# ASSOCIATION HABITAT FOR HUMANITY MACEDONIA

## INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDING 31 DECEMBER 2016

**Skopje, April 2017**

*These reports are originaly issued on English language*

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE**
**MANAGING BOARD OF THE**
**ASSOCIATION HABITAT FOR HUMANITY MACEDONIA**

We have audited the accompanying consolidated financial statements of the Association Habitat for Humanity Macedonia ("the Association"), which comprise the Consolidated Statement of Financial Position as at 31 December 2016, and the Consolidated Statement of Comprehensive Income, Consolidated Statement of changes in equity and Consolidated Cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the 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 the International Standards on Auditing which are accepted and published in the Official gazette of the Republic of Macedonia (79/2010). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 polices used and the reasonableness of accounting estimates made by the 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.

**INDEPENDENT AUDITOR'S REPORT (Continued)
TO THE
MANAGING BOARD OF THE
ASSOCIATION HABITAT FOR HUMANITY MACEDONIA**

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Association as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with the International Financial Reporting Standards.

Skopje, 28 April 2017

| **Certified Auditor** | **Manager and Certified Auditor** |
|---|---|
| Goce Hristov | Antonio Veljanov |

Друштво за ревизија МУР СТИВЕНС ДОО СКОПЈЕ

Association Habitat for Humanity Macedonia
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended at 31 December

| | Notes | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|---|
| **Income** | | | |
| Donations | 8 | 30,854 | 48,972 |
| Sales | | - | - |
| Other income | 9 | 1,798 | 2,307 |
| | | **32,652** | **51,279** |
| **Expenses** | | | |
| Cost of goods sold | 9 | - | - |
| Personnel expenses | 10 | (21,306) | (20,013) |
| Depreciation and amortization | 14;15 | (1,390) | (1,432) |
| Other operating expenses | 11 | (8,949) | (16,920) |
| **Operating excess of income** | | **1,007** | **12,914** |
| Financing income | 13 | 2,812 | 4,760 |
| Financing expense | 13 | (447) | (1,980) |
| **Excess of income before taxation** | | **3,372** | **15,694** |
| Income tax expense | 12 | (68) | (168) |
| **Excess of income over expenditures** | | **3,304** | **15,526** |
| **Other comprehensive income:** | | | |
| Other comprehensive income | | - | - |
| **Total other comprehensive income** | | - | - |
| **TOTAL COMPREHENSIVE INCOME** | | **3,304** | **15,526** |

**Skopje, 28 April 2017**

Executive Director
Mr.Zoran Kostov

Finance Manager
Ms.Biljana Stavrevska

| | Notes | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property and equipment | 14 | 1,151 | 1,030 |
| Intangible assets | 15 | 502 | 790 |
| Investments in non-consolidated subsidiaries | 2.1. | - | 350 |
| Loans receivable | 16 | 68,755 | 47,151 |
| **Total non-current assets** | | **70,408** | **49,321** |
| **Current assets** | | | |
| Inventories | 17 | 15,024 | 11,773 |
| Trade and other receivables | 18 | 4,474 | 2,404 |
| Loans receivable | 16 | 30,175 | 54,466 |
| Cash and cash equivalents | 19 | 10,946 | 8,656 |
| **Total current assets** | | **60,619** | **77,299** |
| **TOTAL ASSETS** | | **131,027** | **126,620** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Fund balance | | 117,565 | 116,815 |
| Statutory reserve | | 461 | 451 |
| Retained earnings | | 2,586 | - |
| **Total fund and reserve balance** | | **120,612** | **117,266** |
| **Non-Current liabilities** | | | |
| Loans and borrowings | 20 | - | - |
| **Total non-current liabilities** | | **-** | **-** |
| **Current liabilities** | | | |
| Loans and borrowings | 20 | - | - |
| Trade and other payables | 21 | 10,415 | 9,354 |
| **Total current liabilities** | | **10,415** | **9,354** |
| **TOTAL EQUITY AND LIABILITIES** | | **131,027** | **126,620** |

| | Notes | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Excess of income over expenditures** | | **3,304** | **15,526** |
| *Adjustment for:* | | | |
| Depreciation and amortization | | 1,390 | 1,432 |
| Impairment loss on loan receivables | | 192 | 276 |
| Writte-off of borrowings and loans, net | | - | (2,305) |
| Interest income | | (2,812) | (4,760) |
| Interest expense | | 20 | 1,520 |
| Adjustments | | 42 | - |
| | | **2,136** | **11,689** |
| Change in inventories | | (3,251) | (1,647) |
| Change in prepayments for current assets | | (63) | (9) |
| Change in trade and other receivables | | (2,007) | 2,148 |
| Change in trade and other payables | | 1,061 | 1,873 |
| | | **(2,124)** | **14,054** |
| Interest paid | | (20) | (3,749) |
| **Net cash flows from operating activities** | | **(2,144)** | **10,305** |
| **Cash flow from investing activities** | | | |
| Interest received | | 2,865 | 6,827 |
| Proceeds (given) loans, net | | 2,442 | 37,114 |
| Investment in subsidiary | 2.1. | 350 | (350) |
| Acquisition of PPE | 14 | (679) | (531) |
| Acquisition of intangible assets | | (544) | - |
| **Net cash flows from investing activities** | | **4,434** | **43,060** |
| **Cash flow from financing activities** | | | |
| Proceeds from loans and borrowings | | - | - |
| Repayment of loans and borrowings | 20 | - | (55,699) |
| **Net cash flows from financing activities** | | **-** | **(55,699)** |
| **Net increase (decrease) of cash flows** | | **2,290** | **(2,334)** |
| **Cash and cash equivalents as at 1 January** | **19** | **8,656** | **10,990** |
| **Cash and cash equivalents as at 31 December** | **19** | **10,946** | **8,656** |

| | Fund balances (000) MKD | Statutory reserve (000) MKD | Excess of income over expenditures (000) MKD | Total equity (000) MKD |
|---|---|---|---|---|
| **Balance as at 1 January 2015** | **101,567** | **173** | **-** | **101,740** |
| **Comprehensive income:** | | | | |
| Excess of income over expenditures | - | - | 15,526 | 15,526 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **15,526** | **15,526** |
| **Transactions with founders:** | | | | |
| Appropriation to fund balances | 15,248 | 278 | (15,526) | - |
| Appropriation to statutory reserve | - | - | - | - |
| **Balance as at 31 December 2015** | **116,815** | **451** | **-** | **117,266** |
| **Comprehensive income:** | | | | |
| Excess of income over expenditures | - | - | 3,304 | 3,304 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **3,304** | **3,304** |
| **Transactions with founders:** | | | | |
| Appropriation to fund balances | 750 | 10 | (760) | - |
| Adjustement for retained earnings from subsidiary Habidom from previous year | - | - | 42 | 42 |
| Appropriation to statutory reserve | - | - | - | - |
| **Balance as at 31 December 2016** | **117,565** | **461** | **2,586** | **120,612** |

## 1. Basic data and activity

Association Habitat for Humanity Macedonia (furthermore “the Association”) was established as non for profit organization on 11 August 2004. The Association is incorporated and domiciled in Skopje, Republic of Macedonia. The address of the Association is at St.Nikola Parapunov bb/Makoteks 1 floor, 1000 Skopje.

The Association is an affiliate of Habitat for Humanity International (“HFHI”) and although it receives assistance in information resources, training, publications and prayer support it is primary and directly responsible for its operations.

To fulfill the purpose of their functioning the Association operates through financial support of development initiations by project grants from its affiliate offices around the world, being under direct supervision of Habitat for Humanity-Europe/Central Asia. Other than aforementioned it receives donations and contributions from other donors.

The Association performs activities in order to provide simple, decent and affordable housing solutions for low income social groups provide connections to water supply network for marginalized communities and improve energy efficiency.

## 2. Basis of preparation of the financial statements

### 2.1. Basis of preparation

The consolidated financial statements set on pages 3 to 29 are prepared in accordance with the International Financial Reporting Standards (“IFRS”).

The consolidated financial statements were prepared for the period ending 31 December 2016 and 2015. The figures for the current and the previous period are shown in thousands of Macedonian denars (000 MKD), if not otherwise stated. Certain adjustments and reclassifications of the balances for the previous year are made in order to adopt them for presentation in the current year.

These financial statements represent consolidated financial statements of the Association and they comprise the Association and its fully owned subsidiary Habitat for Humanity Macedonia Ltd Skopje (together as the “Group”). The subsidiary was founded on 14 February 2008 as a limited liability company.

On 07 August 2015, the Association has founded new subsidiary Habidom DOOEL as a limited liability company with equity of 350 thousands of MKD. The basic activity for which it is registered is 70.10 – Managing activities for households. The financial statements of this subsidiary for the year ended 31 December 2015 are not consolidated in these financial statements because the figures were not significant. The total income for 2015 is in amount of 994 thousands of MKD, total profit for the year in amount of 50 thousands of MKD and total assets in amount of 501 thousands of MKD. The financial statements of this subsidiary for the year ended 31 December 2016 are consolidated in these financial statements.

### 2.2. Basic accounting methods

The consolidated financial statements are prepared based on the principal of cost.

## 2. Basis of preparation of the financial statements (Continued)

### 2.3. Consolidation principles

The consolidation of financial statements on entities in the Group is prepared as follows:

- First, the individual balances of assets, liabilities and equity from balance sheet as at 31 December are summed up, as well as revenues and expenses from the income statement;
- Second, balances of receivables and liabilities as at 31 December from transactions between companies in the Group are completely eliminated;
- Third, balances of investments of parent company in controlled companies in Group, as at 31 December and balance of portion of the capital that refer to investments, are completely eliminated, and the rest of the capital is presented in the consolidated financial statements as non-controlling interest, if exists;
- Fourth, revenues and expenses from transactions between entities in the Group are completely eliminated.

### 2.4. Subsidiaries

Subsidiaries are all legal entities over which the Association has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Association controls another entity. The investments in subsidiaries in the stand alone financial statements of the Association are recorded at cost.

Subsidiaries are fully consolidated from the date on which control is transferred to the Association. They are de-consolidated from the date that control ceases.

The accompanying financial statements include the financial statements of the Association and the above mention subsidiary in 2.1.

### 2.5. Accounting estimates and judgements

The Group is applying certain accounting estimates and judgments during the process of preparation of the financial statements. Certain financial statements accounts which are not able to be measured properly are assessed on a regular basis. The assessment process includes judgments based on the latest relevant and available information.

Estimates are used during the assessment of the useful life period of the assets, fair value of receivables and its collectability etc.

During the period certain estimates and judgments can be revised and changed if there are changes in the circumstances on which the assessment was based or as a result of a new information, grater experience and subsequent events.

The effects of the changes in the accounting estimates and judgments are include in the net profit or loss for the period as well as in the future periods on which the change takes effect or the both.

## 2. Basis of preparation of the financial statements (Continued)

### 2.6. Going concern concept

The financial statements are prepared based on the going concern concept which means that the Group will continue to operate in the future on a continuing basis. The management of the Group has neither intention nor need to liquidate or restrict significantly the scope of its operations.

## 3. Basic accounting policies and estimates

The principal accounting policies applied for the preparation of these financial statements are set out below. These policies have been applied consistently for the years presented.

### 3.1. Revenues from donations

Revenues from donations are recognized in the income statement during the period in which they are received if they refer to the same year. According to the management, this method of revenue recognition corresponds with the expenses for which income has been provided. Received funds from donors for program activities related to the next period are recognized as deferred income.

### 3.2. Financing income

Financing income, which are calculated during the year, are shown as revenues, independent from their collection. They are consisted of interest revenues and gains on exchange.

Interest revenues are recognized on a time proportion basis, taking into account the effective yield on the asset.

### 3.3. Financing expenses

Financing expenses, which are calculated during the year, are shown as expenses, independent from their payment. They are consisting of interest expenses, losses on exchange and other expenses.

Interest expenses are recognized on a time proportion basis.

### 3.4. Exchange rate differences

Business transactions in foreign currency are recorded in MKD by applying the exchange rate at the date of the transaction. All monetary items in foreign currencies are denominated into MKD at the exchange rates ruling at the balance sheet date.

Gains and losses arising on the translation of receivables and liabilities in foreign currencies during the year have been credited or charged to financing revenues or expenses.

The official exchange rates ruling at 31 December 2016 and 2015 are the following:

## 3. Basic accounting policies and estimates (Continued)

### 3.4. Exchange rate differences (Continued)

| | 2015 | 2014 |
|---|---|---|
| 1 EUR = | 61.4812 MKD | 61.5947 MKD |
| 1 USD = | 58.3258 MKD | 56.3744 MKD |

### 3.5. Income tax (current and deferred)

Income tax is calculated in accordance with the legal regulations in the Republic of Macedonia. The calculation of the monthly advance payment of income tax is paid in advance as it is determined by the tax authorities.

Income tax expense is the sum of current and deferred income tax.

Up to 31 December 2013, the current income tax was calculated in accordance with the legal provisions, at 10% rate to non-recognized expenses and less recognized revenues and expenses and less recognized revenues from related parties adjusted for tax credit, and as well as on the distributed profit for dividends to legal entities – non-residents and to individuals. Undistributed profit (retained earnings) was exempt of taxation.

According to changes in tax legislation, applicable for 2014, the current income tax is calculate at 10% rate to financial result (profit) presented in the income statement, adjusted for non-recognized expenses and tax credits. The non-profit organizations are exempt from taxation on their realized profit/excess of income over expenditures for the part which is realized from grants and donations, except for the profit realized from other business transactions.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The tax rates that are currently valid are used in determination of deferred income tax.

Deferred income tax is charged or credited in the profits and losses except when it relates to items charged or credited directly to the equity, in which case the deferred tax is also dealt within the equity. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

### 3.6. Cash and cash equivalents

Cash and cash equivalents are carried out at cost in the balance sheet. For the purposes of these financial statements, cash and cash equivalents are comprised of cash in hand, cash in banks denar and foreign currency accounts, demand deposits and time deposits with maturity up to three months.

## 3. Basic accounting policies and estimates (Continued)

### 3.7. Trade and loan receivables

Trade receivables arise from sales of goods and services and are recognized at cost less any impairment of bad and doubtful receivables.

Loan receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these receivables are measured at amortised cost using the effective interest method less any impairment losses.

### 3.8. Property and equipment (PE)

*(1) Basic presentation*

Initially, property and equipment are carried out at cost. Cost includes invoiced value and all other costs to bring the PE to their present condition and location.

Subsequently, PE is measured at cost less accumulated depreciation and any impairment losses.

Maintenance and repairs are charged to income as incurred. Costs relating to reconstruction and improvements that change the capacity or the purpose of the PE are added to the value of the assets.

Profits on disposals of PE are credited directly to other operating revenues. Losses on disposal of PE are charged to other operating expenses.

*(2) Depreciation*

Depreciation is charged on a straight-line basis at prescribed rates to allocate the revalue cost of the property and equipment over their estimated useful lives. PE is depreciated on a single asset basis, until the asset is fully depreciated.

The basic depreciation annual rates i.e. estimated useful life of the assets applied in 2016 compare to 2015 are as follows:

| | **2016** | **2015** | **2016** | **2015** |
|---|---|---|---|---|
| Equipment | 20% | 20% | 5 years | 5 years |
| Fixtures and fittings | 10-20% | 10-20% | 5-10 years | 5-10 years |

### 3.9. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is comprised of cost of purchase, costs of conversion and other cost incurred in bringing the inventories to their present location and condition. Net realizable value is estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 3. Basic accounting policies and estimates (Continued)

### 3.10. Impairment of assets

*(1) Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulties of the debtor, default or delinquency in payments, probability that the debtor will enter bankruptcy or financial liquidation, disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognized in profit or loss.

The Association calculates impairment losses on its loan portfolio within the following limits:

- 0% of the credit risk exposure for undue loans
- From 2% to 10% of the credit risk exposure for loans due from 1 to 30 days
- 25% of the credit risk exposure for loans due from 31 to 90 days
- 50% of the credit risk exposure for loans due from 91 to 180 days
- 75% of the credit risk exposure for loans due from 181 to 360 days
- 100% of the credit risk exposure for loans due over 360 days

The loans which are due and secured with mortgage (sale of apartments in Veles) or bank guarantee are not impaired or they are impaired from 2% to 10% as their value is at least covered with the value of the mortgage and guarantee.

*(2) Non-Financial assets*

The carrying amount of the non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment, If such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

### 3.11. Trade payables

Trade payables are stated at their nominal value (cost). Trade payables are written off by crediting other revenues, after the expiration of the legal maturity period or by off-court agreement between parties.

## 3. Basic accounting policies and estimates (Continued)

### 3.12. Funds

The Group fund's represent permanent sources of funds of the organization. These funds are increased or decreased by the realized excess of revenues or expenses.

### 3.13. Leases

Leases where the Group has substantially all the risks and rewards from ownership of an asset are classified as finance lease. The lessee is recognising the finance lease as an asset in the balance sheet at the lower of the fair value or present value of the minimum lease payments.

Leases were a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease. The lessor presents the assets for rent or investment property in the balance sheet.

### 3.14. Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

*(1) Short-term employee benefits*
Short-term employee benefits are employee benefits which fall due wholly within twelve months after the end of the period in which the employees render the related services. These benefits include items such as: wages, salaries and social security contributions, short-term compensated absences, profit-sharing and bonuses and other non-monetary benefits. All short-term employee benefits are recognized as a liability and expense for the undiscounted amount.

*(2) Post-employment benefits*
The Group calculates and pays pension insurance contributions of its employees according to the domestic legislation. The contributions, based on the employee's salaries are paid in the domestic National Funds. The Group has no additional liabilities.

Also, the Group is obliged to pay benefit in amount of two months' salary to all its employees who are retiring in the moment of retirement. The Group has made no provision for these liabilities as the amount is not significant for the financial statements.

### 3.15. Provisions

Provisions (uncertain liabilities) are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as an asset when, and only when, it is virtually certain that the reimbursement will be received. The expense relating to a provision is presented in the income statement net of the amount recognized for a reimbursement. Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation using pre-tax rates that reflects current market assessments.

## 3. Basic accounting policies and estimates (Continued)

### 3.16. Contingencies

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liability is not recognized in the financial statements, only are disclosed. Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent asset are recognized only when the realization of income is virtually certain.

## 4. Risk management

The Group is engaged in different kind of business transactions which derive from its daily activities and which are connected with the customers, suppliers, creditors and donors. The main financial risks to which the Association is exposed during its business and the policies for their management are the following:

### 4.1. Market risk

***Foreign exchange risk***
The Group does enter in transactions denominated in foreign currencies, which arise from received donations in foreign currencies, as well as investments in financial assets or liabilities and therefore the Group is exposed to foreign currency risk. The Group has no special policy to avoid this kind of risk as there are no financial instruments in Republic of Macedonia. According to this, the Group is exposed to possible foreign currencies rates fluctuations, which is still limited as the Denar is pegged to EUR and monetary projections envisage stability of the exchange rate of the Denar against EUR.

***Equity price risks***
The Group is not exposed to equity price risks, since it does not own marketable securities.

### 4.2. Credit risk

The Group is exposed to credit risk in the event where its customers fail to meet their payment obligations. The concentration of credit risk exposure is presented in the following notes.

### 4.3. Interest rate risk

The Group is exposed to risk of interest rate fluctuation, which relates to the loans, borrowings or bank deposits conclude with variable interest rates. This type of risk depends on movements on financial markets and the Group does not hedge against it. At the balance sheet date, the Group is exposed to this kind of risk, presented in the following notes.

### 4.4. Liquidity risk

Liquidity risk includes the risk of being unable to fund its liabilities at appropriate maturities with its cash. This kind of risk is governed by maintaining sufficient cash for regular funding of its committed credit facilities. The Group has no such liquidity issues.

## 4. Risk management (Continued)

### 4.5. Taxation risk

According to local legislation, the tax authorities may at any time inspect the books and records subsequent to the reported tax year, and may impose additional tax assessments. Up to the date of the Auditors report, inspection for income tax, personnel income tax and contributions on allowances for period 2016 is not yet executed and therefore additional taxes or contributions are possible.

## 5. Fair value estimation

The Group has financial assets and liabilities which include trade receivables, loans, trade payables, borrowings as well as non-financial assets, for which large number of accounting policies and disclosures require establishing of their fair value.

The fair value of financial assets and liabilities generally approximate their carrying amount as most of them have maturity up to one year of the balance sheet date.

Fair value for the loans and borrowings is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As the Group places loans to other entities in the Republic of Macedonia at rates determined by the Group which are unique in the country, the interest rate of the Group can be considered as market interest rate of these loans.

## 6. Financial instruments

### 6.1. Capital risk management

The Group is financing its activities with its own funds and by using short-term or long-term borrowings. The management of the Group reviews its capital structure on a regular basis.

The Group is not subject to any external imposed capital requirements.

### 6.2. Foreign currency risk

The Group does enter into transactions denominated in foreign currencies, by receiving donations and through loans and borrowings denominated in other currency than MKD and therefore it is exposed to foreign currency risk.

The total carrying amounts of the financial assets and liabilities denominated in foreign currencies as at 31 December 2016 and 2015 are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| EUR | 42,983 | 48,119 | - | - |
| USD | - | 2,246 | - | - |
| **Total** | **42,983** | **50,365** | **-** | **-** |

The Group is generally exposed to EUR.

## 6. Financial instruments (Continued)

### 6.2. Foreign currency risk (Continued)

The sensitivity analysis below has been determined based on the 10% increase or decrease of the Macedonian MKD related to the foreign currencies. The analysis has been done based on the carrying amounts of the assets and liabilities denominated in foreign currency at the balance sheet date. A positive number below indicates an increase in profit and equity and negative number below indicates a decrease.

| | 10% increase | | 10% decrease | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| EUR | 4,298 | 4,812 | (4,298) | (4,812) |
| USD | - | 225 | - | (225) |
| **Net** | **4,298** | **5,037** | **(4,298)** | **(5,037)** |

### 6.3. Interest rate risk

The Group is exposed to interest risk arising from variable interest rate on bank deposits and borrowings, which depends on the changes of the financial markets. The carrying amount of the financial assets and liabilities according interest rate risk as at 31 December 2016 and 2015 is as it follows:

| | 31 December | |
|---|---|---|
| | **2016** | **2015** |
| **Financial assets** | | |
| *Non-interest bearing:* | | |
| - Cash | 79 | 26 |
| - Trade receivables and other | 3,911 | 1,904 |
| - Loans | 850 | 903 |
| | **4,840** | **2,833** |
| *Interest bearing with variable interest rate:* | | |
| - Cash | 10,867 | 8,630 |
| - Loans | 31,533 | 33,338 |
| | **42,400** | **41,968** |
| *Interest bearing with fixed interest rate:* | | |
| - Loans | 66,547 | 67,376 |
| | **66,547** | **67,376** |
| | **113,787** | **112,177** |
| **Financial liabilties** | | |
| *Non-interest bearing:* | | |
| - Trade payables | 1,651 | 929 |
| - Other current payables | 1,586 | 136 |
| | **3,237** | **1,065** |
| *Interest bearing with variable interest rate:* | | |
| - Borrowings | - | - |
| | **-** | **-** |
| | **3,237** | **1,065** |

## 6. Financial instruments (Continued)

### 6.3. Interest rate risk (Continued)

The sensitivity analysis below has been determined based on the exposure to interest rates as a result of a 1% point increase or decrease for the bank deposits and borrowings at the balance sheet date. A positive number below indicates an increase in profit and equity and negative number below indicates a decrease.

| | Increase of 1% | | Decrease of 1% | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Loans | 424 | 420 | (424) | (420) |
| Borrowings | - | - | - | - |
| **Net** | **424** | **420** | **(424)** | **(420)** |

### 6.4. Credit risk

*(1) Exposure*

Credit risk exists in the event where customers fail to meet their payment obligations.

The following table presents maximum credit exposure of the Group as at 31 December 2016 and 2015:

| | In (000) MKD | |
|---|---|---|
| | **31 December 2016** | **31 December 2015** |
| Cash | 10,946 | 8,656 |
| Trade receivables and other | 3,911 | 1,904 |
| Loans receivable | 98,930 | 101,617 |
| | **113,787** | **112,177** |

In case of customer default, the Group is estimating the impairment losses and adequate measures for collection are taking in to account.

**6. Financial instruments (Continued)**

**6.4. Credit risk (Continued)**

*(2) Impairment losses*

The structure of loans receivable according to their maturity as at 31 December 2016 is as follows:

| | | In (000) MKD | |
|---|---|---|---|
| | **Gross amount** | **(Impairment)** | **Net amount** |
| Undue receivables | 66,668 | 682 | 65,986 |
| Due receivables | | | |
| - up to 30 days | 12,686 | 482 | 12,204 |
| - from 31 to 90 days | 7,207 | 324 | 6,883 |
| - from 91 to 180 days | 4,583 | 731 | 3,852 |
| - from 181 to 360 days | 5,513 | 1,111 | 4,402 |
| - over 360 days | 9,983 | 5,230 | 4,752 |
| | **106,640** | **8,560** | **98,079** |

Due loans over 360 days in net amount of 4,752 thousands of MKD include loans which are secured with mortgage on property (apartments in Veles).

The structure of loans receivable according to their maturity as at 31 December 2015 is as follows:

| | | In (000) MKD | |
|---|---|---|---|
| | **Gross amount** | **(Impairment)** | **Net amount** |
| Undue receivables | 70,260 | 609 | 69,651 |
| Due receivables | | | |
| - up to 30 days | 8,427 | 169 | 8,258 |
| - from 31 to 90 days | 12,190 | 561 | 11,629 |
| - from 91 to 180 days | 7,572 | 1,478 | 6,094 |
| - from 181 to 360 days | 2,965 | 482 | 2,483 |
| - over 360 days | 9,816 | 6,314 | 3,502 |
| | **110,327** | **9,613** | **101,617** |

Due loans over 360 days in net amount of 3,502 thousands of MKD include loans which are secured with mortgage on property (apartments in Veles).

## 6. Financial instruments (Continued)

### 6.5. Liquidity risk

The following tables details the Group remaining contractual maturity for its financial assets and liabilities as at 31 December 2016:

| | Less than 1 month | 1 to 3 month | 3 to 12 month | Over 12 months | Total |
|---|---|---|---|---|---|
| Cash | 10,946 | - | - | - | 10,946 |
| Trade receivables | 3,911 | - | - | - | 3,911 |
| Loans | 2,515 | 5,029 | 22,631 | 68,755 | 98,930 |
| | **17,372** | **5,029** | **22,631** | **68,755** | **113,787** |
| Trade payables | 1,651 | - | - | - | 1,651 |
| Borrowings | - | - | - | - | - |
| Other payables | 1,586 | - | - | - | 1,586 |
| | **3,237** | **-** | **-** | **-** | **3,237** |

The following tables details the Group remaining contractual maturity for its financial assets and liabilities as at 31 December 2015:

| | Less than 1 month | 1 to 3 month | 3 to 12 month | Over 12 months | Total |
|---|---|---|---|---|---|
| Cash | 8,656 | - | - | - | 8,656 |
| Trade receivables | 1,904 | - | - | - | 1,904 |
| Loans | 4,539 | 9,078 | 40,850 | 47,151 | 101,617 |
| | **15,099** | **9,078** | **40,850** | **47,151** | **112,177** |
| Trade payables | 929 | - | - | - | 929 |
| Borrowings | - | - | - | - | - |
| Other payables | 136 | - | - | - | 136 |
| | **1,065** | **-** | **-** | **-** | **1,065** |

## 7. Segment reporting

Due to its specific activities and size, the Group is not organized in separate segments, business or geographical segments.

Because of the previous, the Group is not presenting any segment information.

## 8. DONATIONS

| | 2016<br>(000) MKD | 2015<br>(000) MKD |
|---|---|---|
| Donations from HFHI | | |
| *Designated funds* | 16,841 | 3,065 |
| *Undesignated funds* | 8,437 | 20,270 |
| Other donations (grants) | 5,576 | 25,637 |
| **Total revenues from donations** | **30,854** | **48,972** |

## 9. OTHER INCOME

| | 2016<br>(000) MKD | 2015<br>(000) MKD |
|---|---|---|
| Incomes from services | 745 | - |
| Income from changes in loan loss reserve (note 16) | 1,053 | - |
| Income form discounts on borrowings (note 20) | - | 2,307 |
| **Total, net** | **1,798** | **2,307** |

## 10. PERSONNEL EXPENSES

| | 2016<br>(000) MKD | 2015<br>(000) MKD |
|---|---|---|
| Gross wages and salaries | 20,461 | 18,826 |
| Other staff costs | 845 | 1,187 |
| **Total employees expenses** | **21,306** | **20,013** |

## 11. OTHER OPERATING EXPENSES

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| Proffesional services | 3,649 | 7,793 |
| Rent | 1,378 | 773 |
| Telephone, internet and other services | 1,006 | 2,024 |
| Accommodation expenses | 856 | 2,965 |
| Materials and consumables | 624 | 1,158 |
| Advertising expenses | 567 | 950 |
| Energy | 397 | 350 |
| Maintenances services | 192 | - |
| Bank charges | 155 | 252 |
| Utilities | 44 | - |
| Impairment of financial assets | - | 276 |
| Other operating expenses | 81 | 379 |
| **Total other operating expenses** | **8,949** | **16,920** |

## 12. INCOME TAX EXPENSES

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| Income tax on profit | 7 | 43 |
| Income tax on non-recognized expenses | 61 | 125 |
| **Total income tax expenses** | **68** | **168** |

## 13. FINANCING INCOME AND EXPENSE

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| Interest income | 2,812 | 4,760 |
| Gains on exchange | - | - |
| | 2,812 | 4,760 |
| Interest expenses | (20) | (1,520) |
| Losses on exchange | (427) | (460) |
| | (447) | (1,980) |
| **Total** | **2,365** | **2,780** |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Equipment (000) MKD | Fixtures and fittings (000) MKD | Motor vehicles (000) MKD | Total (000) MKD |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance at 1 January 2015** | **2,806** | **635** | **1,112** | **4,553** |
| Additions | 478 | 53 | - | **531** |
| Donation | - | - | - | |
| Other adjustments | - | - | - | **-** |
| **Balance at 31 December 2015** | **3,284** | **688** | **1,112** | **5,084** |
| **Balance at 1 January 2016** | **3,284** | **688** | **1,112** | **5,084** |
| Additions | 679 | - | - | **679** |
| Donation | - | - | - | **-** |
| Other adjustments | - | - | - | **-** |
| **Balance at 31 December 2016** | **3,963** | **688** | **1,112** | **5,763** |
| **Accumulated depreciation** | | | | |
| **Balance at 1 January 2015** | **2,218** | **592** | **602** | **3,412** |
| Depreciation | 304 | 60 | 278 | **642** |
| Donation | - | - | - | |
| Other adjustments | - | - | - | **-** |
| **Balance at 31 December 2015** | **2,522** | **652** | **880** | **4,054** |
| **Balance at 1 January 2016** | **2,522** | **652** | **880** | **4,054** |
| Depreciation | 299 | 27 | 232 | **558** |
| Donation | - | - | - | **-** |
| Other adjustments | - | - | - | **-** |
| **Balance at 31 December 2016** | **2,821** | **679** | **1,112** | **4,612** |
| **Carrying amount at:** | | | | |
| **31 December 2016** | **1,142** | **9** | **-** | **1,151** |
| **31 December 2015** | **762** | **36** | **232** | **1,030** |

The Group has no liens or encumbrances on its other assets nor has any asset been pledged as collateral.

## 15. INTANGIBLE ASSETS

| | Software and licenses (000) MKD | Total (000) MKD |
|---|---|---|
| **Cost** | | |
| **Balance at 1 January 2015** | **3,949** | **3,949** |
| Additions | - | - |
| **Balance at 31 December 2015** | **3,949** | **3,949** |
| | | |
| **Balance at 1 January 2016** | **3,949** | **3,949** |
| Additions | 544 | 544 |
| **Balance at 31 December 2016** | **4,493** | **4,493** |
| | | |
| **Accumulated amortization** | | |
| **Balance at 1 January 2015** | **2,369** | **2,369** |
| Amortization | 790 | 790 |
| **Balance at 31 December 2015** | **3,159** | **3,159** |
| | | |
| **Balance at 1 January 2016** | **3,159** | **3,159** |
| Amortization | 832 | 832 |
| **Balance at 31 December 2016** | **3,991** | **3,991** |
| | | |
| **Net book value as at:** | | |
| **31 December 2016** | **502** | **502** |
| **31 December 2015** | **790** | **790** |

## 16. LOANS RECEIVABLE

| | | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|---|
| ***Non-current loans:*** | | | |
| Persons for apartments, Veles | (a) | 31,533 | 33,338 |
| Savings House Moznosti DOO, Skopje | (b) | 12,296 | 12,319 |
| Fondation Horizonti, Skopje | (c) | 21,191 | 18,150 |
| Tenzor DOOEL, Skopje | (d) | - | 2,272 |
| Euro-profil, Skopje | (e) | 1,144 | 2,666 |
| En Fa Pen, Skopje | (f) | 39 | 855 |
| Gradba Jasen | (g) | 773 | 919 |
| Apolo Inzinering | (h) | 2,893 | 5,787 |
| Rabus DOOEL | (i) | 311 | 828 |
| Boksit inzinering, Kochani | | 91 | 421 |
| Arcelor Mital | | 456 | 481 |
| Poraka, Negotino | | 1,015 | 1,590 |
| Mi-Komerc DOOEL, Kavadarci | | 2,322 | 1,239 |
| Alkoplast, Skopje | | 34 | 173 |
| Pikok DOOEL, Skopje | | 398 | 399 |
| Turija, Vasilevo and Ograzden, Bosilovo | | 20 | 20 |
| Home owner associations | (j) | 5,498 | 4,059 |
| Persons for different projects | | 26,626 | 24,811 |
| Other loans | | - | - |
| **Total** | | **106,640** | **110,327** |
| Less: Impairment for loans | | (8,560) | (9,613) |
| Less: Current portion of long-term loans | | (29,325) | (53,563) |
| **Total, net** | | **68,755** | **47,151** |
| ***Current loans:*** | | | |
| Current portion of long-term loans | | 29,325 | 53,563 |
| Interest receivable | | 850 | 903 |
| **Total** | | **30,175** | **54,466** |
| **Total** | | **98,930** | **101,617** |

## 16. LOANS RECEIVABLE (continued)

(a) Long-term loans to persons for sold apartments in Veles in amount of thousands of MKD (2015: 33,338) relates to loans to several persons for the sold apartments in Veles from the project for new households in Veles. The loans are made in MKD and are repaybale in 240 monthly installments with variable interest rate of 3.9% p.a. The loans are secured with mortgage on the property that hes been sold.

(b) Long-term loan to Savings House Moznosti DOO, Skopje in the amount of 12,296 thousands of MKD (2015: 12,319 thousands of MKD) relates to the loan approved for Program which goals is to establishe credit line to provide small loans for energy efficiency of households. The credit line was released in June 2015. In agreement with the borrower the repayment is in June 2016. The loan is denominated in Euros and bears fixed interest at the rate of 4.2% p.a.

(c) Long-term loan to Foundation for Economic Development Horizonti, Skopje in the amount of 21,191 thousands of MKD (2015: 18,150 thousands of MKD) relates to the loans approved for the financing of the sub-loans to the Roma national community and the marginalized community, for the purpose of reconstruction and renovation of homes. The loans are repayable in 4 quarterly instalments, with a grace period of 20 months and last instalment due on 30.06.2019. This loans are denominated in Euros and bears fixed interest at the rate of 4.2% p.a.

(d) Long-term loans to Private enterprise "Tenzor", Skopje, completely paid in 2016 (2015: 2,272 thousands of MKD) relates to the loans approved for financing of door and window construction for low income families. The loans are repayable in 36 monthly instalments due in October and December 2016. These loans are denominated in Euros and bears fixed interest at the rate of 4 % p.a.

(e) Long-term loans to Private enterprise "Euro Profil", Skopje in the amount of 1,144 thousands of MKD (2015: 2,666 thousands of MKD) relates to the loans approved for financing of door and window construction for low income families. The loans are repayable in 36 monthly instalments, with the last instalment due on May and November 2016 and October 2017. These loans are denominated in Euros and bears fixed interest at the rate of 6.5% p.a.

(f) Long-term loans to Private enterprise "EN-FA-PEN-HIT", DOOEL Skopje in the amount of 39 thousands of MKD (2015: 855 thousands of MKD) relates to the loans approved for financing of door and window construction for low income families. The loans are repayable in 36 monthly instalments and bears fixed interest at the rate of 4.0% p.a.

(g) Long-term loans to Private enterprise "Gradba Jasen", DOOEL Prilep in the amount of 773 thousands of MKD (2015: 919 thousands of MKD) relates to the loan approved for financing changing the roof of the building for low income families. The loans are repayable in 72 monthly instalments and bears fixed interest at the rate of 3.0% p.a.

## 16. LOANS RECEIVABLE (continued)

(h) Long-term loans to Private enterprise "Apolo Inzinering", DOOEL in the amount of 2,893 thousands of MKD (2015: 5,787 thousands of MKD) relates to the loan approved for financing reconstruction of the facade of the colectives buildings for low income families. The loans are repayable in 36 monthly installments and bears fixed interest at the rate of 3.0% p.a.

(i) Long-term loans to Private enterprise "Rabus", DOOEL in the amount of 311 thousands of MKD (2015: 828 thousands of MKD) relates to the loans approved for financing of door and window construction for low income families. The loans are repayable in 36 monthly installments and bears fixed interest at the rate of 4.0% p.a.

(j) Long-term loans to Home owner associations in total amount of 5,498 thousands of MKD (2015: 4,059 thousands of MKD) relates to loans approved for financing the reconstruction of common spaces in the buildings. The loans are repayable from 36 to 72 months, and bear fixed interest rate of 3.0% p.a.

***Security***

Loans given are secured with bills of exchange, mortgage or bank or corporate guarantee.

Movement of loan loss reserve account is as it follows:

| | **2016 (000) MKD** | **2015 (000) MKD** |
|---|---|---|
| **Balance as at 01.01.** | **9,613** | **9,337** |
| Loan loss expense | - | 276 |
| Income from changes in loan loss reserve | (1,053) | - |
| Write off | - | - |
| **Balance as at 31.12.** | **8,560** | **9,613** |

## 17. INVENTORIES

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| Work in progress | 13,490 | 10,239 |
| Apartments on stock for sale (own construction) | 1,534 | 1,534 |
| **Total inventories** | **15,024** | **11,773** |

In 2013 the Group started project for construction of apartments for marginalized community members in Veles (Phase II). During 2015 and 2016 the Group has continued with the process of construction and selling the finished apartments.

## 18. TRADE AND OTHER RECEIVABLES

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| Trade receivables | 549 | - |
| VAT receivables | 1,832 | 1,250 |
| Income tax receivables | 489 | 497 |
| Other receivables | 237 | 157 |
| Advances given | 804 | - |
| Prepaid expenses | 563 | 500 |
| **Total trade and other receivables** | **4,474** | **2,404** |

## 19. CASH AND CASH EQUIVALENTS

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| Cash in hand | 79 | 26 |
| Bank balances | 10,867 | 8,630 |
| **Total cash and cash equivalents** | **10,946** | **8,656** |

## 20. LOANS AND BORROWINGS

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| ***Non - current liabilities:*** | | |
| Unsecured loan from DigH | - | - |
| | **-** | **-** |
| ***Current liabilities:*** | | |
| Interest payable | - | - |
| | **-** | **-** |

The Group has signed a loan agreement with Stichting Dutch International Guarantees for Housing Foundation (DigH) Holland. According to the agreement, the loan in the amount of 61,450 thousands of MKD bears an interest comprised of an interest rate of 5.97 % plus additional variable rate for currency risk of 0.02% (2014: 5.97 % plus additional variable rate for currency risk of 0.02%). The interest on the loan is calculated and paid annually while the principal matures on 22 May 2018. The loan has been repaid in full in 2015 and the borrower has approved discount of 9.43% on the loan principal for the pre-term loan repayment which is in amount of 5,751 thousands of MKD. Also, the Association has made pre-term collection of the loan receivable from Savings House Moznosti DOO Skopje (note 16) for which discount in amount of 3,446 thousands of MKD was approved. The net effect from the discounts is in amount of 2,305 thousands of MKD recorded as other income.

## 21. TRADE AND OTHER PAYABLES

| | 2016 (000) MKD | 2015 (000) MKD |
|---|---|---|
| Trade payables | 1,651 | 929 |
| VAT payables | 125 | - |
| Other tax payables | 27 | 95 |
| Payables to employees | 67 | 41 |
| Payables for salaries and benefits | 1,367 | - |
| Accruals | 7,178 | 8,289 |
| **Total trade and other payables** | **10,415** | **9,354** |

Accruals in amount of 7,178 thousands of MKD (2015: 8,289 thousands of MKD) represent unearned income from donations (prepayment) from HFHI for the year 2017 in amount of 5,311 thousands of MKD, amount of 1,416 thousands of MKD from projects financed by EIDHR and amount of 451 thousands of MKD for reimbursement od expenses .

## 22. CONTINGENCIES

The Group is not involved in any legal proceeding in the ordinary course of business.

## 23. SUBSEQUENT EVENTS

No subsequent events have occurred that are material for the business activities of the Group and for these financial statements.

## 24. RELATED PARTY TRANSACTIONS

The Group is affiliated and approved by the Habitat for Humanity International (HFHI) Europe/Central Asia regional area office and ii operates under covenant agreement with HFHI. Also the Group has a related party transactions with its key management. Related party transactions are as follows:

| | **2016 (000) MKD** | **2015 (000) MKD** |
|---|---|---|
| Donations from HFHI | 25,278 | 23,335 |
| | **25,278** | **23,335** |
| Key management benefits | 2,297 | 2,666 |
| | **2,297** | **2,666** |