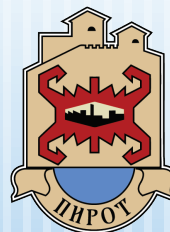




PROJECT FINANCED BY
THE EUROPEAN UNION



MUNICIPALITY OF PIROT

INFORMATION MEMORANDUM

FOR THE ISSUE OF
MUNICIPALITY OF PIROT
LONG-TERM DEBT SECURITIES (BONDS)



Municipal Support Programme IPA 2007
Good local governance, planning and service delivery

INFORMATION MEMORANDUM

FOR THE ISSUE OF

MUNICIPALITY OF PIROT

LONG-TERM DEBT SECURITIES (BONDS)

This publication was produced with financial assistance of the European Union. The sole responsibility for the content of this publication rests upon the Municipality of Pirot and it does not represent the official position of the European Union.



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INFORMATION MEMORANDUM

FOR THE ISSUE OF
MUNICIPALITY OF PIROT
LONG-TERM DEBT SECURITIES (BONDS)

October 2012, Pirot



Municipal Support Programme IPA 2007
Good local governance, planning and service delivery

Statement of Support

This document was prepared with the assistance of the Municipal Support Programme IPA 2007 financed by the European Union.



Municipal Support Programme IPA 2007
Good local governance, planning and service delivery

INVESTMENT DISCLAIMER

Municipality of Pirot ("Pirot", or the "Municipality", or the "Issuer") shall be deemed fully responsible for the contents of this Information Memorandum. According to the best of belief, knowledge and information available to the Municipality of Pirot, the information contained in this Information Memorandum shall represent a comprehensive and accurate account of assets and liabilities, profit and losses, financial standing, and operation of the Municipality of Pirot.

According to the best of knowledge of the Municipality of Pirot, no facts that could have an effect on the comprehensiveness and accuracy of this Information Memorandum had been left out.

On the other hand, no one but the Municipality of Pirot shall be authorized to provide information and issue statements regarding the invitation to tender for the provision of underwriting services for bonds issue other than those contained in this Information Memorandum. Should such information or statements be given, they shall not be relied upon as the information and statements the publication of which was approved by the Municipality of Pirot.

Neither publication of this Information Memorandum, nor sale or purchase of bonds shall imply that the circumstances regarding the Municipality had not changed since the date of publishing of this Information Memorandum.

This Information Memorandum shall not be considered as a recommendation for purchase or offer for sale issued by, or for the account of the Municipality. A third party concerning the accuracy and comprehensiveness of the data presented herein shall issue no warranties, explicit or implied.

Each potential bidder considering submitting a bid for provision of underwriting services shall be referred to own evaluation and assessment of the financial standing of the Municipality of Pirot and other relevant conditions, including the risks described in this document.

Unless otherwise indicated, all annual data, including information on financial statements, have been based on calendar years. The figures presented in the Information Memorandum have been rounded up, therefore the figures indicating the same type of information may vary and their totals may not correspond to their arithmetic aggregates. In this document, reference to EUR shall indicate Euro, USD United States Dollar, CHF Swiss Franc, and RSD or Dinar shall refer to the currency of Republic of Serbia, Dinar.



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1. INFORMATION ON THE ISSUER

1.1. General Information

1.1.1. Business Name, Seat, Address, Registration Number and Tax ID Number

Business name: Municipality of Pirot
Seat: Pirot
Address: Srpskih Vladara Street No. 82, 18300 Pirot

Pirot Municipal Authorities and President of the Municipality
Registration number: 07131798
Tax ID: 100386182

1.1.2. Date of Establishment

Pirot acquired the status of a municipality on 29 December 2007 by means of the Law on Territorial Organisation of Republic of Serbia, and the local self-government includes Municipal Assembly, President of the Municipality, Municipal Council, and Municipal Administration.

1.1.3. Position of the Issuer in the Public Sector of Republic of Serbia

According to the 2011 official data received from the Statistical Office of Republic Serbia, Municipality of Pirot, as an administrative centre of the District of Pirot has 57,911 residents. Municipality of Pirot enjoys the status of a separate territorial unit of local self-government that through its bodies exercises all rights and responsibilities within its competence.

Territory of the Municipality of Pirot consists of several populated settlements or cadastral municipalities, and comprises a natural and geographic entity, an economically integrated area with developed communications means between towns and villages.

Formerly, this was the centre of dairy products manufacturing, leather, wool, and wood and textile industry. Pirot's familiarity is based on Pirot's sheep cheese, Pirot's rugs and nowadays, certainly "Tigar MH" tyre industry. Pirot in the present day sees its potential in developing tourism, organic foods, and manufacture. Serbia's return to the international institutions as well as full-fledged membership in the European Union will certainly enable the Municipality to fully utilise its favourable location and re-market its products in the European and world markets. For the purpose of integration processes specifically, it is necessary to invest in development of small and medium enterprises, as the only ones capable to re-launch stalled economy of Pirot. Pirot expects substantial assistance from Republic of Serbia, the European Union, and other international institutions in reducing unemployment and developing its brands. The municipality is opening its doors to all investors wanting to invest their capital in the development of



Pirot economy, and is readily available to provide consulting support and assistance in obtaining necessary documentation in the modern equipped service centre, as well as any other form of assistance.

Pirot was built on sites of the Roman fort Turres (dating back to the 3rd century) and fortified Byzantine town Quimedava (from the 4th century). The first mention of Pirot was in the 14th century, and during the 16th and 17th century Pirot thrived as a rich and beautiful Turkish town. Hristić Family House in Pirot (dating back to the 19th century) is the Ponišavlje Museum with unique collection of folk rugs the area is well known for. Church of St. Paraskeva (from 14th century) in Staničenje is rich in frescoes. Poganovo Monastery, built in the last decade of the 14th century became vibrant a century later (in 1499) and its frescoes are among the finest accomplishments of the period. Monastery in the village of Temska from the second half of the 16th century is an exceptionally valuable monumental residence fully utilised in the 18th century with frescoes that were painted in 1567 and 1654.

Pirot borders four Serbian municipalities, Dimitrovgrad, Knjaževac, Bela Palanka, and Babušnica, as well as Bulgaria along the 65 km long state border. Municipality of Pirot is surrounded with numerous famous mountains, including: Stara Planina, Vlaška Planina, Belava, Suva Planina, etc. The following rivers traverse the municipality: Nišava, Jerma, Rasnica River, Temštica, Visočica.... The municipality too has three lakes: Zavoje, Krupa, and Sukovo. Total area of the Municipality of Pirot is 1,235 km², with over seventy settlements, including the city of Pirot.

Formerly a part of Yugoslavia and then of the State Union of Serbia and Montenegro, Serbia has been an independent state since 2006.

According to the 2006 Constitution and the 2007 Law on Territorial Organisation of the Republic of Serbia, Serbian territorial organisation incorporates autonomous provinces and local self-government units. Serbia (without AP Kosovo and Metohija) has a total of 145 local self-governments, 122 municipalities, and 23 towns and cities (with total of 23 city municipalities that under the Constitution have no local self-government status), and the City of Belgrade (with 17 own city municipalities) holding the special status as the capital.

Republic of Serbia has a unicameral parliament with 250 members. The last election was held on 6 May 2012. "Pokrenimo Srbiju – Tomislav Nikolić" won 73 parliamentary seats, "Za bolji život – Boris Tadić" won 67 seats, the Coalition - Social Party of Serbia – Party of United Pensioners of Serbia – United Serbia won 44 seats, the Democratic Party of Serbia won 21 seats, "Preokret" won 19 seats, United Regions of Serbia won 16 seats, and minority parties won 10 seats. Prime Minister of the Republic of Serbia, Ivica Dačić assumed his duty on 27 July 2012. The incumbent Government consists of a Secretary, 19 members (4 vice-presidents and 18 ministers) and 17 ministries. Newly elected president Tomislav Nikolić was elected president on 20 May 2012 and has been serving his term in office of five years from that point on. Further information on the Republic of Serbia is available on the website of the Government of the Republic of Serbia (www.srbija.gov.rs) and on the website of the National Assembly of the Republic of Serbia (www.parlament.gov.rs).

Following the year 2000, Serbia began a process of political, economic and financial decentralisation of government, primarily by adopting the new Law on Local Self-Government in 2002. This Law was afterwards amended in 2007, and accordingly the original competencies of the local self-government included primarily the following: developmental, spatial and urban planning, local economic development, water supply and water management services involving waste water, hot water and steam (heating), maintenance of sanitation, landfills, markets, green and public spaces, public transportation and parking services, maintenance of housing, construction and maintenance of local roads, construction and agricultural land management, pre-school education, and cultural policy of the city. Some competencies in the area of social policy, such as primary and secondary education as well as social policy are divided between the national and local governments so that the national government funds employees' salaries, and local self-government bears the costs of investments and maintenance.

Decentralisation process, predominantly in the area of finance, continued with the adoption of the Law on Local Self-Government Finance in 2006, and the Budget System Law, originally adopted in 2002, and amended in 2005 and 2006, and the adoption of the most recent law in 2009, and the



latest amendments thereof in 2011. Entry into force of amendments to the Law on Local Self-Government Finance introduced a change in distribution of revenue collected from payroll tax between the budget of the Republic and budgets of local self-governments. Prior to 1 October 2011, revenue from this type of tax was distributed 60:40 in favour of the budget of the Republic, and from 1 October 2011, this ratio changed to 80:20 in favour of local self-governments.

In terms of macroeconomic indicators, the latest macroeconomic data available to the Ministry of Finance of Republic of Serbia¹ from 21 March 2012, demonstrates that the estimated 2012 gross domestic product will top at approx EUR 33.7 billion, or EUR 4,665 per capita. The value of exports in 2011 was EUR 8.4 billion, and the value of imports was EUR 14.4 billion.

1.1.4. General Acts of the Issuer

The supreme legal document of the Municipality of Pirot is the Municipal Statute, adopted on 26 February 2008. The text of the Statute adopted by the Regulation Commission of the Pirot Municipal Assembly in 2008 is available on the following website: Website of the Municipality of Pirot – Local Self-Government: <http://www.pirot.rs/>

According to the Municipal Statute, local self-government shall consist of the following: Pirot Municipal Assembly, President of the Municipality, Municipal Council, and Municipal Administration. President of the Municipality and Municipal Council shall represent the executive authorities. Pirot Municipal Assembly has 56 members.

Detailed information on the Assembly and executive authorities of the Municipality of Pirot is available in Chapter 4 of the Information Memorandum.

1.2. Trading in Securities of the Issuer

Municipality of Pirot has not yet issued any securities.

1.3. Geographic Location, Transport, and Communications

Pirot is a municipality in the southeast Serbia with rich cultural tradition and turbulent history. It is located on major international transversal “Corridor 10” linking Europe with Asia that during the Middle Ages was also known as Via Militaris. Pirot is the administrative centre of the largest district in the Republic that next to Pirot includes municipalities of Dimitrovgrad, Babušnica and Bela Palanka, and that based on the total area of 1,232 km² is the third largest district in the Republic.

Terrain: 40% of the territory is mountainous, followed by hills and plains each covering 30% of the territory.

Geographic characteristics:

Elevation, seat of the municipality (meters above sea level)	368 m
Range of elevations in the municipality (min-max)	368 m – 2,169 m
Longitude	22° 36', east of Greenwich
Latitude	43° 09', north of the Equator

¹ Ministry of Finance of the Republic of Serbia:

<http://www.mfin.gov.rs/UserFiles/File/tabele/2012%20mart/Tabela%201%20Osnovni%20makroekonomski%20indikatori.pdf>

Figure 1. Position of Pirot on the map of Serbia



Table 1. Distance between Pirot and major cities in the region

City	Population	Distance
Belgrade	2,000,000	330 km
Niš	300,000	75 km
Bulgarian border	-	35 km
Sofia	1,350,000	70 km

1.4. Population, Employment, and Earnings

According to the preliminary 2011 Census data available at the time of preparing the Information Memorandum, a total number of residents living in the municipality is 57,911, a decline in population of approximately 9.2% compared to census data from 2002.



Table 2. Estimated population trends, 2006 – 2011

	2006	2007	2008	2009	2010	2011
Population in the City	61,578	60,966	60,376	59,825	59,263	57,911
Total City population change	-596	-612	-590	-551	-562	-1,352
Population growth rate in the City (%)	-0.96	-0.99	-0.97	-0.91	-0.94	-2.28
Population growth rate in the district (%)	-1.38	-1.45	-1.48	-1.40	-1.34	-2.43
Population growth rate in Serbia (%)	-0.39	-0.40	-0.42	-0.40	-0.40	-2.34

The average annual population growth rate in the observed period is negative for all the observed areas indicating the presence of the depopulation issue.

Table 3. Population structure by type of activity, age, and gender, 2002

Area	Active population in %	Active male population, age 15-65	Active female population, age 15-65	Elderly (> 65 years of age)
Republic of Serbia	67.12	68.42	65.89	17.18
District of Pirot	63.81	66.04	61.56	21.81
Pirot	66.18	68.00	64.36	18.62

Table 4. Educational structure of population aged 15 years and over, 2002

Description	City (number)			District (%)			Serbia (%)		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
No education	2,743	665	2,078	6.40	2.68	10.14	5.66	2.53	8.55
1 – 3 grades of primary school	1,064	355	709	2.45	1.82	3.07	2.00	1.23	2.7
4 – 7 grades of primary school	10,198	4,284	5,914	20.92	18.17	23.69	14.19	12.3	15.94
Primary education	14,101	7,299	6,802	26.47	27.68	25.25	23.87	22.97	24.72
Secondary education	18,265	10,026	8,239	31.69	35.74	27.61	41.07	46.08	36.43
College education	2,177	1,111	1,066	3.83	4.01	3.65	4.51	4.94	4.11
University education	2,971	1,678	1,113	4.06	5.00	3.12	3.62	7.33	5.76
Unknown	3,173	1,840	1,333	4.18	4.89	3.47	2.18	2.62	1.79
Total population (>15 years of age)	54,512	27,258	27,254	100	100	100	100	100	100

The structured data in the table above show that 33.5% of the population aged 15 years and over completed secondary level of education, 25.9% completed primary level of education, while 9.4% completed college and university level of education.

The following table presents an overview of the total number of employees and their respective gender structure in 2009.

Table 5. Number of employees in 2009 and their respective gender structure

Area	Employees		Employees in companies, enterprises, institutions, cooperatives, and organisations	Entrepreneurs, self-employed, and their employees	Number of employees per 1000 inhabitants	
	Total	Share of females %			Total	Employees in companies, enterprises, institutions, cooperatives, and organisations
Serbia	1,889,085	44.3	1,396,792	492,293	258	191
District	24,748	43.8	19,302	5,446	258	201
Municipality	18,108	44.2	13,922	4,186	303	233

Table 6. Structure and number of employees by sectors in March 2012

Description	Municipality	Structure of employees in the municipality
Employees - total	13,904	100.00%
Agriculture, forestry, and fishing	156	1.12%
Mining	0	0.00%
Manufacturing industry	5018	36.09%
Supply with electricity, gas, and steam	217	1.56%
Water supply and waste water management	211	1.52%
Construction	274	1.97%
Retail, wholesale, and automotive repairs	569	4.09%
Transport and storage	385	2.77%
Accommodation and food services	22	0.16%
Information and communication	113	0.81%
Financial activities and insurance	613	4.41%
Real estate	2	0.01%
Professional, scientific, innovation, and technical activities	218	1.57%
Administrative and supporting services	147	1.06%
Public administration and mandatory social insurance	465	3.34%
Education	974	7.01%
Health and social protection	1268	9.12%
Arts, entertainment, and recreation	140	1.01%
Other service activities	128	0.92%
Private entrepreneurs	2984	21.46%

Manufacturing sector has a dominant role in employment, followed by private entrepreneurs. These two sectors provide employment for a total of 57.55% of the working municipal population. In addition, health and social protection sector, with share of 9.12%, and education sector, with 7.01% are also notable.

The unemployment rate in South and Eastern Serbia, based on Labour Force Survey from April 2012, was 26.9%, whereas the unemployment rate at the national level was 25.5%.



Based on data from the Statistical Office of the Republic of Serbia, the average net salary in the Republic of Serbia in the period January 2012 – April 2012 was EUR 360, whereas the average net salary in Pirot was slightly lower at approximately EUR 335.

Table 7. Average net salary per employee, January 2012 – April 2012 (RSD)

Description	City	District	Serbia
Average gross salary (incl. taxes and contributions)	51,586	47,402	55,209
Average net salary (excl. taxes and contributions)	37,087	34,139	39,839

The table below presents data from the Statistical Office of the Republic of Serbia from the end of 2011 illustrating average net salary trends per employee (with taxes and contributions).

Table 8. Average gross salary per employee, by sectors, 2011

Sector	Municipality (RSD)
Agriculture, hunting, forestry, and water power management	41,142
Fishing	-
Mining and quarrying	-
Manufacturing	48,111
Production and supply of energy, gas and water	96,355
Construction	35,563
Retail and wholesale	30,228
Hotels and restaurants	24,871
Transport, storage, and communications	42,450
Financial activities and insurance	68,328
Real estate sale and lease	-
Public administration and social security	62,750
Education	50,389
Health and social work	57,317
Other utility, social and personal services	34,307
Average gross salary - total	49,318

1.5. Local Economy

Geostrategic position, developed infrastructure, proximity to markets, and available labour force all play an important role in economic development.

Municipality of Pirot has significant comparative advantages: developed road and rail transport and highly qualified labour force.

Economy of Pirot is characterised by a significant participation of industry, with particularly dominant branches of rubber industry, textile industry, food processing industry, and agriculture with significant agricultural potential. Other important industrial branches are trade, transportation, and crafts.



The largest business entities in rubber industry are Tigar Tyres with 2,300, and JSC "Tigar" with 2,000 employees, and in textile industry IO "Prvi maj" with approximately 1,500 employees.

Based on data from the Serbian Business Registers Agency, 467 enterprises do business in the Municipality of Pirot, out of which: 455 (96.8%) are small enterprises, 9 (2.4%) are medium enterprises, and 3 (0.8%) are large enterprises. Pirot municipality has 1,400 registered entrepreneurial shops.

Table 9. Structure of enterprises

Type of enterprise	%
Large (>250 employees)	0.8
Medium (50-150 employees)	2.4
Small (<50 employees)	96.8
Total	100

In terms of size, small enterprises dominate in the structure of enterprises (96.8%), on the other hand large enterprises that constitute a mere 0.8% of all companies employ the largest percentage of workers.

Table 10. Structure of enterprises by sectors (2012)

Description	%
Trade	38.35
Manufacturing	24.3
Construction	7.2
Transport and storage	7.0
Agriculture, forestry, and fishing	6.5
Other activities	16.5
Companies – total	100

Tigar Tyres (member of the Michelin Company) is the most significant and most successful private investment in Pirot, both in terms of size of investment and in terms of significance for employment of the population in the municipality. A share of property of "Prvi maj" from Pirot was in 2012 sold to AHA Mura from Indija operating under control of the parent company from Slovenia.

Table 11. Significant foreign investments in the private sector

Company name	Country of origin	Activity
Michelin (Tigar Tyres)	France	Tyre industry
AHA Mura (Prvi maj)	Slovenia	Textile industry

1.6. Transportation and Utility Infrastructure as Precondition of Economic Development

Road Transport

Territory of Pirot municipality is covered with a 231 km long network of roads. All main (45 km) and almost all regional roads (82 km) are paved with modern surface. Local roads network comprises 103 km, out of which 82 km are covered with modern surface.

Municipality of Pirot road network accounts for 25% of the total road network in the District of Pirot.

Table 12. Road network structure, 2010 (km)

Description	Total	Modern pavement	Main		Regional		Local	
			Total	Modern pavement	Total	Modern pavement	Total	Modern pavement
Serbia	43,258	27,157	4,524	4,413	10,400	9,150	28,333	16,611
District	925	582	120	120	261	231	544	231
Municipality	231	209	45	45	83	82	103	82

"CORRIDOR 10" (Salzburg - Ljubljana - Zagreb - Belgrade - Niš - Skoplje - Solun), an intercontinental highway, is located in immediate vicinity of the city, and its branch running in the direction Niš - Dimitrovgrad (M-1-12) extends through the Municipality of Pirot in length of 36 km. 11 km long section of the M-9 road extending in the direction Pirot – Babušnica also crosses the municipality.

Figure 2. Regional road transport





Rail transport

As in road transport, Municipality of Pirot is an important railroad station in the intercontinental direction connecting the capital with the eastern part of Serbia, and the entire region of Balkans with Turkey.

Air transport

Pirot is 85 km away from the international airport "Konstantin Veliki" in Niš, and about 80 km away from the international airport in Sofia.

Public transport

In the Municipality of Pirot both in-line urban and suburban transportation are organised. Carriers in the territory of the municipality include: "Tanez", "Maksa turs", 3MB, and M601.

There are numerous bus lines running between Pirot and major centres in the country and abroad, with departures every 30 minutes.

Construction and City Planning

Public Enterprise "Directorate for Construction of the Municipality of Pirot" officially started working in 2012 by merging of the Fund for Construction Land and Road Maintenance and Public Urban Planning Enterprise. Pirot Municipal Assembly adopted the Work Programme of the Fund for 2012 for all the activities to be implemented through the Directorate.

Public Enterprise "Directorate for Construction of the Municipality of Pirot" deals with: development of construction land; construction and reconstruction of buildings and installations; construction and maintenance of roads and other road network in urban and suburban areas; winter road maintenance; maintenance of urban sanitation facilities; maintenance of public lighting in the city; office maintenance and construction and maintenance of utility facilities in settlements in the municipality of Pirot; urban and spatial planning; preparing of planning documents of utmost complexity: spatial plans – municipal master plans, general plans of regulation, urban projects and the like, all of which serve as foundation for city development and investments, and contribute to the articulating of, and meeting the interests and needs of citizens, business, and institutions in the city.

Power Supply

Pirot Electric Power Distribution Company (Elektro distribucija Pirot) with new organisation within the Electricity Distribution Company "Jugoistok" LLC, Niš spatially covers and supplies with power consumers in municipalities of Pirot, Bela Palanka, Babušnica, and Dimitrovgrad. Pirot Electric Power Distribution Company in the territory of Municipality of Pirot services a total of 24,837 consumers in the household category, 1,883 consumers in "transfers" category, 119 consumers in low voltage category, as well as 28 consumers on 10kV power level.



Water Supply and Sewage

Main activities of the **PE "Water Supply and Sewage"** include: production and distribution of water; maintenance of water supply and sewerage network; and wastewater treatment and disposal.

The existing city water supply system uses spring water from four water sources near Pirot. PE "Water Supply and Sewage" ensures conditions for monthly production of 450,000 m³ of water, thanks to the 120 km long water supply system (with 15 km long main supply pipe and 105 km long distribution network), pumping stations (two in production facility and two within the network), and three reservoirs with total capacity of 7,250 m³. PE "Water Supply and Sewage" supplies healthy drinking water to approximately 40,000 city dwellers, i.e., 10,500 individual households, 150 individual building councils, and city businesses, whereby 99% of the territory is covered with water supply installations. Over 30 km of the water supply network enable supply with water of 11 rural settlements with about 9,500 residents. Total number of water meters used for measuring the quantity of water used in urban and rural settlements is around 14,400.

Sewage system in Pirot is of common type – the same pipeline evacuates sewage and storm water. Sewage pipelines in Pirot are 105 km long (the main collector is 2 km long). Coverage percentage in the city is 98%. PE "Water Supply and Sewage" in addition to the existing sewage network in urban area, also constructed sewage network in several villages in the municipality (with 8 km currently operational). Total number of drains suitable for surface drainage in the territory of the city is about 1,600.

Out of 150 km of the water supply network, about 45% is surveyed and recorded in the cadastre of pipelines (analogue). Out of 113 km of the sewage network about 35% is recorded in the pipelines cadastre.

Public Utilities

Main activities of the Public **Enterprise "Komunalac"** include:

- Cleaning and maintenance of public areas, and maintenance of public sanitation (streets, sidewalks, squares);
- Waste removal;
- Maintenance of greenery in public spaces (parks, trees, flower boxes);
- Cleaning and removing snow and ice from public areas;
- Capturing and euthanizing stray dogs;
- Maintenance of the cemetery;
- Maintenance of city markets;
- Organisation of city beaches, and
- Organisation of fairs.

Activities involving cleaning public areas, maintenance of public sanitation, maintenance of greenery in public spaces, winter service, services involving capturing stray dogs, and organisation of city beaches are funded from the budget of the Municipality of Pirot and performed based on the annual programme. The city is divided into zones based on which the intensity of activities is planned. These tasks are performed under the surveillance of the municipal communal inspection. PE "Komunalac" collects fees from citizens for waste removal and keeps a database of users' addresses.

Besides abovementioned activities, PE "Komunalac" performs other activities required by citizenry. The most frequent communication with the Municipal Administration PE "Komunalac" conducts through the Department of Urban Planning, Housing and Utilities, Construction and Inspection.

Information on reported public works in areas maintained by the enterprise is of particular importance for the PE "Komunalac". This information is within the competence of the Department for Urban Planning, Housing and Utilities, Construction and Inspection. This information is especially helpful in



events involving digging, closing off streets, paving streets and similar, and for the purpose of planning placing of containers, green areas, trees, etc.

Solid waste management includes removing waste from the immediate urban core covering 98% of the urban area (around 13,000 urban households, 73 institutions, and 220 industrial facilities), while other suburban and rural settlements are not included. Waste removal percentage is 100%. Construction of the regional sanitary landfill is underway. Rural settlements lack organised solid waste removal system. Solid waste is most often disposed of in pits, next to streams, roads, or directly into the rivers, consequently creating numerous illegal dumpsites. Urgent problem is rehabilitation and the condition (unconditional location, no treatment and selection of industrial waste, no removal of secondary raw materials), and the waste level in the existing landfill, located at the site of the Industrial Park extension.

Parking

PE "Parking Service" was founded by the Pirot Municipal Assembly with the aim to perform activities of general interest, and in particular the following:

- Maintaining public parking spaces;
- Collecting fees for use of parking spaces;
- Constructing new parking spaces;
- Constructing new parking garages;
- Removing and keeping illegally parked vehicles.

Heating

PUC "Toplana" is a municipal public enterprise the main activities of which include production, distribution and sale of heat energy, and maintenance of the existing heating system. This enterprise with its services covers about 18% of the territory of the city of Pirot with approximately 12 km long heat distribution pipes and 5 dislocated heating boilers. Total installed power is 42.31 MW and the energy source used is oil fuel heating up the total area of 132,335 m².

Distribution network is to some extent surveyed and recorded in the cadastre of pipelines. Schematic representation of the pipeline network is prepared based on the Basic State Map in scale 1:5000 with recorded pipe diameters. Data concerning heat sources, substations, and potential consumption area were also collected.

In accordance with the Energy Law, the decision of the Municipal Assembly on heating distribution network is pending as well as the document on energy strategy the draft of which has already been presented.

PUC "Toplana" and municipal bodies have a two-way communication that concerns the most the issue of "Thermal Energy Consent" for connecting to the central heating, and "Reconstruction Permit" for reconstructing primary and secondary networks. Cooperation with inspection services for the most part relates to digging up of public land during construction, reconstruction, and repairing of faults in the remote district-heating network.

Given the low coverage of the city and willingness of local authorities to improve the service a more intensive work on introducing heat energy in urban areas is expected in the upcoming few years.

Telecommunications

Developed telecommunications infrastructure is nowadays a standard in the modern world not only in urban, but in rural areas too. The largest provider of telecommunication services in Serbia and Pirot is "Telekom". Another fixed line operator is "Orion Telekom", while mobile network operators, besides



“Telekom”, include “Telenor” and “Vip”. The following providers offer Internet services: “Telekom”, “SBB”, “Orion”, and numerous smaller providers. Cable TV services are provided by “SBB”, “Total TV”, and “Digi SAT”.

“Telekom Srbija” maintains and services telecommunications facilities and networks.

Table 13. Postal activities and communications, 2010

Description	Postal offices	Phone subscribers	Postal activity (sent)	
			Letters (thousands)	Parcels (thousands)
Serbia	1,531	2,939,173	287,600	533
District of Pirot	23	36,447	638	3
Pirot Municipality	10	23,414	481	2

1.7. Education, Culture and Sports

1.7.1. Education

In the educational structure of population (aged 15 and over), based on the 2002 Census, population with completed secondary education and population with completed elementary education have the largest share of 33.5%, and 25.9%, respectively. Population with completed college education participates with 4%, and population with completed university education participates with 5.4%. The share of illiterate population in the total population (aged 15 and over) is 5%.

Territory of Pirot municipality has 4 primary and 5 secondary schools (Grammar School, Secondary Technical School, Dairy Boarding School “Dr Obren Pejić”, and Secondary School of Economics), Special School for Primary and Secondary Education “Mladost”, and preschool institution “Čika Jova Zmaj”.

Monitoring of labour market trends introduced some new educational orientations in secondary schools, such as: financial administrator, sales associate, computer technician, car electronics technician, computer management technician, garment textile technician, polymers technician, and environmental protection technician.

Vicinity of Niš enables studying at nearly 15 different universities, a great advantage in human resources development. Vicinity of Niš also influences young people to stay in the city during their studies and contribute to its development. The city of Pirot is a home to the following higher education institutions: Faculty of Engineering (Bor), and College of Professional Studies for Teachers. Professional study programmes that provide undergraduate and master degrees in said schools are: Mining Engineering, Metallurgical Engineering, Technological Engineering, Engineering Management, and Preschool Education.

Use of foreign languages is present in daily operations of many companies and is an integral part of education in all schools and institutions of formal education. Pirot has several language schools and the most commonly taught languages are: English, German, Italian, French, Spanish, and Russian.

1.7.2. Culture

Pirot is a city with rich and long cultural tradition that is largely credited to the following cultural institutions: the National Library, Gallery, House of Culture, theatre, and cultural monuments.

The National Library of Pirot was founded in 1878. It emerged at the time when Pirot was under the Turkish rule. The Library is in possession of a valuable collection of books. One of the most valuable books is the Book of the Nišava Metropolis.

Pirot Gallery is gaining a dominant role on the cultural map of the city as a place that has been for years now reflecting all-important cultural and artistic events. It was founded in 1981 as part of the Culture Centre (now a House of Culture), and after its separation from the Ponišavlje Museum in 1993 it has been functioning as an independent institution under the name Pirot Gallery. In lasting memory of the luminary of Pirot art scene, the Gallery was in 1999 named after Čedomir Krstić, and that same year it became a home to his legacy and a permanent exhibition of his work. In addition to the legacy, the Gallery has an extensive collection of native art including works of eminent contemporary artists. The Gallery also keeps a very rich documentation including press, library, and video materials, and collections of catalogues, and those written, audio and video materials are chronicles of cultural events in the Gallery and elsewhere in the District of Pirot.

House of Culture was founded in 1986 by merging of the Cultural Centre and Radnički University. Semi-budgetary institution is under the auspices of the Municipality of Pirot. It deals with cultural, entertainment, and educational activities. House of Culture operates a Cultural and Artistic Association "Predrag Bošković Pavle". Its members include the folk ensemble, folk and entertainment band, and choral group "Piroćanke". House of Culture organises all major events in the city – Book Fair, Gitarijada Music Festival, and DK-dur Music Festival.

Theatre life in Pirot emerged in 1889. That year, the prominent Pirot resident Vojin Ćirković addressed the Minister of Education and Religion with a request to transfer and borrow from the Royal Serbian Theatre the play "Battle of Kosovo" by Jovan Subotić, together with costumes, since the theatre company wanted to play out a piece on St. Vitus Day. There were also other theatre groups that existed within the cultural and artistic society Abrašević, in schools, in the "Momčilo" Choral Society; however until 1944 there was no institution that dealt with theatre presentation.

1.7.3. Sports

Based on results achieved by athletes from Pirot, the city is rightfully labelled as the Sports Centre of Southeast Serbia. Outstanding club and individual results and tradition of successful athletes from all disciplines suggest that Pirot was, and remained a sports town. With over 20 Olympic disciplines that are nurtured from the earliest age, new Sports Hall Kej, soon-to-be-opened new indoor pool, and development of modern ski centre on Stara Planina that will in terms of quality ski slopes surpass Ko-paonik, Pirot will become a sports Mecca and hotbed of future state champions and record holders.

Pirot has a number of football clubs, including: "Radnički", "Jedinstvo", and an Indoor football club. There are also numerous basketball, volleyball, handball, chess teams, martial arts teams, and others.

1.8. Joining the European Union

On 9 November 2010 the European Commission adopted the annual strategy on the enlargement of the European Union – EU Enlargement Package 2010. This Package represents the annual assessment of the enlargement agenda and provides an overview of the current state of affairs concerning preparations, upcoming challenges, and methods for advancement of Western Balkans, Turkey, and Island. Serbia submitted its application for the EU membership in 2009. On 25 October 2010 General Affairs Council forwarded the application to the Commission. The Commission is currently processing the application and preparing the Opinion.



Serbia Progress Report² for 2010 was also adopted on 9 November 2010. According to the assessment of the European Commission, Serbia has made progress in political democratisation, with stable government and broad congruence in orientation of political parties towards the strategic goal of joining the EU. According to the assessment of the Commission, despite the serious impact of economic and financial crisis, the state of Serbian economy has improved in 2010, highlighting the progress made toward harmonisation of Serbian legislation with European standards. It was assessed that Serbia implements provisions of the Interim Agreement and realises progress in meeting the requirements of the Stabilisation and Association Agreement in numerous fields, particularly in agriculture, science, and research and statistics.

On 24 November 2010, European Commissioner for Enlargement and Neighbourhood Policy Mr. Štefan Füle, submitted to the Government of Serbia the Questionnaire on the Application for Membership of Serbia in the European Union to be filled out as a requirement for acquiring the candidate status for EU membership. The Serbian Government prepared and submitted answers to questions from the Questionnaire, following which the European Commission is to begin the process of drafting an opinion, which takes about a year.

Head of the EU Delegation to Serbia, Mr. Vincent Degert met with the Serbian Prime Minister Mirko Cvetković on 12 December 2011 and presented the Opinion of the European Commission on Serbia's candidacy for EU membership.

In the Opinion, published the same day in Brussels, the European Commission issued a recommendation to grant Serbia candidate status for EU membership, and to open membership negotiations as soon as Serbia makes progress in resolving issues relating to the dialogue with Priština³.

European Council has at the EU Summit held on 1 March 2010 supported the Council of Ministers' Recommendation from 28 February 2012 and decided to grant Serbia candidacy status for EU membership.

Since 2007 Serbia has annually received around EUR 200 million from funds under Instruments for Pre-Accession (IPA) Assistance of the European Union.

The following projects were approved, and are being implemented under the First Call for Proposals within the IPA CBC Programme between Bulgaria and Serbia:

- 1) Development of small sports and recreational infrastructure in the cross border region Montana – Pirot. Goal of this project is to build playgrounds in the Tanasko Rajić neighbourhood. The leading partner is Municipality of Pirot, and the supporting partner is Montana from Bulgaria. Total project value is EUR 424,010 (EUR 165,345 for the Municipality of Pirot). Project timeline is 18 months. In early 2012 tenders for procuring construction works and supervision were announced, and the contractor and the company to conduct supervisory activities selected in the procedure. Preliminary work is in progress.
- 2) Promotion of international cooperation through development of social and sports infrastructure. Goal of the project is reconstruction of the Youth Stadium. The leading partner is Municipality of Pravec from Bulgaria, and the supporting partner is Municipality of Pirot. Project value is EUR 598,840 (EUR 246,247.37 for the Municipality of Pirot). Project timeline is 18 months. Several meetings of the project team were held during the year, and the process of preparing tender documentation is underway.
- 3) The Future is in Our Hands. The project aims to strengthen the capacity of local government. The leading partner is NVO from Municipality of Montana – NALILG, and the supporting partner is Municipality of Pirot. Project value is EUR 176,672 (EUR 53,720.91 for the Municipality of Pirot). Project timeline is 12 months. Several meetings of the project team were held during the year discussing the implementation of project activities. Tender for procurement of equipment will be announced in early March of next year.

² Serbia Progress Report:

http://www.seio.gov.rs/upload/documents/Izvestaji/izestaj_o_napretku_srbije_2010_sa_%20aneksom.pdf

³ <http://www.seio.gov.rs/%D0%B2%D0%B5%D1%81%D1%82%D0%B8.39.html?newsid=1040>



- 4) ZIP Youth Centre (establishment of a centre for youth employment) funded by the RSEDP. Project value is EUR 381,134.00. Project timeline is 24 months. Construction of the centre is currently underway. Equipment and furniture were already purchased and promotional brochures printed.



2. OPERATION, ASSETS AND LIABILITIES OF THE ISSUER

2.1. Activities of the Issuer

2.1.1. Competencies of the Municipality of Pirot

The Municipality exercises competencies established under the Constitutions and the Law, tasks within the framework of rights and responsibilities of the Republic of Serbia, delegated under the law. The Republic in accordance with the type and scope of delegated tasks shall ensure the funds for performance thereof.

The Municipality shall under its competence, through its bodies, and in accordance with the Constitution and the law:

- 1) Adopt Municipal development programs;
- 2) Adopt Municipal spatial and urban development plans;
- 3) Adopt the Budget and the Annual Balance Sheet of the Municipality;
- 4) Regulate the rate of municipal revenue, as well as methods and criteria for determining the amount of local fees and charges;
- 5) Regulate and ensure the delivery and development of public utility activities (water treatment and distribution, treatment and disposal of rainwater and wastewater, production and supply of steam and hot water, in-line urban and suburban road transportation, maintenance of cleanliness in the Municipality, maintenance of landfills, regulation, maintenance and use of farmers' markets, parks, public green, recreational and other public areas, public parking lots, lighting, regulation and maintenance of cemeteries and burial services, etc., as well as ensure organisational, financial, and other conditions for performance thereof;
- 6) Ensure maintenance of residential buildings and their safe use, and determine the amount of fees for upkeep thereof;
- 7) Implement the procedure of eviction of illegal tenants from apartments and common areas in residential buildings;
- 8) Adopt a programme for construction land development, regulate and ensure performance of activities in construction land development and use, and determine the amount of fees for construction land development and use;
- 9) Adopt programs and implement local economic development projects, and ensure improvement of the overall economic activity framework in the Municipality;
- 10) Regulate and ensure the use of office space under its control, determine the amount of fees for office space lease, and supervise the use thereof;
- 11) Ensure protection of the environment, adopt programs for use and protection of natural resources and the environment, and local action and recovery plans, in accordance with strategic documents and own interests and specificities, and determine special fees for environmental protection and improvement;



- 12) Regulate and ensure performance of tasks related to construction, rehabilitation and reconstruction, maintenance, protection, utilisation, development and management of local and unclassified roads and streets in settlements;
- 13) Regulate and ensure special conditions and organisation of taxi services;
- 14) Regulate and ensure the organisation of transport in shipping, and determine coastal and water sections that can be used for construction and placement of hydro structures and vessel storage;
- 15) Establish stockpiles and determine their size and structure, with consent from competent ministries, for the purpose of meeting the needs of local population;
- 16) Establish institutions and organisations in the field of preschool and primary education, culture, primary health care, physical education, sports, child protection, and tourism, and monitor and ensure their functioning;
- 17) Establish institutions in the field of social protection and monitor and ensure their functioning, issue permits for the commencement of work of social protection institutions established by other legal entities and natural persons, determine the eligibility for provision of social services, establish norms and standards for conducting activities of institutions founded by the Municipality, issue regulations concerning rights to social protection, and perform state guardian activities;
- 18) Organise activities related to protection of cultural heritage of importance for the Municipality, encourage the development of cultural and artistic creativity, ensure resources for financing and co-financing of cultural projects and programmes of importance for the Municipality, and create conditions for operation of archives, institutes, museums, libraries, and other cultural institutions founded by the Municipality;
- 19) Organise protection from natural and other major disasters and fire protection, and create conditions for removal or mitigation of their consequences;
- 20) Adopt principles for protection, use and cultivation of agricultural land, and ensure implementation thereof, determine erosive areas, ensure the use of pastures, and improve farming;
- 21) Regulate and determine the manner for using and managing resources, public wells and fountains, establish water management requirements, and issue water management approvals and permissions for structures of local importance;
- 22) Ensure and provide conditions for preservation, use, and improvement of areas with natural healing properties;
- 23) Encourage and ensure the development of tourism in the territory of the Municipality and determine the amount of tourist fee;
- 24) Ensure the development and improvement of hospitality industry, crafts and trade, regulate working hours, and places where certain activities can be performed, and provide other conditions for performance thereof;
- 25) Manage the municipal property and use state owned means, and ensure conservation and maximization thereof;
- 26) Regulate and organise activities for keeping and protecting domestic and exotic animals;
- 27) Establish bodies, organisations and services of relevance for the Municipality and regulate their organisation and work;
- 28) Support the development of various forms of self-help and solidarity with persons with special needs, as well as persons who are in substantially unfair position compared to other citizens, and promote activities and provide assistance to organisations of disabled persons and other social aid organisations in the territory of the Municipality;
- 29) Encourage and support the development of cooperatives;
- 30) Organise legal aid services for citizens;
- 31) Ensure realisation, protection and promotion of human rights and individual and collective rights of minority and ethnic groups;



- 32) Ensure public information of local importance and ensure conditions for public information in Serbian language;
- 33) Prescribe sanctions for violations of municipal regulations;
- 34) Establish inspection services and inspect enforcement of regulations and other general acts within the competence of the Municipality;
- 35) Regulate organisation and work of reconciliation committees;
- 36) Regulate and ensure the use of municipal name, emblem and other symbols;
- 37) Perform other activities of direct interest for citizens in accordance with the Constitution, the law and the Statute.

The Municipality shall be independent in performing activities within its competence, in accordance with the Constitution, the law, and the Statute.

The following is an illustration of the structure of generated expenditures in the Budget of the Municipality in the last three (3) years. Expenditures were presented based on their functional classification according to tasks within the competence of the Municipality of Pirot, pursuant to the Law on Local Self-Government ("Official Gazette of RS", No. 129/2007), and the Statute of the Municipality.

Table 14. Functional classification of budget expenditures of the Municipality (RSD 000)

Classi- fication	Description	Execution 2009		Execution 2010		Execution 2011	
		Amount	%	Amount	%	Amount	%
0	Social protection	20,495	2.50	24,472	2.83	24,417	2.38
1	General public services	252,761	30.85	243,809	28.18	324,501	31.69
3	Public order and safety	3,667	0.45	4,078	0.47	3,938	0.38
4	Economic affairs	48,989	5.98	50,892	5.88	83,377	8.14
5	Environmental protection	57,062	6.97	60,684	7.01	57,838	5.65
6	Housing and public utilities	170,566	20.82	188,615	21.80	188,172	18.37
7	Health care	55	0.01	609	0.07	1,598	0.16
8	Recreation, culture and religion	121,253	14.80	128,987	14.91	150,612	14.71
9	Education	144,419	17.63	163,107	18.85	189,625	18.52
	TOTAL EXPENDITURES	819,267	100	865,253	100	1,024,078	100

Source: Municipality of Pirot

Functional classification of the consolidated budget execution of the Municipality suggests that the largest expenditures in the previous three years were associated with general public services (30.2% on average), housing and public utilities (20.3% on average), and education (18.3% on average). Expenditures concerning recreation, culture and religion, economic affairs and environmental protection were also significant. What follows are the expenditures for social protection, public order and safety, and health care.

2.1.2. Municipality of Pirot Sources of Funding

For the delivery of tasks delegated to the Municipality under the Constitution and the law, and for the performance of tasks delegated under the law within the framework of rights and responsibilities of the Republic, the Municipality shall collect revenue and proceeds determined under the Law on Local Self-Government Finance ("Official Gazette of RS" Nos. 62/2006 and 47/2011).



Municipal affairs shall be funded from: original and shared revenues, transfers, revenue from borrowing, and other revenues and proceeds set forth by law. For meeting the needs of population in the Municipality or a portion thereof, funds may be ensured from self-contributions that are regarded as budget revenues of the Municipality.

Original revenues shall be taxes, fees, and other charges the base and rate, and/or amount of which shall be determined by the Municipal Assembly of Pirot, in accordance with the law, and other revenues generated by the Municipality through own activities. Those shall include:

- Property taxes, excluding taxes for transfer of property rights, and taxes on gift and inheritance;
- Local administrative fees;
- Local utility fees;
- Tourist fee;
- Construction land use fee;
- Construction land development fee;
- Environmental protection and improvement fee;
- Revenues from concessions for public utility purposes, and revenues from other concessions the Municipality enters into in accordance with the law;
- Fines imposed in misdemeanour proceedings for offenses prescribed by the Assembly, and assets confiscated in such proceedings;
- Income from lease or use of publicly owned real estate used by the Municipality and indirect budget beneficiaries;
- Revenues from sale of moveable assets used by the Municipality and indirect budget beneficiaries;
- Revenue generated from activities of municipal bodies and organisations;
- Revenue from interest on funds from the municipal budget;
- Revenues from donations of the Municipality;
- Revenue from self-contributions;
- Other revenues established by law.

Shared revenues shall be taxes and fees the base and rate of which shall be determined by the Republic, with generated revenues shared between the Republic and the Municipality. Shared revenues that are entirely or partially transferred to the Municipality, according to the territory in which they were realised, shall include:

- Income tax:
 - Income from: agriculture and forestry, self-employment, real estate, lease of moveable property, personal insurance;
 - 80% of income tax paid based on employee's place of residence;
 - Other revenues in accordance with the law;
- Inheritance and gift tax;
- Tax on transfer of property rights;
- Annual fee for motor vehicles, tractors and trailers;
- Fee for: environmental pollution, use of mineral resources, extracted river materials, use of forests, water use, change in use of agricultural land, use of natural medicinal factors;
- Tourist fee;
- Other fees in accordance with the law.

Transfers from the budget of the Republic belonging to the municipal budget under the law shall include:

- **General transfers**, determined once a year based on generated gross domestic product and distributed to all local self-governments according to criteria established by law;
- **Conditional** transfers used for funding certain functions and expenditures.



Any additional transfers or delegating of new tasks to the Municipality shall impose an obligation of the Republic to ensure matching funds and revenue sources needed to perform such tasks.

Municipal revenues shall include **general budget revenues** that may be used for any purpose in accordance with the law and the Decision on the Municipal Budget, excluding revenues the **purpose of which has been established under the law**.

Municipality of Pirot shall collect own budget revenues in accordance with the law and other regulations, regardless of amounts budgeted for specific types of revenues.

Municipal Tax Department of Pirot shall be responsible, inter alia, for regular and enforced collection of local public revenues, unless specified otherwise by particular decision of the Municipal Assembly, for implementing tax procedure (assessment, collection, and control over local public revenues), and ensuring rights and responsibilities of taxpayers, as well as keeping the register of payers of own municipal revenues based on information derived from the Unique Register of Taxpayers.

The following is the representation of generated revenues and proceeds in the municipal budget over the past three (3) years.

Table 15. Municipal Budget revenues and proceeds (RSD 000)

No.	Description	Execution 2009		Execution 2010		Execution 2011	
		Amount	%	Amount	%	Amount	%
1.	ORIGINAL REVENUES AND PROCEEDS	158,715	19.46	180,923	21.04	237,298	21.84
	Property tax	47,010	5.76	56,854	6.61	63,680	5.86
	Local fees, charges, and other proceeds	79,333	9.73	68,451	7.96	91,764	8.44
	Construction land use fee	8,934	1.10	25,969	3.02	20,686	1.90
	Payroll tax, mixed and unspecified proceeds, and memo items	2,466	0.30	3,651	0.42	3,113	0.29
	Construction land development fee	14,592	1.79	16,142	1.88	10,360	0.95
	Donations	5,611	0.69	9,779	1.14	44,323	4.08
	Proceeds from sale of non-financial assets	769	0.09	77	0.01	3,372	0.31
	Proceeds from borrowing	0	0.00	0	0.00	0	0.00
2.	SHARED REVENUES AND PROCEEDS	656,876	80.54	678,923	78.96	849,350	78.16
	Shared income tax	376,147	46.12	400,890	46.62	534,952	49.23
	Other shared taxes and fees	41,386	5.07	32,852	3.82	51,276	4.72
	Current transfers	238,949	29.30	244,646	28.45	262,607	24.17
	Capital transfers	0	0.00	0	0.00	0	0.00
	Proceeds from sale of financial assets	394	0.05	535	0.06	515	0.05
	TOTAL REVENUES AND PROCEEDS (1+2)	815,591	100	859,846	100	1,086,648	100

Source: Municipality of Pirot

Generated revenues and proceeds over the previous three budget years suggest that original revenues and proceeds amounted to an average of 20.8%, while shared revenues and proceeds amounted to an average of 79.2% of the Pirot Municipal Budget. The most significant sources of municipal funding were: shared income tax (47.3% on average), current transfers (27.3% on average), and local taxes and fees (8.7% on average). Total budget revenues and proceeds in 2010 recorded an increase of 5.4% compared to 2009, and in 2011 recorded an increase of 26.4%, mostly due to increase in shared income tax by 33.4% and donations by 35.3%.

2.2. Assets and Liabilities of the Issuer

The Statute provides that the Municipality shall have own assets, independently managed and disposed with by municipal bodies, in accordance with the law. The Municipality shall dispose with property by leasing, trading and exchanging real estate in accordance with the Law on Public Property ("Official Gazette of RS", No. 72/2011), and the Regulation on conditions for acquiring and disposing with real property in direct negotiations, lease of public property and public tender procedure, and collection of written bids ("Official Gazette of RS", No. 24/2012). Preparation of the Decision on utility fees of the Municipality of Pirot and new Decision on fees for use of public property in accordance with amendments of the Law on Local Self-Government Finance and Law on Public Property is underway.

2.2.1. Property, Facilities, and Equipment

Local self-government units have pursuant to the 2009 Law on Planning and Construction become entitled to (public) ownership over construction land for which they were prior to the adoption of the aforesaid law recorded in the public register of real property and associated rights as holders of rights to use.

Publicly owned construction land or construction land owned by local self-government units may be alienated or leased for construction, or in the process of public bidding or tendering, by means of public announcement, in line with market conditions and in accordance with the Law on Planning and Construction.

In Pirot all economic sectors are developed, including: industry, agriculture, construction, trade, hospitality, transport and communications, housing and utility services, as well as financial and other services. The strongholds of economic development in Pirot are industry and agriculture, and in the upcoming period the priority will be strengthening and improving tourism.

One of eight free zones in the Republic of Serbia is located in the territory of the Municipality of Pirot. The free zone is a part of Serbia's territory, specifically sectioned off and designated for activities that are carried out under **guaranteed benefits and exemptions**.

Pursuant to the Law on Free Zones, performance of all activities is allowed therein, in particular the production of goods, processing, storage of goods and materials, banking and financial activities, insurance and reinsurance, travel and other services, and all types of activities that do not pollute the environment. Free Zone Pirot became operational in April 1998, pursuant to the Decision of the Federal Government adopted on 8 August 1996 on the site of Pirot Industrial Zone, with total area of 17 ha and possible expansion to 50 ha. Free Zone Pirot is a joint stock company with "Tigar" JSC as majority shareholder.

Free Zone Pirot:

- Free Zone Pirot is located along the Eastern Serbia gateway to the Middle East;
- It is connected with the E-80 and Corridor 10 highways that represent the shortest link between Europe and Asia;
- Free Zone was founded in 1998 pursuant to the Decision of the Federal Government, and today it operates within the Pirot Industrial Zone, covering an area of 65 ha, with the possibility of expansion;
- One of the leading free zones in the country.

Infrastructure:

- Free Zone covers an area of about 65 ha. Out of this number, 121,000 m² are designated as production areas, while 475,000 m² and about 46,000 m² are warehouse spaces, indoor and outdoor respectively;
- Free Zone has approximately 9,255 m² of office space.

Services:

- Support services aiming to ensure smooth operation;
- Freight forwarding services abroad;
- Domestic and foreign shipping;
- Loading and reloading;
- Container Depot;
- Warehouses and storage (indoor and outdoor);
- **"One stop shop"** organisation (clients can receive all customs and administrative permits for the flow of goods in one place).

Benefits from investing in the Free Zone Pirot:

- Exemptions from fees for urban construction land development, paid, in all other cases, by all those who wish to develop urban land in Serbia;
- Exemptions from payment of local administrative fees and expenses;
- Exemptions from local taxes;
- Exemptions from fees for urban land use;
- Exemptions from connection fees for water supply and sewage;
- Reduced rates for municipal services, water supply and sewage.

Figure 3. Free Zone Pirot



Municipality of Pirot, in addition to the Free Zone, can offer potential investors 4 more investment locations.

Planned investment locations were based on the General Urban Plan defined as locations for construction of business and industrial facilities and facilities for other purposes that meet the environmental protection criteria.

Advantages from investing in Municipality of Pirot include:

- Fiscal benefits (ten-year tax exemptions for large investments, accelerated write-off of fixed assets);
- Exemptions from customs duties for imported production equipment;
- Financial benefits (free movement of capital, profits and dividends);
- Local subsidies for using the infrastructure (low prices and low cost of services);
- Stimulating manufacturing activities by reducing construction land development fees based on number of employees.

Benefits from investing in Municipality of Pirot include:

- Location on Corridor 10 that links Europe with the Middle East;
- Free Trade Agreement with the EU and Russia, (0% customs rate), Free Trade Agreement with CEFTA, Belarus and Turkey;
- Educated and skilled labour force;
- Simplified regulations on foreign trade and foreign investment;
- The lowest corporate tax rate in Europe - 10%;
- The lowest income tax rate – 12%.

LOCATION 1 – “Prvi maj”

Area: Total area 8,000 m²

Ownership: Republic of Serbia

Purpose: Textile industry

Condition: Infrastructure in place

Figure 4. Location 1 – “Prvi maj”



LOCATION 2 – “Galantex”

Area: Total area 1,960 m²

Ownership: Private

Purpose: Textile industry

Condition: Infrastructure in place

Figure 5. Location 2 – “Galantex”



LOCATION 3 – “ATP”

Area: Total land area 53,007 m², total surface of the facility 5,214 m²

Ownership: Property Directorate

Planning basis: Yes

Purpose: The site is located within the industrial zone, 3 km from the city centre, 3.75 km from the main highway. The initial activity of this site was associated with the Pirot Transportation Enterprise. Condition of the facility: in order construction wise, installations partially defective, abandoned. Prospects for exploiting the facility: industry, storage, sporting and recreational activities, garage spaces, and administrative activities.

Condition: Infrastructure in place.

Figure 6. Location 3 – “ATP”



LOCATION 4 – “Beg Bašča”

Area: Total land area 250,000 m²

Ownership: Municipality of Pirot

Purpose: Industrial Zone Beg Bašča and Free Zone Pirot jointly comprise the Industrial Park. Total area of the Industrial Park is 103 ha. Free Zone includes JSC Tigar Tyres and a large number of smaller companies. Industrial Zone total area has 25 ha out of which 8 ha have the necessary infrastructure.

Condition: Infrastructure in place.

Figure 7. Location 4 – “Beg Bašča”





Information on available construction land locations may be found on the following website: Municipality of Pirot – Local Economic Development Office <http://www.ledo.pirot.rs/>

Potential investors may obtain further information and a complete overview of the land available for building commercial and economic facilities, and family and multi-home housing from representatives of the following institutions: PE "Directorate for Construction of the Municipality of Pirot", telephone number +381 (0) 10 321 122.

2.2.2. Share in Other Legal Entities

Municipality of Pirot is the founder of 5 public enterprises and two organisations:

- PUC "Komunalac";
- PUC "Toplana";
- PE "Parking Service";
- PE "Water Supply and Sewage";
- PE "Directorate for Construction of the Municipality of Pirot";
- JSC "Dom sportova";
- "Tourist Organisation of Pirot".

The following table illustrates main financial indicators of municipal enterprises extracted from their Annual Balances Sheets for 2010 and 2011.

Table 16. Financial information for municipal enterprises for 2010 and 2011 (RSD 000)

Enterprise		Total revenues	Total expenditures	Total assets	Total liabilities	Capital	Share
PUBLIC UTILITY COMPANIES							
"Toplana"	2010	187,219	186,938	431,225	431,225	4,001	100%
	2011	248,915	248,079	361,075	361,075	30,706	100%
"Komunalac"	2010	138,824	138,271	97,684	97,684	29,722	100%
	2011	179,886	176,259	105,608	105,608	34,203	100%
PUBLIC ENTERPRISES							
Public Urban Planning Enterprise	2010	18,995	18,995	8,336	8,336	0	100%
	2011	22,634	22,634	7,817	7,817	0	100%
Water Supply and Sewage	2010	155,920	155,526	373,574	294,053	79,521	100%
	2011	173,000	172,557	369,342	295,785	73,557	100%
Directorate for Construction*	2010	-	-	-	-	-	100%
	2011	-	-	-	-	-	100%
Parking Service	2010	16,895	16,825	37,081	37,030	6,060	100%
	2011	24,488	23,588	44,770	44,737	6,025	100%
TOTAL	2010	517,853	516,555	939,564	859,992	39,783	
	2011	648,923	643,117	880,795	807,205	70,934	

*Directorate for Construction of the Municipality of Pirot was founded in May 2012 by merging of the Urban Construction Land Fund and Public Urban Planning Enterprise.



2.2.3. Concessions and Other Contracts on Public – Private Partnership

Municipality of Pirot has not entered into any contracts on public-private partnership.

2.2.4. Major Capital Investments

There is an extensive list of current capital investments implemented in the previous period. The following are the most important ones:

- Reconstruction of the bypass road linking several suburban settlements with the city;
- Reconstruction of the Pirot – Dojkinci road, a very important road leading to future tourist destination Stara Planina;
- Construction of the Sports Hall “Kej”, a facility Pirot desperately needed;
- General reconstruction of the Pirotskih oslobodilaca Square for walking and relaxation;
- Construction of a new kindergarten “Bambi”, and preschool institution “Čika Jova Zmaj”;
- Building of a new building of the Historical Archives of Pirot, a long awaited investment;
- General reconstruction of the Nikole Pašića Street linking the city with the industrial district, and many others.

Municipality of Pirot is not indebted in classical terms. It services its obligations from the Agreement on Commission concluded between the Municipality of Pirot, Republic of Serbia Development Fund, and the Ministry of Spatial Planning and Environmental Protection, worth RSD 227 million intended for building Pirot indoor pool. Prior to the aforementioned Agreement, all capital investments were implemented with funds from own sources, donor funds and NIP funds, as well as funds from competent ministries. In the funding structure the main accent is on donor funds, primarily from the European Union, for building the Sports Hall “Kej”, new building of the Historical Archives, road in the Free Zone, opening of the Local Economic Development Office, and Regional Sanitary Landfill, as well as funds from the Ministry of Infrastructure intended for reconstruction of several routes leading to Stara Planina.

Construction of the Pirot indoor pool is underway funded by the Republic of Serbia Development Fund, on the basis of Loan Agreement signed on 7 February 2011 in the amount of RSD 227,907,713.52. Total amount of principal paid off so far is RSD 8,211,860.99.

Principal repayment obligation due by the end of the current fiscal year is RSD 6,024,842.99, and the due interest maturing by the end of the operating budget year is RSD 2,915,300.56.

2.2.5. Lien

Municipality of Pirot does not own property subject to lien.

2.2.6. Litigation and Other Proceedings

Municipality of Pirot does not participate in any litigation or other proceedings pending before a court or an administrative authority.



2.2.7. Total Amount of Liabilities of the Issuer Not Due by the Date of Application

Total debt of the Municipality after disbursement of funds on 7 May 2012 amounts to RSD 151.2 million. The following table shows debt repayment schedule.

Table 17. Debt repayment schedule* (RSD)

Year	Principal	Interest	Sum
2012	14,236,704	5,942,852	20,179,556
2013	25,191,523	10,953,422	36,144,945
2014	29,478,608	8,330,722	37,809,330
2015	33,142,145	4,667,199	37,809,344
2016	16,428,340	1,201,445	17,629,785
2017	1,617,891	46,494	1,664,385
TOTAL	120,095,211	31,142,135	151,237,346

*Amortisation plan, group 2-22

2.2.8. Total Amount of Outstanding Liabilities of the Issuer Due on the Date of Application

Municipality of Pirot regularly services its obligations and has no outstanding liabilities.

2.2.9. Municipal Administration Employees

Total number of employees and the number of employees with a certain level of education working in the local self-government and budget beneficiaries in the past three years is shown in the following table.

Table 18. Number and the educational structure of employees

Education	2009		2010		2011	
	Municipal administration	Budget beneficiaries	Municipal administration	Budget beneficiaries	Municipal administration	Budget beneficiaries
University	55	52	64	53	74	44
College	26	32	34	30	31	21
Secondary	53	50	48	52	51	48
Other	26	23	26	19	22	19
Total	160	157	172	154	178	132

2.3. Financial Information

2.3.1. Municipality of Pirot Budget from Past Three Years

The Municipality independently disposes with belonging revenues and proceeds, in accordance with the law and the Decision on the Budget of the Municipality, adopted in accordance with the Budget System Law („Official Gazette of RS“, Nos. 09/02, 87/02 and 54/09). Pursuant to the Law, the budget shall represent the decision that estimates revenues and proceeds and determines expenditures and expenses for a given year. The budget shall consist of general and special parts. **The general part of the budget** shall include:

- Income statement, net acquisition of non-financial assets, and budget surplus or deficit;
- Overall fiscal surplus or deficit;
- Funding account: use of the surplus or funding deficit;
- Evaluation of new loans and debt repayment, and
- Current and permanent budget reserve.

The following is the representation of the municipal budget execution over the last three budget years.

Table 19. Municipal budget execution, 2009-2011 (RSD 000)

Classification	Description	Execution 2009	Execution 2010	Execution 2011
A	REVENUES AND PROCEEDS	913,308	1,190,590	1,194,817
7	CURRENT REVENUES	911,438	1,187,888	1,190,136
8	PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	1,870	2,702	4,681
B	EXPENDITURES AND EXPENSES	1,033,986	1,108,553	1,286,633
4	CURRENT EXPENDITURES	780,008	827,222	931,153
5	EXPENDITURES FOR PURCHASE OF NON-FINANCIAL ASSETS	253,978	281,331	355,480
	NET PURCHASE OF NON-FINANCIAL ASSETS (8-5)	-252,108	-278,629	-350,799
I	BUDGET SURPLUS/DEFICIT (A-B)	-120,678	82,037	-91,816
9,6	ACCOUNT FUNDING			
9	Proceeds from borrowing and financial assets	394	535	515
6	Repayment of debt and purchase of financial assets	753	429	355
II	FISCAL SURPLUS/DEFICIT (I+9-6)	-121,037	82,143	-91,656
3	SURPLUS FROM PREVIOUS YEARS	10,992	7,323	1,935
III	TOTAL SURPLUS/DEFICIT (II+3)	-110,045	89,466	-89,721

Source: Municipality of Pirot

Based on presented data on the Municipality of Pirot budget execution, it is evident that in the period 2009 – 2011, year 2010 generated an overall fiscal surplus at end-year worth approximately RSD 89.5 million, whereas 2009 and 2011 generated an overall deficit of RSD 89.7 million and RSD 110 million, respectively.

Period 2009 – 2011 generated an overall fiscal deficit (except for 2010 with recorded overall fiscal surplus) that ranged between RSD 91.6 million and RSD 121 million, due to a more rapid increase in expenditures for procurement of non-financial assets than in proceeds from sale of non-financial assets.



Table 20. Execution of municipal budget revenues and proceeds, 2009 – 2011 (RSD 000)

Classification	Description	Execution 2009	Execution 2010	Execution 2011
7	REVENUES	814,428	859,235	1,082,761
71	Taxes	497,053	529,266	688,475
711	Taxes on income, profit, and capital gains	376,147	400,889	534,952
712	Income fund tax	77	23	
713	Property tax	77,093	78,069	100,655
713120	Property tax	47,000	56,854	63,679
713310	Inheritance and gift tax	1,521	2,406	2,019
713420	Tax on capital transactions	28,572	18,809	34,957
713610	Tax on stocks and shares			
714	Tax on goods and services	23,405	26,546	28,023
714400	Tax on individual services	254	160	
714500	Taxes, fees, and charges for the use of goods	23,151	26,386	28,023
716	Other taxes	20,331	23,739	24,845
716110	Municipal company tax	20,331	23,739	24,845
73	Donations and transfers	244,559	254,425	306,930
732100	Capital donations from international institutions	5,611	9,779	44,323
733100	Current transfers from other levels of government	238,948	244,646	262,607
733200	Capital transfers from other levels of government			
74	Other revenues	71,729	73,897	85,314
741	Revenues from property	34,667	32,255	46,016
741100	Interest	21,365	1,528	7,958
741200	Dividends		912	10,500
741500	Other charges	13,302	29,815	27,558
742	Revenues from sale of goods and services	34,154	33,545	31,839
742100	Revenues from sale of goods and services or lease by market organisations	11,141	3,515	8,771
742200	Fees and charges	22,913	29,905	22,991
742300	Other sale of goods and services by state nonmarket units	100	125	77
743	Fines and confiscated assets	1,366	6,115	5,313
744	Voluntary transfers from natural and legal entities	240	0	1,075
745	Mixed and unspecified revenues	1,302	1,982	1,071
77	Memorandum items for reimbursement of expenses	1,087	1,647	2,042
	PROCEEDS	1,163	612	3,887
8	Proceeds from sale of non-financial assets	769	77	3,372
81	Proceeds from sale of fixed assets	769	77	169
82	Proceeds from sale of stock			3,203
9	Proceeds from borrowing and sale of financial assets	394	535	515
91	Proceeds from borrowing			
92	Proceeds from sale of financial assets	394	535	515
3	SURPLUS FROM PREVIOUS YEARS	10,992	7,323	1,935
32	Unspent funds from previous years	10,992	7,323	1,935
	TOTAL REVENUE AND PROCEEDS	826,583	867,170	1,088,583

Source: Municipality of Pirot



Data on generated budget revenues and proceeds of the Municipality of Pirot in the period 2009 – 2011 suggest the following:

- Revenues from taxes recorded a continual increase in the observed accounting period, specifically in 2010 by 6.5% due to slight increase in business activity in the Republic of Serbia and increase in nominal gross wages, whereas 2011 recorded a decline in revenues from taxes by 30.1%;
- Revenues from donations and transfers showed a steady increase in the period 2009 – 2011 by: 4% in 2010 due to increase in current transfers from other levels of government, and 20% in 2011 due to increase in revenues from donations and transfers;
- Proceeds from sale of non-financial assets fluctuated from year to year depending on market conditions for sale of certain municipal property, and those proceeds are to be reused for the maintenance or purchase of assets;
- The Municipality during the reporting period has not borrowed. Proceeds from sale of financial assets in the reporting accounting period amounted to: in 2009, RSD 394 thousand; in 2010, RSD 535 thousand; and in 2011, RSD 515 thousand from sale of domestic shares.

Table 21. Execution of expenditures and expenses in the municipal budget, 2009-2011 (RSD 000)

Classification	Description	Execution 2009	Execution 2010	Execution 2011
	EXPENDITURES	690,031	734,862	852,946
4	CURRENT EXPENDITURES	690,031	734,862	852,946
41	Payroll expenditures	288,564	296,046	319,344
42	Use of goods and services	187,035	194,703	224,495
43	Depreciation			
44	Repayment of interest and costs of borrowing		2	
45	Subsidies	55,178	60,007	86,841
46	Donations, grants, and transfers	76,323	93,648	121,502
47	Social insurance and social protection	16,863	20,617	21,473
48	Other expenditures	66,068	69,839	79,291
	EXPENSES	129,229	130,373	195,304
5	NON-FINANCIAL ASSETS EXPENSES	128,476	129,944	194,949
51	Fixed assets	112,997	114,366	161,420
52	Stock			
54	Natural assets	15,479	15,579	33,529
55	Non-financial assets from NIP funds			
6	DEBT AND FINANCIAL ASSETS EXPENSES	753	429	355
61	Repayment of principal			
62	Purchase of financial assets	753	429	355
	TOTAL EXPENDITURES AND EXPENSES	819,260	865,235	1,048,250

Source: Municipality of Pirot

Data on executed budget expenditures and expenses of the Municipality of Pirot in the period 2009 – 2011, suggest the following:

- Expenditures and expenses were executed in accordance with generated budget revenues and proceeds;



- Increase in current expenditures is apparent in the entire reporting period, with the largest increase recorded in transfers to municipal enterprises (22.7% more than the year before), while payroll expenditures were maintained at the level from the previous accounting year;
- Expenditures for purchase of non-financial assets in 2010 increased by 1.1% and in 2011 by 50% compared to the previous budget year,
- Expenditures for financial assets and loan repayment were mostly related to the purchase of financial assets as loans to domestic non-financial private enterprises, and purchase of domestic shares.

Table 22. Municipal budget execution in 2010 and 2011 (summative revenues and proceeds) (RSD 000)

Classification	Description	Execution 2010	Execution 2011	Index 11/10
A	REVENUES AND PROCEEDS (7+8)	859,312	1,086,133	126.40
7	CURRENT REVENUES	859,235	1,082,761	126.01
71	Taxes	529,266	688,474	130.08
73	Donations and transfers	254,425	306,931	120.64
74	Other revenues	73,897	85,314	115.45
77	Memorandum items	1,647	2,042	123.98
79	Budget revenues	0	0	
8	PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	77	3,372	4379.22
81	Proceeds from sale of fixed assets	77	3,372	219.48
82	Proceeds from sale of stock	0	0	
B	EXPENDITURES AND EXPENSES (4+5)	864,806	1,047,895	121.17
4	CURRENT EXPENDITURES	734,862	852,946	116.07
41	Payroll expenditures	296,046	319,344	107.87
42	Use of goods and services	194,703	224,495	115.30
43	Depreciation	0	0	
44	Repayment of interest and costs of borrowing	2	0	0.00
45	Subsidies	60,007	86,841	144.72
46	Donations, grants, and transfers	93,648	121,502	129.74
47	Social insurance and social protection	20,617	21,473	104.15
48	Other expenditures	69,839	79,291	113.53
5	EXPENDITURES FOR NON-FINANCIAL ASSETS	129,944	194,949	150.03
51	Fixed assets	114,366	161,420	141.14
52	Stock	0	0	
54	Natural assets	15,578	33,529	215.23
	NET PURCHASE OF NON-FINANCIAL ASSETS (8-5)	-129,867	-191,577	147.52
I	BUDGET SURPLUS/DEFICIT (A-B)	-5,494	38,238	-696.00
9,6	ACCOUNT FUNDING	106	160	150.94
91	Proceeds from borrowing	0	0	
92	Proceeds from sale of financial assets	535	515	96.26
61	Repayment of principal	0	0	
62	Purchase of financial assets	429	355	82.75
II	FISCAL SURPLUS/DEFICIT (I+9-6)	-5,388	38,398	-712.66
3	SURPLUS FROM PREVIOUS YEARS	7,323	1,935	26.42
III	TOTAL SURPLUS/DEFICIT (II+3)	1,935	40,333	2084.39

Source: Municipality of Pirot



Comparing of data on generated revenues and proceeds and executed expenditures and expenses in the budget of the Municipality of Pirot in the period 2010 – 2011, suggests the following:

- Expenditures and expenses were executed in accordance with generated budget revenues and proceeds;
- Current revenues in 2011 increased by 26% compared to 2010, due to increase in taxes by 30.1% and increase in memorandum items by 24%;
- Current expenditures recorded an overall increase of 16.1% compared to 2011, with the greatest recorded increase of 44.7% in subsidies;
- Expenditures for purchase of non-financial assets generated in the observed period increased by 50% and expenditures for natural assets increased by 115%.

2.3.2. Excerpt from Municipality of Pirot Balance Sheets from Past Three Years

Municipal Assembly shall by the end of the year for which the budget is passed, adopt the Municipal Budget Annual Balance Sheet, in accordance with the Budget System Law. Municipal Budget and Annual Balance Sheet of the municipality shall be made available to the public. Pursuant to Article 79 of the Law, **Annual Balance Sheet** shall be prepared in accordance with internationally accepted accounting standards, and contain the following:

- Balance Sheets;
- Income Statement;
- Report on expenditures for purchase of non-financial assets and proceeds from sale thereof;
- Balance of funding;
- Report on budget execution;
- Explanation of discrepancies between approved and executed funds;
- Report on received donations and borrowing in domestic and foreign cash and capital markets, and debt repayment;
- Report on use of funds from current and permanent budget reserves;
- External audit report of financial statements referred to in points 1) – 9);
- Report on programme section of the budget outputs;
- Detailed report on implementation of programme funds and projects funded from the budget;
- Notes on accounting policies and additional analysis.

All financial statements within Annual Balance Sheets were produced as consolidated reports. Consolidation included 10 indirect budget beneficiaries.

Table 23. Indirect budget beneficiaries subject to consolidation

Name of indirect budget beneficiary	Number of employees
House of Culture	29
Library	16
National Theatre	20
Ponišavlje Museum	16
Gallery	4
Archives	8
Kindergarten	135
Tourist Organisation of Pirot	3
Pirot Sports Centre	37
Directorate for Construction of Pirot	37
TOTAL	305



Below are excerpts from key financial statements from the Municipality of Pirot Annual Balance Sheets for the previous three years.

Table 24. Excerpt from consolidated Municipal Balance Sheet (RSD 000)

Ac-count	Description	Balance on 31.12.2009	Balance on 31.12.2010	Balance on 31.12.2011
A	ASSETS	1,620,350	1,888,226	2,120,825
0	NON-FINANCIAL ASSETS	1,451,656	1,661,964	1,863,376
01	NON-FINANCIAL ASSETS IN FIXED ASSETS	1,449,078	1,660,697	1,861,791
02	NON-FINANCIAL ASSETS IN STOCK	2,578	1,267	1,585
1	FINANCIAL ASSETS	168,694	226,262	257,449
11	LONG-TERM FINANCIAL ASSETS	19,612	20,743	21,098
12	CASH, PRECIOUS METALS, SECURITIES, RECEIVABLES, AND SHORT-TERM INVESTMENTS	102,082	185,311	93,919
13	ACCRUALS	47,000	20,208	142,432
35	OFF BALANCE SHEET ASSETS	45	45	0
L	LIABILITIES	1,620,350	1,888,226	2,120,825
2	LIABILITIES	73,570	47,228	170,075
21	LONG-TERM LIABILITIES	87		94,038
22	SHORT-TERM LIABILITIES			
23	PAYROLL EXPENDITURES	1,518	1,870	44
24	OTHER EXPENDITURES	506	803	28,279
25	ACCOUNTS PAYABLE	44,589	18,638	20,469
29	DEFERED EXPENSES	26,870	25,917	27,245
3	CAPITAL, DETERMINATION OF BUSINESS PERFORMANCE	1,546,780	1,840,998	1,950,750
31	CAPITAL	1,505,942	1,683,685	1,886,230
32	SURPLUS REVENUE AND EARNINGS – SURPLUS	9,053	152,663	61,960
32	UNDISTRIBUTED SURPLUS REVENUES AND PROCEEDS FROM PREVIOUS YEARS	31,912	4,872	2,560
32	DEFICIT FROM PREVIOUS YEARS	127	222	
35	OFF BALANCE SHEET LIABILITIES	45	45	0

Source: Municipality of Pirot

Data presented in the Municipality of Pirot Balance Sheets for the previous three years suggest the following:

- The value of total assets of the Municipality in the period 2009 – 2011 increased by RSD 500 million or 30.9% to amount to RSD 2.1 billion on 31 December 2011.
- It is necessary to draw attention to the fact that balance sheets due to unresolved property issues with the Republic did not include all assets used by the Municipality. There are estimates that the total value of assets of the Municipality will be far greater after passing the anticipated law on restitution and public property.
- Municipal capital in the observed period increased by 26.1% to amount to RSD 1.9 million at the end of 2011.
- Long-term liabilities of the Municipality at the end of 2011 amounted to RSD 94 million for capital investments loans.



Table 25. Excerpt from the consolidated Income Statement of the Municipality (RSD 000)

Classification	Description	Execution 2009	Execution 2010	Execution 2011
A	CURRENT REVENUES AND PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	913,308	1,190,590	1,194,817
7	CURRENT REVENUES	911,438	1,187,888	1,190,136
71	Taxes	497,054	529,267	688,476
72	Social contributions			
73	Donations and transfers	258,668	510,401	350,586
74	Other revenues	148,713	142,996	145,839
77	Memorandum items for reimbursement of expenditures	7,003	5,224	5,235
78	Transfers between budget beneficiaries			
79	Budget revenues			
8	PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	1,870	2,702	4,681
81	Proceeds from sale of fixed assets	769	2,441	3,372
82	Proceeds from sale of stock	1,101	261	1,309
B	CURRENT EXPENDITURES AND EXPENSES FOR NON-FINANCIAL ASSETS	1,033,986	1,108,553	1,286,663
4	CURRENT EXPENDITURES	780,008	827,222	931,153
41	Payroll expenditures	316,450	323,399	347,427
42	Use of goods and services	236,913	256,723	277,320
43	Depreciation and use of means for work	344	411	439
44	Repayment of interest and costs of borrowing	11	2	19
45	Subsidies	55,177	60,007	86,841
46	Donations, grants and transfers	76,552	93,710	121,552
47	Social security and social care	15,114	18,167	17,476
48	Other expenditures	79,447	74,803	80,079
5	EXPENDITURES FOR NON-FINANCIAL ASSETS	253,978	281,331	355,480
51	Fixed assets	237,935	265,431	321,068
52	Stock	564	321	883
54	Natural assets	15,479	15,579	33,529
55	NIP funded assets			
	DETERMINATION OF BUSINESS RESULTS			
	Surplus revenues and earnings – budget surplus (A-B)		82,037	
	Deficit revenues and earnings – budget deficit (B-A)	120,678		91,816
	SURPLUS/DEFICIT AND CORRECTION OF REVENUES AND PROCEEDS	130,484	71,055	154,131
	Portion of general surplus revenues and proceeds from previous years used for covering expenditures and expenses in the current year	736	179	428
	Portion of depreciation funds used for purchasing non-financial assets	2,956	1,509	
	Portion of unspent funds carried over from previous years to cover expenditures and expenses in the current year	1,029	394	535
	Amount of revenues from privatisation used to cover expenditures and expenses in the current year	736	179	428



Classification	Description	Execution 2009	Execution 2010	Execution 2011
	COVERING EXPENDITURES WITH CURRENT REVENUES AND PROCEEDS	753	429	355
	Expenditures for repayment of loan liabilities			
	Expenditures for purchase of financial assets	753	429	355
32	SURPLUS REVENUES AND PROCEEDS – SURPLUS	9,053	152,663	61,960
	Portion of surplus revenues and proceeds specifically committed to the next year	6,801	151,493	61,169
	General portion of surplus revenues and proceeds to be transferred into the next year	2,252	1,170	791

Source: Municipality of Pirot

Income Statements for 2009, 2010, and 2011 report all revenues and proceeds, and expenditures and expenses for non-financial assets, generated and executed between 1 January and 31 December of the respective budget year. Subsequent to establishing performance in a given budget year, the statements present sources of funds for covering generated deficit in revenues and proceeds, or the manner for using surplus revenues and proceeds. The final section in statements shows surplus revenues and proceeds to be transferred into the next budget year.

In the period 2009 – 2011, Municipality of Pirot generated budget surplus in 2010 worth RSD 82 million, and budget deficit in 2009 and 2011 of RSD 120.7 million and RSD 91.8 million, respectively. Surplus from previous budget years and revenues from privatisation allowed the Municipality to at the end of mentioned budget years produce an overall fiscal surplus between RSD 9 million and RSD 152.7 million.

Table 26. Excerpt from report on capital expenditures and proceeds of the City (RSD 000)

Classification	Description	Execution 2009	Execution 2010	Execution 2011
A	PROCEEDS	2,264	3,237	5,196
8	PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	1,870	2,702	4,681
81	Proceeds from sale of fixed assets	769	2,441	3,372
82	Proceeds from sale of stocks	1,101	261	1,309
9	PROCEEDS FROM BORROWING AND SALE OF FINANCIAL ASSETS	394	535	515
91	Proceeds from borrowing	0	0	0
92	Proceeds from sale of financial assets	394	535	515
B	EXPENDITURES	254,731	281,760	355,835
5	EXPENDITURES FOR NON-FINANCIAL ASSETS	253,978	281,331	355,480
51	Fixed assets	237,935	265,431	321,068
52	Stock	564	321	883
54	Natural assets	15,479	15,579	33,529
55	Non-financial assets funded from NIP funds	0	0	0
6	EXPENDITURES FOR REPAYMENT OF PRINCIPAL AND PURCHASE OF FINANCIAL ASSETS	753	429	355
61	Repayment of principal	0	0	0
62	Purchase of financial assets	753	429	355
	PROCEEDS DEFICIT (B-A)	-252,467	-278,523	-350,639

Source: Municipality of Pirot



Income Statements for 2009, 2010, and 2011 report all proceeds from sale of assets (financial and non-financial) and borrowing, as well as expenditures for purchasing assets and repaying principle, generated and executed between 1 January and 31 December of a given budget year. Statements determined generated surplus or deficit of proceeds over expenses at the budget year-end.

Table 27. Excerpt from consolidated cash flow report of the Municipality (RSD 000)

Classification	Description	Execution 2009	Execution 2010	Execution 2011
A	CASH INFLOWS	913,702	1,191,125	1,195,332
7	CURRENT REVENUES	911,438	1,187,888	1,190,136
71	Taxes	497,054	529,267	688,476
72	Social contributions	0	0	0
73	Donations and transfers	258,668	510,401	350,586
74	Other revenues	148,713	142,996	145,839
77	Memorandum items for reimbursement of expenditures	7,003	5,224	5,235
78	Transfers between budget beneficiaries	0	0	0
79	Budget revenues	0	0	0
8	PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	1,870	2,702	4,681
81	Proceeds from sale of fixed assets	769	2,441	3,372
82	Proceeds from sale of stock	1,101	261	1,309
9	PROCEEDS FROM BORROWING AND SALE OF FINANCIAL ASSETS	394	535	515
91	Proceeds from borrowing	0	0	0
92	Proceeds from sale of financial assets	394	535	515
B	CASH OUTFLOWS	1,034,739	1,108,982	1,286,988
4	CURRENT EXPENDITURES	780,008	827,222	931,153
41	Payroll expenditures	316,450	323,399	347,427
42	Use of goods and services	236,913	256,723	277,320
43	Depreciation and use of means for work	344	411	439
44	Repayment of interest and costs of borrowing	11	2	19
45	Subsidies	55,177	60,007	86,841
46	Donations, grants and transfers	76,552	93,710	121,552
47	Social insurance and social protection	15,114	18,167	17,476
48	Other expenditures	79,447	74,803	80,079
5	EXPENDITURES FOR NON-FINANCIAL ASSETS	253,978	281,331	355,480
51	Fixed assets	237,935	265,431	321,068
52	Stock	564	321	883
54	Natural assets	15,479	15,579	33,529
55	Assets funded from NIP funds	0	0	0



Classification	Description	Execution 2009	Execution 2010	Execution 2011
6	EXPENDITURES FOR REPAYMENT OF PRINCIPAL AND PURCHASE OF FINANCIAL ASSETS	753	429	355
61	Repayment of principal	0	0	0
62	Purchase of financial assets	753	429	355
	SURPLUS CASH INFLOWS (A-B)		82,143	
	DEFICIT CASH INFLOWS (B-A)	121,037		91,656
C	CASH BALANCE, BEGINNING OF YEAR	197,079	75,785	158,933
D	CORRECTED INFLOWS FOR RECEIVED FUNDS IN THE BALANCE	914,116	1,192,085	1,195,802
	Correction of cash inflow for funds collected and not recorded in classes 7, 8 and 9	414	960	470
E	CORRECTED OUTFLOWS FOR PAID FUNDS IN THE BALANCE	1,035,410	1,108,937	1,288,389
	Correction of cash outflows for the amount of calculated depreciation recorded at the expense of own revenues	408	411	
	Correction of cash outflows for the amount of paid expenditures not recorded in classes 4, 5 and 6	1,079	366	1,401
	CASH BALANCE AT THE YEAR END (C+D-E)	75,785	158,933	66,346

Source: Municipality of Pirot

Cash Flow Statements for 2009, 2010, and 2011 report all inflows and outflows of cash funds in the consolidated account of the municipal Treasury, classified according to revenues and proceeds paid between 1 January and 31 December of the budget year. By including cash balance at the year-beginning and non-recorded inflows and outflows (class of accounts from 4 to 9), the statements determine and present the cash balance in the consolidated treasury account at the budget year-end. Therefore, the statements represent the cash flow consolidation for all sub-accounts within the Municipality of Pirot Treasury.

Table 28. Excerpt from consolidated reports on Municipal Budget execution (RSD 000)

Classification	Description	Execution 2009	Execution 2010	Execution 2011
A	CURRENT REVENUES AND PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	913,308	1,190,590	1,194,817
7	CURRENT REVENUES	911,438	1,187,888	1,190,136
71	Taxes	497,054	529,267	688,476
72	Social contributions	0	0	0
73	Donations and transfers	258,668	510,401	350,586
74	Other revenues	148,713	142,996	145,839
77	Memorandum items for reimbursement of expenses	7,003	5,224	5,235
78	Transfers between budget beneficiaries	0	0	0
79	Budget revenues	0	0	0
8	PROCEEDS FROM SALE OF NON-FINANCIAL ASSETS	1,870	2,702	4,681
81	Proceeds from sale of fixed assets	769	2,441	3,372
82	Proceeds from sale of stock	1,101	261	1,309



Classification	Description	Execution 2009	Execution 2010	Execution 2011
9	PROCEEDS FROM BORROWING AND SALE OF FINANCIAL ASSETS	394	535	515
91	Proceeds from borrowing	0	0	0
92	Proceeds from sale of financial assets	394	535	515
B	TOTAL REVENUES AND PROCEEDS	913,702	1,191,125	1,195,332
C	CURRENT EXPENDITURES AND EXPENSES FOR PURCHASE OF NON-FINANCIAL ASSETS	1,033,986	1,108,553	1,286,633
4	CURRENT EXPENDITURES	780,008	827,222	931,153
41	Payroll expenditures	316,450	323,399	347,427
42	Use of goods and services	236,913	256,723	277,320
43	Depreciation and use of means of work	344	411	439
44	Repayment of interest and costs of borrowing	11	2	19
45	Subsidies	55,177	60,007	86,841
46	Donations, grants and transfers	76,552	93,710	121,552
47	Social security and social protection	15,114	18,167	17,476
48	Other expenditures	79,447	74,803	80,079
5	EXPENDITURES FOR NON-FINANCIAL ASSETS	253,978	281,331	355,480
51	Fixed assets	237,935	265,431	321,068
52	Stock	564	321	883
54	Natural assets	15,479	15,579	33,529
55	Assets funded from NIP funds	0	0	0
6	EXPENDITURES FOR REPAYMENT OF PRINCIPAL AND PURCHASE OF FINANCIAL ASSETS	753	429	355
61	Repayment of principal	0	0	0
62	Purchase of financial assets	753	429	355
D	TOTAL EXPENDITURES AND EXPENSES	1,034,739	1,108,982	1,286,988
	BUDGET SURPLUS (A-C) > 0		82,037	
	BUDGET DEFICIT (C-A) > 0	120,678		91,816
	SURPLUS PROCEEDS (9-6) > 0		106	160
	DEFICIT PROCEEDS (6-9) > 0	585		
	SURPLUS CASH INFLOWS (B-D) > 0		82,143	
	DEFICIT CASH INFLOWS (D-B) > 0	121,037		91,656

Source: Municipality of Pirot

Reports on budget execution for 2009, 2010, and 2011 show planned and generated revenues and proceeds, as well as approved appropriations and executed budget expenditures and expenses of the Municipality and budget beneficiaries between 1 January and 31 December of the budget year. Reports show the execution of the Decision on the Budget of the Municipality of Pirot. They show the sources of funding for expenditures and expenses of the budget and budget beneficiaries, such as revenues and proceeds from: Budget of the Republic, municipal budget, donations, and other sources (for example, budget beneficiaries' own revenues).



2.3.3. Relevant Performance Indicators for the Past Three Years

Report on Execution of the Municipal Budget for budget funds was reclassified in order to demonstrate successful performance and credit rating of the Municipality. Regrouping current revenues and current expenditures from annual financial reports for 2009, 2010, and 2011 completed the reclassification. Reclassified report on budget execution allows special consideration of revenues and expenditures within the operating budget, and in particular within the capital budget of the Municipality.

Operating budget shows current revenues and current expenditures. Current revenues include all original and shared budget revenues of the Municipality as well as current transfers from the Republic of Serbia. Current expenditures are based on economic classification divided into: payroll, social benefits, purchase of goods and services, current transfers, current subsidies to enterprises, paid interest and charges, and other current expenditures.

Capital budget shows capital investments related expenditures and means for their funding. Appropriations in the capital budget include: expenses for non-financial assets, capital transfers to other levels of government, and capital subsidies to public enterprises founded by the Municipality. Revenues in the capital budget include: proceeds from sale of non-financial assets and current revenues intended for covering capital investment expenditures (capital transfers from the Republic, self-contributions, construction land development and construction land lease fees, and capital donations and transfers).

Table 29. Reclassified consolidated reports on Municipal Budget execution (RSD 000)

No.	Description	Execution 2009	Execution 2010	Execution 2011
A	CURRENT REVENUES AND EXPENDITURES			
1.	CURRENT REVENUES	782,631	827,537	1,018,147
	Property tax	47,010	56,854	63,680
	Local charges and fees	79,139	92,295	105,632
	Shared income tax	376,147	400,890	534,952
	Other shared taxes and fees	41,386	32,852	51,276
	Current transfers	238,949	244,646	262,607
2.	CURRENT EXPENDITURES	690,032	734,253	846,240
	Payroll expenditures	288,565	296,047	319,344
	Expenditures for goods and services	187,035	194,703	224,495
	Payment of interest and fees			
	Current subsidies	55,178	60,008	84,341
	Current transfers and donations	76,323	93,040	117,296
	Social insurance and social protection	16,863	20,617	21,473
	Other current expenditures	66,068	69,838	79,291
3	CURRENT SURPLUS/DEFICIT (1-2)	92,599	93,284	171,907
B	CAPITAL REVENUES AND EXPENDITURES			
4.	CAPITAL REVENUES	24,489	22,000	61,196
	Self-contributions	100		1
	Construction land development and use fees	23,620	18,267	17,177
	Capital transfers			
	Capital donations		3,656	40,646
	Proceeds from sale of non-financial assets	769	77	3,372



No.	Description	Execution 2009	Execution 2010	Execution 2011
5.	CAPITAL EXPENDITURES	128,476	130,553	201,656
	Expenses for purchase of non-financial assets	128,476	129,944	194,950
	Capital transfers to other levels of government		609	4,206
	Capital subsidies to public companies			2,500
6.	NET PURCHASE OF NON-FINANCIAL ASSETS	-103,987	-108,553	-140,460
7.	BUDGET SURPLUS/DEFICIT (3-6)	-11,388	-15,269	31,447
C	ACCOUNT FUNDING			
	Proceeds from sale of financial assets	393	535	515
	Proceeds from borrowing			
	Expenses for purchase of financial assets	753	429	355
	Repayment of debt			
8.	SURPLUS/DEFICIT AFTER FINANCING	-11,748	-15,163	31,607
D	SURPLUS FROM PREVIOUS YEARS			
	Unspent funds from previous years	1,029	394	766
	TOTAL SURPLUS/DEFICIT	-10,719	-14,769	32,373

Source: Municipality of Pirot

Table 30. Generated surplus in the current consolidated budget of the Municipality (RSD 000)

No.	Description	2009	2010	2011
1.	Total revenues and proceeds (non-consolidated)	815,591	859,847	1,086,648
2.	Current revenues (reclassified)	782,631	827,537	1,018,147
3.	Current surplus	92,599	93,284	171,907
4.	Current surplus in total revenues and proceeds (3/1)	11.35%	10.85%	15.82%
5.	Current surplus in current revenues (3/2)	11.83%	11.27%	16.88%

Source: Municipality of Pirot

Reclassified data on consolidated budget execution suggest that Municipality of Pirot in 2009, 2010, and 2011 maintained a stable surplus of current revenues over current expenditures, that was anywhere between RSD 92.6 million and RSD 171.9 million. Despite significant reduction in current transfers from the budget of the Republic, the Municipality managed to maintain current surplus at the level of, on average 14.3% of current revenues.

Table 31. Net current surplus in the Municipal Budget, after debt repayment (RSD 000)

No.	Description	2009	2010	2011
1.	Total revenues and proceeds (non-consolidated)	815,591	859,847	1,086,648
2.	Current revenues (reclassified)	782,631	827,537	1,018,147
3.	Current surplus	92,599	93,284	171,907
4.	Expenditures for debt repayment	0	0	0
5.	Net current surplus after debt repayment (3-4)	92,599	93,284	171,907
6.	Net current surplus in total revenues and proceeds (5/1)	11.35%	10.85%	15.82%
7.	Net current surplus in current revenues (5/2)	11.83%	11.27%	16.88%

Source: Municipality of Pirot



Data in preceding table show the amount of net current surplus that remains after servicing debt related liabilities that can be used for financing capital investment expenditures or new debt. Net current surplus in the past three budget years ranged between 11.27% and 16.88% of reclassified current revenues in the consolidated Municipality of Pirot Budget.

Table 32. Managing municipal debt (RSD 000)

No.	Description	2009	2010	2011
DEBT PURSUANT TO THE LAW ON PUBLIC DEBT				
1.	Current nonconsolidated budget revenues from previous year	925,852	814,428	859,235
2.	Debt liabilities at year-end	0	0	0
3.	Ratio 1: Share of debt liabilities in current revenues ($2/1 \leq 50\%$)	0.00%	0.00%	0.00%
4.	Expenditures for interest and fees	11	2	19
5.	Debt repayment	0	0	0
6.	Total debt expenditures and expenses (4+5)	11	2	19
7.	Ratio 2: Share of debt expenditures and expenses in current revenues ($6/1 \leq 15\%$)	0.00%	0.00%	0.00%
8.	Ratio 3: Two thirds of current surplus/current revenues $> 15\%$	6.67%	7.64%	13.34%
DEBT REPAYMENT FROM CURRENT SURPLUS				
9.	Current surplus	92,599	93,284	171,907
10.	Current surplus before interest (9+4)	92,610	93,286	171,926
11.	Ratio 4: Share of debt expenditures and expenses in current surplus ($6/10$)	0.01%	0.00%	0.01%
12.	Net current surplus	92,599	93,284	171,907
13.	Ratio 5: Share of debt expenditures and expenses in net current surplus ($6/12$)	0.01%	0.00%	0.01%

Source: Municipality of Pirot

Analysis of conditions stipulated by Law on Public Debt of RS clearly shows that the ratio of current revenues and current level of municipal debt is within the framework of the Law, i.e., the Municipality meets necessary legal requirements for additional borrowing.

In particular, debt obligations at year-end used to finance capital projects do not exceed 50% of generated current revenues. Also, expenditures for debt servicing and payment of principal do not exceed 15% of current revenues; therefore it is not required for the Municipality be in line with the requirement of the Law listed under number 8 in the table above. It is important to note that the Municipality, in all three observed budget years has generated current surplus indicating that the municipal budget has a sound and sustainable revenue structure, and more importantly, stable and regulated structure of current expenditures.

In addition to current surplus, the level of net current surplus is also positive indicating a stable level of current surplus generated after the annual repayment of the existing debt.

All of the above indicate that the Municipality is fiscally fit for additional borrowing that in the long run would not produce fiscal instability.

Presented information suggests that the Municipality of Pirot carefully manages its debt and that current and new borrowing is intended solely for financing infrastructural projects, and not for covering budget deficit.



Table 33. Managing municipal cash funds (RSD 000)

No.	Description	2009	2010	2011
	CASH BALANCE			
1.	Cash balance (CTA), beginning of year	197,079	75,785	158,933
2.	Total cash inflows	914,116	1,192,085	1,195,802
3.	Total cash outflows	1,035,410	1,108,937	1,288,389
4.	Cash balance (CTA), year-end (1+2-3)	75,785	158,933	66,346
	CASH AND INVESTMENT BALANCE (year-end)			
1.	Consolidated treasury account cash	75,977	159,086	66,338
2.	Investments with banks	135,000	0	76,000
	Overnight deposit			
	Demand deposit	135,000	0	76,000
	Term deposit			
3.	Investment in short-term securities	0	0	0
	MF treasury bills			
	NBS bills			
4.	Total cash and investments (1+2+3)	210,977	159,086	142,338

Source: Municipality of Pirot

2.3.4. Payroll Expenditures

Table 34. Payroll expenditures in the Municipal Budget (RSD 000)

	Description	Execution 2009	Execution 2010	Execution 2011
1.	GROSS PAYROLL EXPENDITURES	216,225	220,491	235,486
2.	Current revenues from reclassified budget	782,631	827,37	1,018,147
	Share of gross payroll expenditures in current revenues (1/2)	27.63%	26.64%	23.13%

Source: Municipality of Pirot

Table above shows that in the observed period expenditures for gross wages of employees with direct and indirect budget beneficiaries were in line with current revenue trends.

Their average share in the same period was 25.8% of the current reclassified budget revenues.



3. DEVELOPMENT POLICY OF THE ISSUER

3.1. Budget Projections for Following Years, Based on the Memorandum of RS

The basis for planning budget revenues and proceeds, and expenditures and expenses for the next three fiscal years is found in the **Memorandum on the Budget and Economic and Fiscal Policy for the Current, and Next Two Fiscal Years**, adopted by the Government of Serbia.

Table 35. Municipality of Pirot projected budget revenues and proceeds and expenditures and expenses, 2012 – 2017 (RSD 000)

Account	Description	2012 execution	2013	2014	2015	2016	2017	Account
321	Determination of business results	1,935	40,240					
7	CURRENT REVENUES	1,080,719	1,477,400	1,412,550	1,374,000	1,398,000	1,434,800	1,489,000
711	Taxes on income, profit and capital gains	534,952	852,150	856,200	870,000	850,000	860,000	870,000
713	Property tax	100,655	106,000	101,000	95,000	100,000	105,000	110,000
714	Tax on goods and services	28,023	30,600	35,600	34,000	35,000	40,000	45,000
716	Other taxes	24,845	28,000	28,000	25,000	20,000	22,000	28,000
732	Donations	44,323	63,247					
733	Transfers from other levels of government	262,607	325,553	319,000	320,000	350,000	360,000	380,000
741	Revenue from assets	46,016	30,300	30,800	20,000	30,000	25,000	29,000
742	Revenue from sale of goods and services	31,839	33,200	35,200	5,000	5,500	5,800	6,000
743	Fees and confiscated assets	5,313	5,700	5,700	2,000	2,500	2,000	1,000
744	Voluntary transfers from natural and legal entities	1,075	1,650	50				
745	Mixed and unspecified revenues	1,071	1,000	1,000	3,000	5,000	15,000	20,000
8 and 9	PROCEEDS	684	23,000	1,000	2,000	1,000	1,000	3,000
813	Proceeds from sale of other fixed assets	169	22,000					
911	Proceeds from domestic borrowing	0						
921	Proceeds from sale of domestic financial assets	515	1,000	1,000	2,000	1,000	1,000	3,000
	TOTAL REVENUES AND PROCEEDS	1,083,338	1,540,640	1,413,550	1,376,000	1,399,000	1,435,800	1,492,000



4	CURRENT EXPENDITURES	852,946	1,162,082	1,107,000	999,000	1,030,000	1,082,000	1,055,000
41	Payroll expenditures	319,344	362,978	370,000	375,000	375,000	380,000	380,000
42	Use of goods and services	224,495	323,199	350,000	290,000	300,000	320,000	300,000
44	Payment of interest and associated costs of borrowing	0						
45	Subsidies	86,841	153,408	80,000	69,000	75,000	100,000	90,000
46	Donations, grants and transfers	121,502	133,193	150,000	150,000	150,000	150,000	150,000
47	Social insurance and social protection	21,473	69,979	70,000	50,000	60,000	60,000	60,000
48	Other expenditures	79,291	102,554	70,000	45,000	50,000	52,000	55,000
49	Reserves	0	16,771	17,000	20,000	20,000	20,000	20,000
5	EXPENSES FOR NON-FINANCIAL ASSETS	194,949	379,774	245,000	285,000	265,000	315,000	275,000
51	Fixed assets	161,420	344,574	200,000	200,000	200,000	200,000	200,000
52	Equipment and stock	0		5,000	40,000	20,000	70,000	30,000
54	Natural assets	33,529	35,200	40,000	45,000	45,000	45,000	45,000
55	Non-financial assets funded from NIP funds	0						
6	DEBT AND FINANCIAL ASSETS EXPENSES	355	64	50	450	100	150	200
61	Repayment of principal	0						
62	Purchase of financial assets	355	64	50	450	100	150	200
	TOTAL EXPENDITURES AND EXPENSES	1,048,250	1,541,920	1,352,050	1,284,450	1,295,100	1,397,150	1,330,200

Source: Municipality of Pirot

Table 36. Municipal Budget cash flow and indebtedness projections (RSD 000)

No.	DESCRIPTION	EXECUTION	PLAN	PROJECTION				
		2011	2012	2013	2014	2015	2016	2017
1.	CURRENT REVENUES (w/o revenue from interest)	1,072,761	1,477,400	1,412,550	1,374,000	1,398,000	1,434,800	1,489,000
2.	Revenue from interest	7,958	0	0	0	0	0	0
3.	CURRENT EXPENDITURES (w/o interest exp)	852,946	1,162,082	1,107,000	999,000	1,030,000	1,082,000	1,055,000
4.	Interest and charges	0	0	0	0	0	0	0
5.	CURRENT SURPLUS/DEFICIT (1+2-3-4)	227,773	315,318	305,550	375,000	368,000	352,800	434,000
6.	CAPITAL REVENUES	169	22,000	0	0	0	0	0
7.	CAPITAL EXPENDITURES	194,949	379,774	245,000	285,000	265,000	315,000	275,000
8.	BUDGET SURPLUS/DEFICIT (5+6-7)	32,993	-42,456	60,550	90,000	103,000	37,800	159,000
9.	Proceeds from sale of financial assets	515	1,000	1,000	2,000	1,000	1,000	3,000
10.	Proceeds from borrowing	0	0	0	0	0	0	0
11.	Expenses for purchase of financial assets	355	64	50	450	100	150	200
12.	Expenses for debt repayment	0	0	0	0	0	0	0
13.	SURPLUS/DEFICIT AFTER FINANCING (8+9+10-11-12)	33,153	-41,520	61,500	91,550	103,900	38,650	161,800
14.	Surplus from previous years	1,935	40,240	-1,280	60,220	151,770	255,670	294,320
15.	TOTAL SURPLUS/DEFICIT (13+14)	35,088	-1,280	60,220	151,770	255,670	294,320	456,120



No.	DESCRIPTION	EXECUTION	PLAN	PROJECTION				
		2011	2012	2013	2014	2015	2016	2017
	DEBT INDICATORS							
16.	Current revenues generated in past year from nonconsolidated budget	911,438	1,080,719	1,477,400	1,412,550	1,374,000	1,398,000	1,434,800
17.	Debt liabilities, year-end	0	0	0	0	0	0	0
	Ratio 1: share of debt liabilities in current revenues (17/16 ≤ 50%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
18.	Total debt expenditures and expenses	0	0	0	0	0	0	0
	Ratio 2: share of debt expenditures and expenses in current revenues (18/16 ≤ 15%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
19.	Current surplus, before payment of interest (1+2-3)	227,773	315,318	305,550	375,000	368,000	352,800	434,000
	Ratio 3: share of debt expenditures and expenses in current surplus (18/19)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Municipality of Pirot

3.2. Capital Investment Plan 2012 - 2014

Capital Investment Plan of the Municipality of Pirot 2012 – 2014 was prepared in cooperation with the USAID's MEGA project.

Capital Investment Plan of Municipality of Pirot is a five-year long plan for investing from the municipal budget in infrastructure, economy, public facilities, and equipment. This plan includes projects of general importance worth over five million Dinars.

Capital Investments Plan is the main document for planning capital expenses in the local budget. One of the most important functions of the Plan is to ensure harmonisation between the Strategy of Local Economic Development of the Municipality of Pirot and realistic financial capabilities. Capital Investment Plan is linked with urban planning documents of the Municipality.

Preparation of the Plan was long and thorough. The Municipal Council of Pirot passed a Decision to initiate the procedure for preparing the Capital Investment Plan by designating coordinators and the Commission responsible for preparing the draft and presenting it to the professional public for public discussion, and afterwards to the Municipal Council and the Assembly of Pirot for consideration.

At the Municipal Assembly Session held on 29 September 2009, the Decision was passed to initiate the procedure for preparing the Capital Investment Plan. The Decision specified that capital investments are considered to be: construction and infrastructure rehabilitation, including related planning documentation; land acquisition; purchase and building of housing, commercial, and other public facilities; equipment for public use with a useful life of more than five years; and all investment and maintenance costs exceeding one million Dinars.

Capital projects are to be funded from the following sources: Municipal Budget, Government programmes, commercial loans, development loans, donations, and partnerships between public and private sectors.

Based on this Decision the President of the Municipality established a Commission for the Preparation of the Capital Investment Plan. Commission members included representatives of the Municipality of Pirot, public enterprises, and all relevant political options.

The Commission has passed necessary regulations that define the manner of operation of the Commission and the criteria for selecting, evaluating, and ranking capital projects.



Subsequently, Municipal Administration departments, public enterprises, and other budget beneficiaries received forms to be used for submitting capital projects. Capital projects evaluation forms, sent to all members of the Commission, precisely defined elements to be evaluated in projects included in the Capital Investment Plan.

Financial capacity analysis and needs analysis in the Municipality in terms of capital investments followed.

All proposals were sent to the Commission for review and evaluation. Based on received scores the Commission ranked proposed capital projects in accordance with the Rulebook on defining project selection, project evaluation, and ranking criteria.

The evaluation form for capital projects describes all relevant criteria for evaluating projects. There are 11 of them:

- 1) General project;
- 2) Mandatory project;
- 3) Associated project;
- 4) Allocated funds for project implementation;
- 5) Project generates an increase in budget revenues;
- 6) Project from donations, subsidies;
- 7) Project from preferential loans;
- 8) Project solution with the lowest cost;
- 9) Positive impact of the project on the environment;
- 10) Positive impact of the project on economic development;
- 11) Negative social evaluation of the project.

Project monitoring form contains all relevant information concerning goal, name and number of projects, type of priority, project description, location on which to build or operate, implementation and project management, estimated value, plan of activities, sources of funding, and estimated outcomes of the completed project.

On the basis of this information Commission members evaluated each project and ranked them to create a list of capital projects.

As a management tool at the local level, investment plan guides and supports economic development, increases efficiency in using resources and public accountability, and ensures rationale in prioritisation. It is the basis for participation in domestic and foreign development funds through projects; it draws attention to the large and expensive projects and establishes continuity of investment. This document improves and shapes private investments and public and private partnerships. In absence of planning, investments tend to be partial, chaotic and irrational, rooted in often-voluntaristic decisions that disregard public interest and priorities, with unprepared local community to use grants and loans from development funds. Environments that operate without an investment plan often encounter funding of the lower priority projects that as a result produces a slow-down in the development and cripples the quality of life of the population in terms of their needs and available resources.

The Plan can be reviewed each year in accordance with emerging needs and priorities.

As the 5-year long investment plan could not have included all needs and problems in the initial state analysis by areas, an option was left to add to the Plan "on the go" additional individual investments as corrections, and to, in the same manner, refrain from implementing certain planned investments if the forthcoming situation in the country or at the local level would not allow so.

Investment Plan of the Municipality of Pirot is presented based on the following areas:

- 1) Transportation and infrastructure;
- 2) Water supply and sewage;
- 3) Environmental protection;
- 4) Education;
- 5) Sports and tourism;



- 6) Health;
- 7) Culture;
- 8) Economy.

Below is a short overview of projects classified in the Capital Investment Plan, to be funded in the stated period from: budget revenues, donations, proceeds from borrowing, and other sources.

Table 37. Overview of the Municipality of Pirot capital investments and projects, 2012 – 2014

Rank	Investment / Project	Investment value in RSD	Project documentation
Priority Investment Plan – TRANSPORTATION INFRASTRUCTURE			
1.	Reconstruction of the P 121 main road section from Planinski Dom to Visoka Ržana	90,000,000.00	Yes
2.	Preparation of planning documents	36,900,000.00	No
3.	Building of the local road Kopr.Krst.Crkvica – Mramor	243,000,000.00	No
4.	Local roads reconstruction	120,000,000.00	/
5.	Mali Bridge reconstruction	/	/
Priority Investment Plan – WATER SUPPLY AND SEWAGE			
1.	Replacement of asbestos pipes	50,000,000.00	No
2.	Construction of wastewater treatment plant	750,000,000.00	No
3.	Abstraction and inclusion of Sarlah water source	50,000,000.00	No
Priority Investment Plan – ENVIRONMENTAL PROTECTION			
1.	Rehabilitation of city dumpsites	50,000,000.00	No
2.	Special garbage vehicle (5 vehicles)	40,000,000.00	/
3.	Compactor for compressing solid waste	30,000,000.00	/
Priority Investment Plan – EDUCATION			
1.	Upgrading and renovating student dormitory	16,300,000.00	Yes
2.	Reconstruction, upgrading, rehabilitation and furnishing of the Technical Secondary School	43,200,000.00	Incomplete
3.	Reconstruction and rehabilitation of "Čika Jova Zmaj" kindergarten	29,060,000.00	Incomplete
Priority Investment Plan – SPORTS AND TOURISM			
1.	Construction of an indoor swimming pool	500,000,000.00	Yes
2.	Construction of a national training centre		
3.	Tourist signage and information tourist centre	5,500,000.00	/
4.	Construction of Planinarski dom Ski Resort	12,300,000.00	No
5.	Aqua Park - pool	38,900,000.00	No
Priority Investment Plan – HEALTH			
1.	Opening a pharmacy in Tijabara	12,600,000.00	No
Priority Investment Plan – CULTURE			
1.	Regulation of Kale forts and parks	70,000,000.00	No
2.	Reconstruction and construction of the old Army Culture Centre (Dom vojske)	40,000,000.00	No
3.	Reconstruction and renovation of the Mali Rista Guest House	5,270,000.00	/
Priority Investment Plan – ECONOMY			
1.	Infrastructure for industrial zone Beg Bašča, 2nd phase	38,000,000.00	No
2.	Industrial Zone SIB	120,000,000.00	No
3.	Industrial Zone Božurato	16,000,000.00	No
4.	Establishment of local traditional crafts	7,000,000.00	No
5.	Establishment of business incubators and related services	24,270,000.00	No



4. INFORMATION ON LOCAL GOVERNMENT

4.1. Municipality of Pirot Assembly

Municipality of Pirot is a territorial unit in which citizens exercise local self-government that through its bodies independently performs all rights and responsibilities from own competence. The seat of the municipality is in Pirot. Municipality of Pirot is in the capacity of a legal entity represented by the President of the Municipality. Municipality of Pirot performs municipal tasks defined under the Constitution and the law, tasks delegated by the Republic from within its rights and responsibilities, and other tasks set forth by the Statute.

The Statute of the Municipality of Pirot is the key legal document adopted by the Assembly of the Municipality of Pirot, as the highest authority passing important decisions, including the Budget and the Annual Balance Sheet, amount of local taxes, development programmes, spatial and urban plans, and other documents regulating activities in Pirot. Pirot municipal authorities include: Municipal Assembly, President of the Municipality, Municipal Council, and Municipal Administration.

Municipal administration of Pirot within its structure includes the following:

- Department of General Administration,
- Department of Economy and Finance,
- Department of Non-Economy,
- Department of Urban Planning, Housing and Utilities, Construction and Inspection.

Primary task of these services is to perform professional and administrative activities for the Municipality and other delegated tasks such as: issuance of building permits, support for economic activities, protection of social rights of citizens, youth care, stimulating activities in the field of health care, culture, information, sports, and other activities.

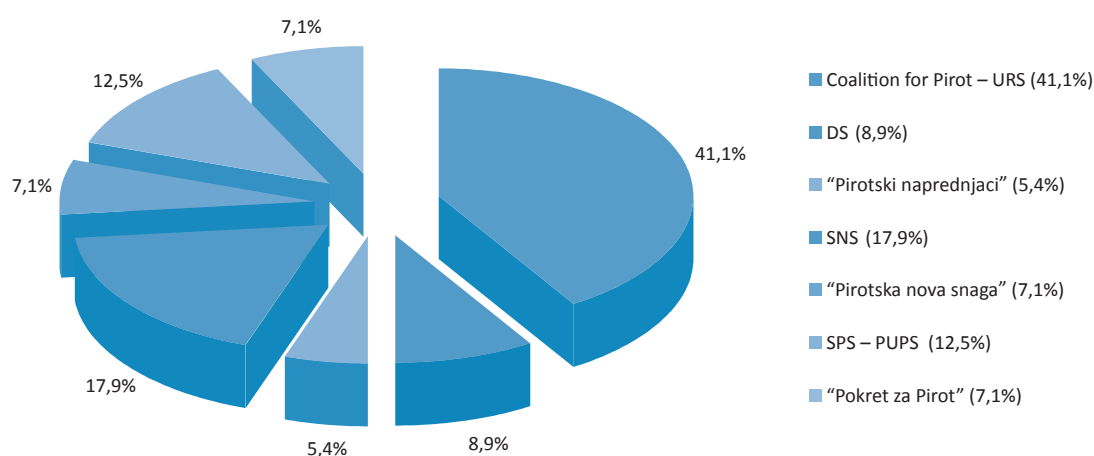
Pirot municipality seeks to continually improve the administration and better meet the needs of its residents. In accordance with contemporary trends a series of projects aimed at modernisation of work were, and are being implemented.

Table 38. Structure of Pirot Municipal Assembly members, 2012

Party	Number of representatives in the Municipal Assembly	Share in total number of representatives in the Municipal Assembly (%)
Coalition for Pirot - URS	23	41.1
DP (DS)	5	8.9
"Pirotski naprednjaci"	3	5.4
SPP (SNS)	10	17.9
"Pirotska nova snaga"	4	7.1
SPS – PUPS	7	12.5
"Pokret za Pirot"	4	7.1
TOTAL	56	100

Chart 1. Structure of Pirot Municipal Assembly Members (in %)

Structure of Pirot Municipal Assembly Members (in %)



Municipal Assembly shall:

- Adopt Municipal Statute and Assembly Rules of Procedure;
- Adopt Municipal Budget and Annual Municipal Budget Balance Sheet;
- Determine the rate of original revenues of the Municipality, as well as method and criteria for determining the amount of local charges and fees;
- Adopt municipal and specific activities' development plans;
- Adopt Municipal spatial and urban plans and regulate use of construction land;
- Adopt regulations and other general acts;
- Schedule municipal referendum and referendum in the territory of the Municipality, discuss proposals contained in municipal initiative, and decide on proposals for self-contributions;
- Establish services, public enterprises, institutions and organisations, and supervise their work;
- Appoint and dismiss management and supervisory boards (taking account of gender equality) and managing directors of public companies, institutions, organisations and agencies founded by the Municipality, and approve their statutes, in accordance with the law;
- Appoint and dismiss Assembly President and Assembly Deputy President;
- Appoint and dismiss Assembly Secretary;
- Appoint and dismiss the President and Deputy President of the Municipality;
- Determine municipal taxes and other local revenue the Municipality is entitled to by law;
- Determine fee for construction land use and development;
- Adopt a document on public borrowing of the Municipality in accordance with the law regulating public debt;
- Determine working hours of hospitality, commercial, and crafts facilities;
- Provide an opinion on the national and regional spatial plan;
- Provide an opinion on laws regulating issues of interest for local self-government;
- Give consent for the use of name, emblem, and other municipal symbols;
- Perform other tasks prescribed by law and the Statute.

Further information on competences of the Municipality of Pirot can be found in the Statute of the Municipality.



4.2. Pirot Municipal Executive Bodies

Executive bodies of the Municipality are the President of the Municipality and Municipal Council.

President of the Municipality shall be responsible to:

- Represent the Municipality;
- Propose solutions on issues decided by the Assembly;
- Order execution of the Budget;
- Direct and coordinate the work of Municipal Administration;
- Pass individual acts as authorised under the law, the Statute, or the Decision of the Assembly;
- Perform other duties under the Statute and other municipal regulations.

Municipal Council shall:

- Propose the Statute, Budget, and other decisions and documents to be adopted by the Assembly;
- Directly execute and ensure implementation of decisions and other acts of the Assembly;
- Decide on temporary financing when Assembly fails to adopt the Municipal Budget prior to the beginning of a new fiscal year;
- Supervise the work of city administrations, and annul or abolish municipal administrations' acts that are not in accordance with the law, Statute, other general act, or decision adopted by the Assembly;
- Decide in the second instance administrative procedure on rights and responsibilities of citizens, enterprises and institutions and other organisation concerning administrative matters within the competence of the Municipality;
- Ensure execution of delegated authorities concerning rights and responsibilities of the Republic;
- Appoint and dismiss Chief of Municipal Administration.

President of the Municipality of Pirot is Vladan Vasić, born in 1971 in Pirot where he finished primary and secondary school. He graduated from the Faculty of Electronics in Niš in 1996, Graduate Thesis: Examining the existence of multiple boundary circles and sets in nonlinear continuous and discrete systems of second order, Professor Bratislav Ranković, PhD, Department of Automation and Electronics. He received his Masters degree from the Faculty of Economics in Niš in 2003, Master Thesis entitled: Concept of integrated information systems with emphasis on the clothing industry "Prvi maj" Pirot, Professor Radmila Jovanović, PhD, at the Department of Decision-Making Support Information Systems. After graduation, he worked for six and a half years in the IO "Prvi maj" Pirot Computer Centre as System Engineer.

Since the year 2000 he was a member of the Pirot Municipal Assembly, the President of the Management Board of the Fund for Solidarity Housing Development, and briefly, in 2003, the President of the Pirot Executive Board. In December 2003 he became the youngest directly elected President of the Municipality of Pirot, and one of the youngest municipal presidents in the history of the city. He is married with three children.

Municipality Deputy President is Branislav Kostić.

Municipal Council is a body responsible for harmonising the performance of functions of the President of the Municipality and Municipal Assembly, and supervision and control of the work of Municipal Administration. Work and decision-making in the Municipal Council shall be regulated by Decision adopted by the Municipal Assembly prior to appointing of this body, generally, at the constitutive session of the Municipal Assembly, following the recent elections.



Municipal Council members are:

- 1) Vladan Vasić, MA – Municipal Council President;
- 2) Branislav Kostić – Municipal Council Deputy President;
- 3) Marija Manić – Municipal Council Member;
- 4) Milan Stojanović – Municipal Council Member;
- 5) Slaviša Svilarov – Municipal Council Member;
- 6) Dimitrije Nikolić – Municipal Council Member;
- 7) Boban Nikolić – Municipal Council Member;
- 8) Sretena Savov - Municipal Council Member;
- 9) Biljana Petrović - Municipal Council Member;
- 10) Irena Kostić, Bachelor of Laws – Municipal Council Secretary.

Municipal Administration shall:

- 1) Prepare draft regulations and other documents to be adopted by the Assembly, the President of the Assembly, and Municipal Council;
- 2) Execute decisions and other documents passed by the Assembly, the President, and Municipal Council;
- 3) Decide in the first degree administrative procedure on rights and responsibilities of citizens, enterprises, institutions, and other organisations in administrative matters within the competence of the Municipality;
- 4) Perform administrative supervision over execution of regulations and other general documents of the Assembly;
- 5) Execute laws and other regulations the execution of which is delegated to the Assembly;
- 6) Perform professional and other tasks defined by the Assembly, the President of the Assembly, and the Municipal Council.

4.3. Jurisdiction over Borrowing of Municipality of Pirot

Legal framework for borrowing of Municipality of Pirot is regulated pursuant to the Law on Public Debt and Municipal Statute.

The Law shall regulate the right to long-term borrowing of the Municipality for the purpose of funding or refinancing capital investment expenditures planned in the Municipal Budget. The Municipality may borrow in the country or abroad, in domestic or foreign currency, in accordance with the Law. It may borrow by taking loans or issuing securities. Depending on the type of bonds issue, in an event of public issue, purchasers may include all natural and legal entities, both domestic and foreign.

Decision on borrowing of Municipality of Pirot shall be passed by the Municipal Assembly, based on the previously obtained opinion of the Ministry of Finance, pursuant to the Law and the Statute. The Ministry shall provide an opinion within 15 days from the day of submitting a request for an opinion. Should the Ministry fail to provide the opinion concerning the request of the Municipality within the aforesaid timeframe, it shall be considered as the opinion was granted.

When borrowing, the Municipality must manage the debt in accordance with the law, so that:

- The amount of outstanding debt for capital investment expenditures does not exceed 50% of the total generated current budget revenues of the Municipality in the previous year;
- The amount of principal and interest maturing each year for all outstanding long-term borrowing for financing capital investment expenditures does not exceed 15% of total generated current budget revenues of the Municipality in the previous year.



Municipality may deliniate from these limits in accordance with the Law, under following conditions:

- Amount of outstanding long-term borrowing for capital investment expenditures may exceed 50% of total generated budget revenues of the Municipality in the past year, when it comes to loan with a repayment term, excluding the grace period, of at least five years.
- For long-term loan from the previous paragraph, the amount of principal and interest maturing each year for all outstanding long-term loans may exceed 15% if two thirds of the current surplus in relation to the total current revenue generated represents a share greater than 15%.





Notes





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