

**MUNICIPAL DEVELOPMENT FUND  
OF GEORGIA**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
31 DECEMBER 2012**

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## STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes the Municipal Development Fund of Georgia (the "Fund"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

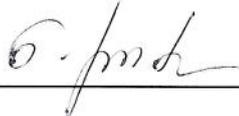
The Fund maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Fund's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

The financial statements for the year ended 31 December 2012 were authorized for issue on 28 June 2013 by the Management Board.



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Elguja Khokrishvili  
Executive Director



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Natalie Godziashvili  
Financial Manager

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## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE SUPERVISORY BOARD OF THE MUNICIPAL DEVELOPMENT FUND OF GEORGIA**

We have audited the accompanying financial statements of the Municipal Development Fund of Georgia (the "Fund"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Development Fund of Georgia as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other Matter*

The financial statements of the Municipal Development Fund of Georgia for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 29 June 2012.

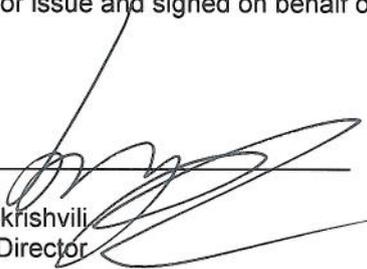
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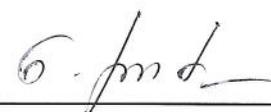
28 June 2013

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
*Expressed in Georgian Lari*

	Notes	2012	2011 restated
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property and equipment	5	1,167,074	1,533,601
Intangible assets		72,527	53,239
Loans to municipalities	6	38,900,942	45,220,297
Deferred income tax asset	9	86,064	-
		<u>40,226,607</u>	<u>46,807,137</u>
<b>CURRENT ASSETS</b>			
Receivables and advances	7	17,379,572	6,974,947
Current portion of loans to municipalities	6	7,609,564	6,813,031
Other current assets		25,137	-
Bank balances	8	83,773,726	60,540,138
		<u>108,787,999</u>	<u>74,328,116</u>
<b>TOTAL ASSETS</b>		<b><u>149,014,606</u></b>	<b><u>121,135,253</u></b>
<b>RESERVES AND LIABILITIES</b>			
<b>RESTRICTED RESERVES</b>			
Source of financing		57,770,865	41,758,341
Loan revolving fund		46,382,820	51,410,013
<b>UNRESTRICTED RESERVES</b>			
Retained surplus		26,879,046	21,121,907
		<u>131,032,731</u>	<u>114,290,261</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income tax liabilities	9	-	26,720
Grants related to assets		415,562	542,842
		<u>415,562</u>	<u>569,562</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	15,127,759	6,083,718
Payables to government	11	2,400,278	-
Current income tax Liability		38,276	191,712
		<u>17,566,313</u>	<u>6,275,430</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<b><u>149,014,606</u></b>	<b><u>121,135,253</u></b>

Approved for issue and signed on behalf of the Management Board on 28 June 2013.

  
 Elguja Khokhishvili  
 Executive Director

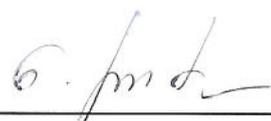
  
 Natalie Godziashvili  
 Financial Manager

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
*Expressed in Georgian Lari*

	Note	2012	2011 restated
Interest income from loans to municipalities	12	6,217,901	6,434,123
Bank interest income		2,106,380	1,111,119
Other income	13	635,265	2,171,652
<b>TOTAL INCOME</b>		<b>8,959,546</b>	<b>9,716,894</b>
Administrative and general expenses	14	(2,136,573)	(2,944,377)
Loss from exchange rate differences		(391,354)	(3,406,667)
<b>TOTAL EXPENSES</b>		<b>(2,527,927)</b>	<b>(6,351,044)</b>
<b>RESULT BEFORE TAX</b>		<b>6,431,619</b>	<b>3,365,850</b>
Income tax expense	15	(674,480)	(786,050)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,757,139</b>	<b>2,579,800</b>

Approved for issue and signed on behalf of the Management Board on 28 June 2013.

  
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 Elguja Khokrishvili  
 Executive Director

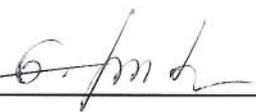
  
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 Natalie Godziashvili  
 Financial Manager

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF CHANGES IN RESERVES**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
*Expressed in Georgian Lari*

	Restricted reserves		Unrestricted reserves	Total
	Sources of financing	Loan revolving fund	Retained surplus	
<b>1 January 2011</b>	<b>9,775,270</b>	<b>55,986,737</b>	<b>18,542,107</b>	<b>84,304,114</b>
Total comprehensive income for the year	-	-	2,579,800	<b>2,579,800</b>
Decrease in loan revolving fund	-	(4,576,724)	-	<b>(4,576,724)</b>
Net financing of implemented projects	31,983,071	-	-	<b>31,983,071</b>
<b>31 December 2011</b>	<b>41,758,341</b>	<b>51,410,013</b>	<b>21,121,907</b>	<b>114,290,261</b>
Total comprehensive income for the year	-	-	5,757,139	<b>5,757,139</b>
Decrease in loan revolving fund	-	(5,027,193)	-	<b>(5,027,193)</b>
Net financing of implemented projects	16,012,524	-	-	<b>16,012,524</b>
<b>31 December 2012</b>	<b>57,770,865</b>	<b>46,382,820</b>	<b>26,879,046</b>	<b>131,032,731</b>

Approved for issue and signed on behalf of the Management Board on 28 June 2013.

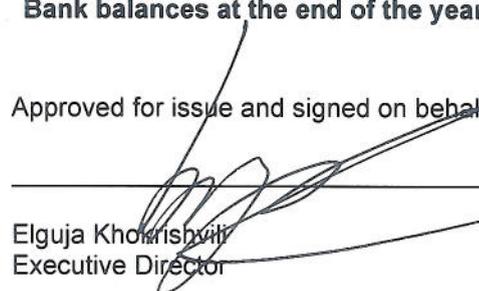
  
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 Elguja Khokrishvili  
 Executive Director

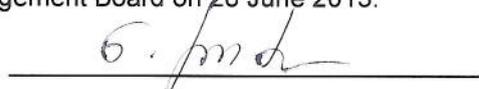
  
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 Natalie Godziashvili  
 Financial Manager

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**  
*Expressed in Georgian Lari*

	<b>2012</b>	<b>2011 restated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Result for the year	5,757,139	2,579,800
<i>Adjustments for:</i>		
Depreciation and amortization	519,071	514,525
Gain on sale of property and equipment	(11,121)	(10,440)
Income from grants related to assets	(135,780)	(109,853)
Interest income	(8,324,281)	(7,545,242)
Income tax expense	674,480	786,050
Foreign exchange loss	391,354	3,406,667
<b>Operating profit/(loss) before changes in operating assets and liabilities</b>	<b>(1,129,138)</b>	<b>(378,493)</b>
Changes in operating assets:		
Receivables and advances	(10,404,625)	12,651,262
Other current assets	(25,137)	-
Accounts payable	9,044,041	(9,540,154)
Payables to government	2,400,278	-
<b>Cash generated from operating activities before income tax</b>	<b>(114,581)</b>	<b>2,732,615</b>
Income tax paid	(940,700)	(834,969)
<b>Net cash (used in)/generated from operating activities</b>	<b>(1,055,281)</b>	<b>1,897,646</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(179,854)	(298,919)
Proceeds from disposal of property and equipment	27,643	10,440
Interest received from municipalities and banks	8,268,865	7,817,031
<b>Net cash generated from investing activities</b>	<b>8,116,654</b>	<b>7,528,552</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Projects financing, net	16,012,524	31,983,071
Proceeds from repayment of issued loans, net	551,045	(5,493,444)
<b>Net cash provided by financing activities</b>	<b>16,563,569</b>	<b>26,489,627</b>
<b>Net increase in bank balances</b>	<b>23,624,942</b>	<b>35,915,825</b>
<b>Bank balances at the beginning of the year</b>	<b>60,540,138</b>	<b>28,030,980</b>
Effects of foreign exchange on cash	(391,354)	(3,406,667)
<b>Bank balances at the end of the year</b>	<b>83,773,726</b>	<b>60,540,138</b>

Approved for issue and signed on behalf of the Management Board on 28 June 2013.

  
 Elguja Khomishvili  
 Executive Director

  
 Natalie Godziashvili  
 Financial Manager

## **1 NATURE OF OPERATIONS AND GENERAL INFORMATION**

The Municipal Development Fund of Georgia (the "Fund") was established on 7 June 1997 by the Presidential Decree No. 294 "On Management of Funds Designated for the Development of Municipal Sector in Georgia" as a legal entity under the public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and servicing and improving on a sustainable basis the primary economic and social services for the local population (communities). The founder and the governing body of the MDF is the Government of Georgia in the person of Prime-Minister of Georgia.

During 2012 the MDF has continued implementation of:

- the Regional and Municipal Infrastructure Development Project (RMIDP) financed under the International Development Association (IDA) Credit 4516 GE, Credit 4824 GE, and the IBRD Loan 7962 GE;
- Municipal Services Development Project financed under Asian Development Bank (ADB) Loan 2441-GEO (SF), and Loan 2534-GEO (SF);
- Sustainable Urban Transport Investment Program – Tranche 1 financed under Asian Development Bank (ADB) Loan 2665 (MFF).

MDF continues implementation of the projects under the co-financing of the Government of Georgia, European Bank of Reconstruction and Development, European Investment Bank, USAID, KFW and European Union.

The expected overall impact of the projects is improved environment, economy and public health in the project area. The expected outcome of the project is improved municipal infrastructure, service delivery and better living conditions within the project area.

The legal address of MDF is 150 Aghmashenebeli Avenue, 0112, Tbilisi, Georgia.

The average number of employees of the MDF in 2012 was 100 (in 2011: 100 employees).

These financial statements were authorized for issue by the Management Board on 28 June 2013.

## **2 BASIS OF PREPARATION**

### **2.1. Statement of compliance**

The financial statements have been prepared based on the accounting records maintained under the requirements of the Georgian legislation and presented in accordance with International Financial Reporting Standards ("IFRS").

Currently, IFRS do not contain specific guidance for non-profit organizations and non-governmental organizations concerning the accounting treatment and the presentation of financial statements. Where IFRS is silent or does not give guidance on how to treat transactions specific to the non-for-profit sector, accounting policies have been based on the general principles of IFRS, as detailed in the IASB Framework for Preparation and Presentation of Financial Statements.

### **2.2. Basis of measurement**

The financial statements have been prepared on the historical cost basis.

## **2 BASIS OF PREPARATION (CONTINUED)**

### **2.3. Functional and presentation currency**

The national currency of Georgia is the Georgian Lari ("GEL"), which is the Fund's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Fund.

These financial statements are presented in Georgian Lari, since management believes that this currency is more useful for the users of these financial statements. All financial information presented in Georgian Lari has been rounded to the nearest Lari.

### **2.4. Use of estimates and judgment**

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management has made the best possible estimates in the given circumstances, the fair values can materially differ from those estimates.

### **2.5. Adoption of New and Revised Standards and Interpretations and New Accounting Pronouncements**

The following standards and guidance had come into effect on 1 January 2012 and further:

#### ***Amendment to IAS 12, 'Income taxes' on deferred tax (Effective date – 1 January 2012)***

IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

#### ***Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income (Effective date – 1 July 2012)***

The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

#### ***IFRS 9, 'Financial instruments' (Effective date – 1 January 2013)***

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

## **2 BASIS OF PREPARATION (CONTINUED)**

### ***Amendment to IAS 12, 'Income taxes' on deferred tax (Effective date – 1 January 2012)***

IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

### ***IFRS 10, 'Consolidated financial statements' (Effective date – 1 January 2013)***

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.

### ***IFRS 11, 'Joint arrangements' (Effective date – 1 January 2013)***

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

### ***IFRS 12, 'Disclosures of interests in other entities' (Effective date – 1 January 2013)***

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

### ***IFRS 13, 'Fair value measurement' (Effective date – 1 January 2013)***

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

### ***IAS 27 (revised 2011), 'Separate financial statements' (Effective date – 1 January 2013)***

IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

## **2 BASIS OF PREPARATION (CONTINUED)**

### ***IFRS 9, 'Financial Instruments' (Effective date – 1 January 2015)***

IAS 9 (revised 2010) includes revised requirements for the classification and measurement of financial liabilities and carrying over the existing derecognition requirements from IAS 39. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

### ***Amendments to IAS 32, 'Offsetting Financial Assets and Liabilities' (Effective date – 1 January 2014)***

Amendments clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off'; the application of simultaneous realisation and settlement; the offsetting of collateral amounts; the unit of account for applying the offsetting requirements.

### ***Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities' (Effective date – 1 January 2014)***

Amendments provide 'investment entities' an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9; require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries; require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

Management have reviewed the application of all of the above standards and amendments to standards and have applied them as appropriate, or concluded that none of those for application in periods after 31 December 2012 will have a material effect on the Fund's position or performance, or have concluded that it is not yet possible to reasonably estimate the possible impact of the new requirements.

## **3 SIGNIFICANT ACCOUNTING POLICIES**

### **3.1. Foreign currency transactions**

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the National Bank of Georgia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the National Bank of Georgia prevailing on the reporting date, which is GEL 1.6567 for USD 1 as of 31 December 2012 (31 December 2011: GEL 1.6703 for USD 1).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

### **3.2. Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Buildings that are leasehold property are also included in property and equipment if they are held under a finance lease. Such assets are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of the lease, if shorter.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditure to replace a component of an item of property and equipment, that is accounted for separately, is capitalized with the carrying amount of the component being written off. Other subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the statement of comprehensive income as incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

- Equipment furniture and others                      3-5 years
- Motor vehicles    5-7 years
- Leasehold improvement                                  20 years.

#### **3.3. Intangible assets**

Intangible assets, which are acquired by the Fund and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the intangible assets.

#### **3.4. Financial instruments**

Financial assets and financial liabilities are recognized when the Fund becomes a part to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expire.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

##### ***Financial assets***

Financial assets other than hedging instruments are divided into the following categories:

- Loans and receivables
- Financial assets at fair value through profit or loss
- Available-for-sale financial assets
- Held-to-maturity investments

### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whatever any resulting income and expenses are recognized in profit or loss or directly in other comprehensive income and credited to the equity. See Note 17.2 for a summary of the MDF's financial assets by category.

Generally, the MDF recognizes all financial assets using settlement date accounting. An assessment of whether a financial asset is impaired is made at each reporting date.

#### *Loans and receivables*

Loans and receivables are initially recognized at fair value. Subsequently they are measured at amortized cost less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the MDF will not be able to collect all amounts due according to the original terms of the loans and receivables. Significant financial difficulties of the debtor and default and delinquency in payments are considered indicators that the loans and receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. Loans and receivables for which collection is not considered probable are written-off.

#### *Financial liabilities*

The MDF's financial liabilities include accounts payable, which are initially measured at fair value and subsequently at amortized cost using the effective interest rate method. A summary of MDF's financial liabilities by category is given in Note 18.2.

#### **3.5. Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

#### **3.6. Reserves**

##### **3.6.1. Restricted reserves**

Reserves are restricted if the related funds are restricted by the donors for implementation of specific projects. In the statement of changes in reserves the restricted reserves are composed of the sources of financing and the loan revolving fund.