (one for each centre and one for Thessaloniki) used mainly for Title 3 operating expenditure. These accounts will be merged into one account in 2005 as all international payments are now administered from Thessaloniki
- Local Bank Accounts: 5 accounts in € (one for each centre and Thessaloniki) for local payments
- 2 accounts in Foreign Currency (Skopje and Belgrade). The bank balance at 31/12/04 is converted into euro at the year-end exchange rate
- Other Donors Accounts (€): Separate accounts for UNMIK Kosovo, Dutch Funds and Danish Funds
- Counterpart Funds Accounts (€): Separate accounts for Pristina and Podgorica

There are also separate Cash accounts (5 in Euro and 2 in foreign currency) which are replenished in accordance with Agency rules.

## 6. CAPITAL

### 6.1 Accumulated surplus

The Accounts for the year ending 31st December 2003 showed a cumulative loss of €140.9 million. In 2004 an adjustment was made to reflect a correction to the accounting policy on the treatment of differentiated appropriations for Title 3 (Operational expenditure). From 2000 to 2003, the Revenue and Expenditure account was inappropriately presented considering Carry over for Title 3 as expenditure and only taking into account for that Title payments done

on commitments of the year. An adjusted cumulative R&E account was prepared; the adjustment amounted to €345.2 million and resulted in an accumulated surplus of €204.3 million as at 31st December 2003.

## **6.2 Own capital**

Represents the capitalised value of expenditure on assets originally charged to administrative and operating expenditure in the Accounts, and corresponds to the equivalent amount in Assets:

- Fixed Assets, €1,651,970
- Counterpart funds directly handled by the EAR, €461,593
- Counterpart funds not directly managed by the EAR, €15,452,165.00
- Credit line schemes, €45,298,032.81
- Special funds, €406,842.33

## **7. CURRENT LIABILITIES**

Represent amounts owed at 31st December 2004 in the following categories.

- Employees (€27,515): Technical mistake in NAP (Commission salary system) to be regularised in 2005, plus amounts not paid to staff due to incomplete personal file
- Suppliers, Taxes and Insurances (€88,794): Taxes and social security from 2004 to be paid in 2005, and bank charges relating to 2004 but only debited in the bank at the beginning of 2005
- Bank interest to be returned to the EC and Other Donors (€6,938,268)
- Current payables for 2004 include Titles 1&2 carry-over to be paid in 2005 (€1,389,953)
- Funds advanced by the EC but not yet paid out in respect of contracts managed by the Agency on behalf of the EC (€37,057)
- Funds recovered from beneficiaries and to be reimbursed to the EC as not being re-injected in the programmes due to their expiration (€1,201,940).

## 5. ANNEXES TO THE GENERAL ACCOUNTS

### 5.1 Fixed assets movements 2004

Description	Gross Value			Depreciation			Net Value		
	31/12/2003	2004		31/12/2003	Addition and adjustment	Disposals	31/12/2004	31/12/2003	31/12/2004
		Addition and adjustment	Disposals						
<i>Office furniture and equipment</i>	628,535.05	33,633.03	0.00	242,164.14	86,066.75	0.00	328,230.89	386,370.91	333,937.19
<i>Accommodation, garden, kitchen and cafeteria furniture and equipment</i>	56,729.54	18,122.63	0.00	25,137.11	11,839.42	0.00	36,976.53	31,592.43	37,875.64
<i>Telecommunication, audiovisual and informatics equipment</i>	2,228,131.60	718,565.67	115,809.19	1,360,394.72	628,447.97	110,879.82	1,877,962.87	867,736.88	952,925.21
<i>Industrial material and transportation equipment</i>	963,567.44	26,377.11	0.00	478,763.36	183,949.02	0.00	662,712.38	484,804.08	327,232.17
	3,876,963.63	796,698.44	115,809.19	2,106,459.33	910,303.16	110,879.82	2,905,882.67	1,770,504.30	1,651,970.21

## 5.2 Counterpart funds and credit line schemes

### Background

In the early years of its operation and in view of responding as quickly and efficiently as possible to urgent needs of the local war-devastated economies, especially at the micro-finance level, the Agency put in place a number of counterpart funds and credit line schemes, most of them to be handled by the beneficiary state's authorities and only a small number to be handled by the Agency through competent intermediaries (international NGOs, development banks, etc.). In this latter case, the Agency was indicated in the relevant contracts as maintaining the ownership of the funds until such time as appropriate national authorities would be in place to take over and ensure correct implementation of the funds and management of the corresponding loan portfolios. The corresponding bank accounts have therefore been managed directly by the Agency and included in the total Bank balances in the Balance Sheet at the end of each year. At 31/12/2004, there were only two remaining counterpart fund schemes handled by the Agency in this way.

### Accounting Policy

#### *Counterpart funds handled by the Agency*

Until end 2004, all payments to intermediaries setting up the respective schemes have been charged to expenditure under Title 3 of the Budget, and all repayments of loan principle by the ultimate beneficiaries have been credited to Revenue. The "net" expenditure is therefore reflected in the accumulated surplus in the Balance Sheet. Following a recommendation of the Court of Auditors, the outstanding balances owed by beneficiaries on their loans at 31/12/2004 (after excluding balances with a high risk of non recovery) have been included as an Asset in the Balance Sheet in the category of "Long term receivables" (€461,593). The associated liability entry in the Balance Sheet is a credit to "Own capital".

Centre	Outstanding loan balance	Risk of non recovery	Loans recoverable	Bank balance
Podgorica	891,455	429,862	461,593	872,174
Pristina	1,242,465	1,242,465	0	119,175
<b>Total</b>	<b>2,133,920</b>	<b>1,672,327</b>	<b>461,593</b>	<b>991,349</b>

### *Counterpart funds not handled by the Agency*

In 2004 there were two remaining programmes in this category, both in Serbia. They do not belong to the Agency; however, it participates in the managing boards and has signature rights on the relevant bank accounts.

One of the programmes was launched by the Commission in 2000 and handed over to the EAR in 2002 but no payment has been made by the Agency. By the end of 2004 closure of this fund was completed; consequently, it has not been considered in the EAR accounts.

The other programme (Serbian Government) was financed by the Agency (€15.5 million). In line with the Court of Auditors proposal this amount has now been credited to the accumulated surplus account deducting a small provision for possible bad debt. The remaining funds are shown in the customer accounts under long term receivables. The related bank balances totalled €7.6 million at the end of 2004.

### *Credit line schemes*

The involvement of the Agency and the accounting policy is the same as above. There are 9 existing schemes with loan balances outstanding in Kosovo (6), Serbia (2) and Montenegro (1). At 31/12/2004, the relevant bank balances totalled €18.6 million.

Outstanding credit line schemes have also been reintroduced into the balance sheet.

The original value of each expenditure has been credited to the accumulated surplus account with the corresponding debits shown in customer accounts, deducting the possible bad debts.

### *Special Funds*

In the case of funds advanced to suppliers the portion of expenditure unutilised as at 31/12/2004 (€0.4 million) has been credited to accumulated surplus, the corresponding debit appearing in the customer account.

## **5.3 Bank guarantees**

The Agency receives bank guarantees in the framework of implementing of the operational programmes. The EAR keeps an exhaustive record of these bank guarantees. The table below indicates the breakdown between centres and amounts for the balance of the bank guarantees at the end of 2004.

CENTRE	AMOUNT in €
KOSOVO	35,356,898
SERBIA	29,681,237
MONTENEGRO	6,415,310
FYROM	23,993,331
<b>TOTAL</b>	<b>95,446,776</b>

## PART II: BUDGETARY EXECUTION

### 1. BUDGET IMPLEMENTATION

RECETTES			DÉPENSES										
Provenance des recettes	Recettes inscrites au budget définitif de l'exercice	Recettes perçues	Affectation des dépenses	CRÉDITS DU BUDGET DÉFINITIF						CRÉDITS REPORTÉS DE L'EXERCICE ANTERIEUR			
				inscrits	engagés	payés	reportés	annulés	solde à engager	engagements reportés	payés	annulés / dégages	engagements restants à liquider
Subvention de la Commission	362,300,000.00	232,265,523.68	Titre I Personnel	18,846,000.00	17,558,134.62	17,241,198.72	316,935.90	1,287,865.38	-	305,800.12	177,183.44	128,616.68	-
Autres subventions + fonds contrepartie	400,000.00	5,547,121.44	Titre II Fonctionnement	7,083,000.00	6,180,034.44	5,125,380.38	1,054,654.06	902,965.56	-	1,214,779.14	1,145,830.79	68,848.35	-
Re-use credits (C5) from previous years			Re-use credits (C5) from previous years	361,338.47	127,152.64	106,789.89	18,362.75	234,185.83					
Remaining funds	11,929,000.00	0.00	Titre III Activités opérationnelles	348,700,000.00	139,476,293.33	23,229,571.41	116,246,721.92	0.00	209,223,706.67	209,223,706.67	209,223,706.67	138,391,909.44	
Miscellaneous revenues (re-use)	p.m.	1,159,281.98	TOTAL	374,990,338.47	163,341,615.03	45,704,940.40	117,636,674.63	2,425,016.77	209,223,706.67	346,931,448.45	201,583,075.86	6,956,463.15	138,391,909.44
TOTAL	374,629,000.00	238,971,927.10	Crédits d'engagements reportés de 2003	239,111,229.94	135,715,829.21	45,475,276.09	90,240,553.12	4,045,063.65	99,350,335.18	-	-	-	-
			TOTAL 2003 et 2004	614,101,568.41	299,057,444.24	91,180,216.49	207,877,227.75	6,470,082.32	308,574,041.85	346,931,448.45	201,583,075.86	6,956,463.15	138,391,909.44



## 2. NOTES TO THE BUDGET ACCOUNTS

### 2.1 Administrative Expenditure

The C5 credits are in addition to the 2004 budget, which consists of C1 and C2 credits of a total of €25,929,000.00.

#### 2.1.1. Title 1: Expenditure relating to Agency staff

(Refer to annexes 2a and 2b for details)

##### Chapter 11. Staff in active employment

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	17,279,000.00	16,833,142.49	16,667,750.46
C5*	149,721.42	16,936.72	16,936.72

The Agency staffing at the end of the year 2004 was composed of:

88 temporary agents (TA) of the following grades: 2 A\*15-A\*13; 72 A\*12-A\*5 and 14 B.

173 local agents in service and 1 local agent on maternity leave (LA) of the following groups I: 25, II: 73, III: 18, IV: 43, V: 13, VI: 2.

By the end of 2004 26 TA and 22 LA posts remained vacant.

The TA basic salary, family and expatriation allowances represent 65% of total expenditure. Salary costs for LAs amount to 28%.

##### Chapter 13. Missions and duty travel

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	520,000.00	510,616.22	386,619.71
C5*	132.57	132.57	132.57

Throughout the year a total of 1083 missions took place. 17% of the actual number of missions occurred outside the Operational Centres (meetings with services of the Commission in Brussels, other Agencies, etc.), which comes up to approximately 32% of the total missions' estimation costs. 83% of missions took place in the Operational Centres and the Headquarters of the Agency, as well as for visits within the area of activity of the Agency, which comes up to approximately 68% of the total missions' estimation costs.

##### Chapter 14. Socio - medical infrastructure

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	174,000.00	105,078.87	78,436.11

These expenses cover medical check-ups for TAs (24%), training courses such as language, media, driving, Project Cycle Management, public procurement (61%), and also canteen and other expenses (15%).

#### Chapter 15. Other staff related expenditure

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	93,000.00	73,098.19	72,568.19

These expenses cover mainly the Commission management fees for TA salaries (64%) and consultancy fees for the calculation of local staff salaries.

#### Chapter 16. Social welfare

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	37,000.00	31,446.83	31,272.23
C5*	1,172.17	282.45	282.45

These expenses cover the cost of social events for the benefit of the Agency staff and their families.

#### Chapter 17. Entertainment and representation expenses

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	16,000.00	4,752.02	4,552.02

These expenses cover mainly official EAR related entertainment and representation expenses for all EAR sites.

### 2.1.2. Title 2: Buildings, equipments and other administrative expenditure

(Refer to annexes 2a and 2b for details)

#### Chapter 20. Rental of buildings and associated costs

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	3,802,745.61	3,632,456.33	3,478,485.02
C5*	620.00	0.00	0.00

The largest part of these expenses are related to rental costs for the accommodation of Temporary Agents in all Operational Centres (39%), followed by Security and guarding of the EAR offices and installations (23%) and the rental of the office premises in Belgrade and Skopje (24%).

#### Chapter 21. Data processing

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	678,000.00	530,366.63	209,131.79

This appropriation covers the expenses related to the purchase and maintenance of data processing equipment and software (88%) and the services rendered by IT consultants (12%).

#### Chapter 22. Movable property and associated costs

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	454,500.00	362,918.30	191,515.70
C5*	97,135.64	27,637.44	12,587.44

These expenses cover the repair, maintenance, insurance, and fuel for the vehicle fleet (48%). Investment in office furniture represents 15%, while purchases of technical equipment and installations represent 19% of the total.

#### Chapter 23. Current administrative expenditures

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	588,750.00	557,625.31	402,592.30
C5*	53,888.40	36,232.05	32,919.30

This chapter covers stationary expenses and office supplies (24%), publication and information activities (49%), miscellaneous expenses and transportation of goods and legal fees (9%), and bank charges (14%).

#### Chapter 24. Postal charges and Telecommunications

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	1,051,004.39	1,004,226.80	772,606.16
C5*	58,668.27	45,931.41	45,931.41

Telecommunications subscriptions (phones, mobile phones and fax), satellite phones in Pristina and expenses related to the subscription to BT for the satellite link for all Operational Centres (British Telecom contract for Internet and data transmission) represented 86%. Purchase of telecommunication equipment and maintenance was 10% and other costs related to mail expenditure (4%).

#### Chapter 25. Expenditures on formal and informal meetings

Credits	2004 Budget	2004 Commitments	2004 Payments
C1 & C2	127,000.00	92,441.07	71,049.41
C5*	-	-	-

These expenses mainly (88%) refer to the 4 meetings of the Governing Board in Thessaloniki. The other expenses (12%) were for various meetings held in all Operational Centres and HQ.

## 2.2. Title 3: Operational activities

(Refer to annexes 5a to 5d for details)

The columns of the following tables (one for each Operational centre) relate to:

- Year allocation: Year when the commitment appropriations were allocated to the Agency. For all centres, when starting its activities, the Agency received funds to be managed from programmes not fully implemented by the Commission; they were the "handed over" programmes. OD, stands for "Other donors"; the Agency also manages some funds from other institutions (UNMIK, Danish government, The Netherlands Government, etc.)
- Budget available: Commitment appropriations during the current year (fresh credits from 2004 plus available appropriations from non automatic carry over from the previous years allocations)
- Contracted: Commitments done by the Agency during 2004 under the appropriations from the previous column
- Paid: Payments done during 2004, either on contracts from 2004 or from previous years. That's the reason why the figure in this column can be higher than the figure in the "Contracted" one. The payments done on behalf of the Commission (see annex 5d) are not included in this column.

### Kosovo

Year allocation	Budget available	Contracted	Paid
Hand over	2,012,880.23	1,588,420.00	1,300,749.37
2000	4,573,360.39	1,394,101.00	8,293,679.52
2001	9,568,917.66	8,269,390.30	16,571,687.66
2002 (EC)	17,155,232.70	12,805,079.47	33,920,165.31
2002 (OD)	7,075,101.57	6,956,486.77	14,667,018.14
2003	39,835,357.65	16,067,969.91	17,129,773.72
2004	72,600,000.00	26,978,126.19	11,088,704.53
2004 (OD)	400,000.00	400,000.00	0.00
<b>Total</b>	<b>153,220,850.20</b>	<b>74,459,573.64</b>	<b>102,971,778.25</b>

In 2004 the Agency was entrusted with an amount of €49.0 million for assistance programmes (approved by Commission Decision C(2004) 1196 of 2nd April 2004). A total of €0.3 million in commitment appropriations was returned to AIDCO for the CAFAO missions in Kosovo and FYROM. Of the new funds for 2004, 55% were committed by 31 December, 41% of the contracted amount (€27.0 million) was paid. An additional funding of €23.9 million was added in December to the Annual Programme for Community assistance in 2004 to Kosovo.

## Serbia

Year allocation	Budget available	Contracted	Paid
2001	N/A	N/A	8,876,295.87
2002	19,536,281.77	8,161,078.35	33,140,156.62
2003	73,140,590.49	33,842,580.84	65,198,292.08
2004	205,400,000.00	81,219,728.06	8,201,502.82
<b>Total</b>	<b>298,076,872.26</b>	<b>123,223,387.25</b>	<b>115,416,247.39</b>

In a challenging policy environment of restricted absorption capacities, due to national government change and the subsequent ministerial re-organisation, the agency committed 40% of new funds under the 2004 annual programme. This amount excludes the New Neighbourhood Programme of €3.4 million which was only approved in late December 2004.

## Montenegro

Year allocation	Budget available	Contracted	Paid
1999	N/A	N/A	299,586.00
2000	N/A	N/A	198,654.27
2001	N/A	N/A	2,015,381.52
2002	693,852.99	216,000.00	2,201,536.96
2003	3,250,968.81	1,924,424.82	5,280,853.48
2004	16,500,000.00	11,973,950.67	3,502,471.12
<b>Total</b>	<b>20,444,821.80</b>	<b>14,114,375.49</b>	<b>13,498,483.55</b>

73% of the new funds allocated in the 2004 budget (€16.5 million) have been contracted. Payments (€3.5 million) have represented 29% of the funds contracted during the year.

## FYROM

Year allocation	Budget available	Contracted	Paid
Hand over	15,874,097.57	12,422,154.65	18,338,351.59
2002	12,791,705.58	8,882,911.47	9,918,402.82
2003 (EC)	33,153,159.40	21,898,871.25	5,426,030.91
2003 (OD)	449,723.13	280,399.76	2,958,621.88
2004	53,800,000.00	18,904,488.41	436,892.94
<b>Total</b>	<b>116,068,685.68</b>	<b>62,388,825.54</b>	<b>37,078,300.14</b>

35% of the new funds allocated in the 2004 budget (€53.8 million) have been contracted while €10.8 million (included in the €53.8 million) have been added at the end of the year. There is an increase of more than 11% in the amount contracted and an increase of about 20% in the amount paid in 2004 compared to 2003.

### **3. DIFFERENCE BETWEEN THE GENERAL ACCOUNTS AND THE BUDGET ACCOUNTS RESULT**

	<b>GL ACC.</b>	<b>BUDGET ACC.</b>	<b>DIFFERENCE</b>
<b>OPERATING REVENUE</b>			
EU allocation	231,908,890.13	232,265,523.68	-356,633.55
Other Donors allocations	5,789,007.38	5,222,560.21	566,447.17
Misc. (Re-Use Titles 1/2)	180,704.43	180,836.38	-131.95
Misc. (Re-Use Titles 3)	1,229,229.08	978,445.60	250,783.48
Counterpart Funds	324,561.26	324,561.26	0.00
<b>Total Revenue</b>	<b>239,432,392.28</b>	<b>238,971,927.13</b>	<b>460,465.15</b>
<b>OPERATING EXPENDITURE</b>			
Administrative Expenditure (T1&2)			
Payments 2004	22,475,368.99	22,475,368.99	0.00
Carry-over to 2005	1,389,952.71	1,389,952.71	0.00
	<u>23,865,321.70</u>	<u>23,865,321.70</u>	<u>0.00</u>
Operational Expenditure (T3)			
Payments 2004	268,964,809.13	268,964,809.13	0.00
<b>Total Expenditure</b>	<b>292,830,130.83</b>	<b>292,830,130.83</b>	<b>0.00</b>
<b>DEFICIT from Operating Activities</b>	<b>-53,397,738.55</b>	<b>-53,858,203.70</b>	<b>460,465.15</b>
<b>Extraordinary Gains</b>			
Prior year adjustment	538,551.88	0.00	538,551.88
Exchange rate gain	2,246.23	2,246.23	0.00
Cancelled c/over credits T1&2	197,465.03	197,465.03	0.00
	<u>738,263.14</u>	<u>199,711.26</u>	<u>538,551.88</u>
<b>Extraordinary Losses</b>			
Prior year adjustment	1,264,122.90	0.00	1,264,122.90
Prior year adjustment	4,935.83	0.00	4,935.83
Exchange rate loss	525.30	525.30	0.00
Payments on behalf of EC		677,942.89	-677,942.89
	<u>1,269,584.03</u>	<u>678,468.19</u>	<u>591,115.84</u>
<b>DEFICIT from Extraordinary Items</b>	<b>-531,320.89</b>	<b>-478,756.93</b>	<b>-52,563.96</b>
<b>ECONOMIC RESULT FOR THE YEAR</b>	<b>-53,929,059.44</b>	<b>-54,336,960.63</b>	<b>407,901.19</b>

#### **4. ANNEXES TO THE BUDGETARY EXECUTION**

- Annex 1: Budget Implementation (without considering C5 consumption)
- Annex 1a: Budget Implementation summary table (see point 1 of Part II)
- Annex 2a: Titles 1&2 consumption fund source C1 and C2
- Annex 2b : Titles 1&2 consumption fund source C5
- Annex 3: Payments T1&2 under C8
- Annex 4: Re-use of credits T1&2 (C4)
- Annex 5a: Title 3 consumption 2004 appropriations
- Annex 5b: Title 3 consumption previous years appropriations
- Annex 5c: Title 3 consumption Other donors appropriations
- Annex 5d: Title 3 payments made on behalf of the EC
- Annex 6: Budget Revenue and Expenditure account

