LOCAL LOANS & DEVELOPMENT FUND

ANNUAL REPORT AND ACCOUNTS

2018

Ministry of Internal & Home Affairs and Provincial Councils & Local Government

CONTENTS

ANNUAL REPORT AND ACCOUNTS - 2018

LOCAL LOANS & DEVELOPMENT COMMISSIONERS
(LOCAL LOANS & DEVELOPMENT FUND)

VISION

"To be a leading financial Institution for Local Level Infrastructure Financing"

MSSION

"To become an autonomous and sustainable Financial Institution providing long term financing for basic infrastructure services and to contribute to the social and economic development of the country"

OBJECTIVES

Provision of Loan requirements at a concessionary rate of interest to any Local Authoritiesin the country for the purpose of any work of public utility such Local Authority may be authorized by law to undertake. (Granting of Loans restricted only to Local Authorities)

FUNDS

Funds were provided by the Treasury in the form of a long term loan at a concessionary rate of interest until year 2009. With the commencement of loans recovered under ADB Loan (No.1632 SRI (SF) and ADB Loan (No.2201 SRI (SF)), revolving facilities of funds are available for the purpose of granting of loans.

CORPORATE INFORMATION

ESTABLISHMENT

Local Loans & Development Fund is a Statutory Body established under the Local Loans and Development Ordinance No. 22 of 1916 and amended by Ordinance Nos. 6 of 1930, 25 of 1931, 43 of 1938, 21 of 1942, Act No.29 of 1949, Law No.9 of 1974 and Act No. 24 of 1993. The functions of the LL&DF were assigned the Ministry of Finance during the year 2010 and since year 2015 this institute was functioning under the subject of Ministry of Provincial Councils and Local Government.

FUNCTIONS

The prime function of LL&DF is to meet the capital investment needs of the Local Authorities namely Municipal Councils; Urban Councils & Pradeshiya Sabha's totaling 341 Nos. It provides Long Term loans at concessionary rates of interest.

REGISTERED OFFICE	No.24 A, Ward Place, Colombo 07
TELEPHONE	011-2687514
FAX	011-2691261
E-mail	lldf1916@gmail.com

AUDITORS

External Audit : Department of Auditor General.
Internal Audit : Internal Audit Division
Ministry of Provincial Councils & Local Government and Sports

BANKERS : Bank of Ceylon

STAFF

The following staff was employed by the Fund, as at 31st December 2018.

Designation	No of Employeed
Chief Executive Officer	01
Deputy Director (Finance and Administration)	01
Deputy Director (Operation)	01
Assistant Accountant	01
Administrative Officer	01
Development Officer's	21
Management Assistant	11
Driver	02
Office Aide	02
Total	**41**

STRUCTURE OF THE BOARD OF COMMISSIONERS

As per the Sec. 2 of the Local Loans and Development (Amendment) Act No. 24 of 1993, The Board of Commissioners shall consist of at least thirteen (13) members appointed by the Hon. Minister.

a. Chairman – (ex-officio) - Secretary to the Ministry in charge of the LL&DF
b. One member - Nominated by the Minister of Finance
c. Nine members nominated by the Governor of each Province
d. Three members nominated by the Hon. Minister of the Ministry in charge.

Board of Commissioners as at 31.12.2018

Chairman

(01) Mr.H.T.Kamal Pathmasiri - Secretary, Ministry of Provincial Councils, Local Government and Sports

Treasury Representative

(02) Ms.M.G.N.Premathilake - Chief Internal Auditor, Ministry of Finance & Mass Media

Members

(03) Mr.M.S.Premawanshe	Chief Secretary (CP)
(04) Mr.H.M.P.Bandara	Chief Secretary (NCP)
(05) Mr.P.B.Wijayarathne	Chief Secretary (UVA)
(06) Mr.H.P.Kularathne	Chief Secretary (SAB)
(07) Mr.D.M.S.Abeygunawardhane	Chief Secretary (EP)
(08) Mr.A.Pathinathan	Chief Secretary (NP)
(09) Mr.R.C.De Zoysa	Chief Secretary (SP)
(10) Mr.J.M.R.P.Jayasinghe	Commissioner of Local Government (NWP)
(11) Mr.N.S.M.L.P.Nanayakkara	Commissioner of Local Government (WP)
(12) Mr.P.Kodithuwakku	Hon Minister's Nominee

LOCAL LOANS AND DEVELOPMENT FUND
CORPORATE GOVERNANCE

Corporate Governance is the process by which the business operation of the LL&DF is directed to control by the Board of Commissioners. Good Governance is an essential ingredient in corporate success and sustainable economic growth. The Board of Commissioners of Local Loans & Development Fund is committed in maintaining high standards of integrity, accountability, transparency and business ethics in the governance of the company.

THE BOARD OF COMMISSIONERS

a) Composition and Balance

As per Act, the Board of Commissioners comprises fourteen Commissioners including the Chairman, who posses valuable knowledge and experience in the areas of the institutions operations. None of the commissioners have any dealings with the institution which does not affect their independence in discharging their duties.

b) Decision Making

The Commissioners meet each month to review routine activities, to decide on policies & matters of significance. The Commissioners review performance & decide strategies to reach the goals of the LL&DF.

The Responsibilities

The Board of Commissioners are responsible for

1. Formulation of business strategies taking into consideration the LL&DF strength competencies and risks.
2. Implementing and monitoring such strategies.
3. Reviewing and ratifying systems in operation relating to risk management, internal control, code of conduct & compliance with the laws, statues & regulations.
4. Reviewing monitoring & ratifying all capital expenditure.
5. Monitoring senior management performance.
6. Ensuring the effective information and audit systems are in the institute.

INDEPENDENT JUDGEMENT

Each commissioner exercises independent judgement in all matters conducted by the board and acts from any undue influence & bias from other parties. Matters considered include making decisions on issues relating to strategy, implementation of such strategies, performance review, resource allocation & standard conduct of business ethics.

CHAIRMAN

The role of the Chairman is distinct & separate which ensures a balance of power within the LL&DFso that no individual has unfettered powers of decision making.

CHAIRMAN'S ROLE

The Chairman provides leadership and strategic direction to the Board of Commissioners & ensures that all meetings are conducted in a professional manner.

APPOINTMENT TO THE BOARD

There is a clear & transparent procedure for the appointment of Commissioners to the Board. The respective ordinance & acts defines the appointment.

ACCOUNTABILITY AND AUDIT

As per the recommendations of the National Salaries and Cadre Commission, with the vision of making this Organization a Government "C" class Organization, the staff cadre was restructured whilst approval was received from the Department of Management Services. Therefore, arrangements were made to recruit two Deputy Directors to the LL&DF.

MAINTAINING A SOUND SYSTEM OF INTERNAL CONTROL & RISK MANAGEMENT

The Board of Commissioners has implemented a sound system of internal control & risk management to safeguard the investments & the LL&DF assets. The Board is fully aware that internal controls have inherent limitations and do not provide assurance against errors and fraud.

PERIODICAL REVIEW OF THE ADEQUACY AND EFFECTIVENESS OF INTERNAL CONTROL

The adequacy & effectiveness of the Internal Controls are periodically reviewed by the Board and the senior management of the LL&DF and the observations are reported to the Board for appropriate action.

FINANCIAL REPORTING

The Board of Commissioners confirm that the financial statements of the institution have been prepared in accordance with the Sri Lanka Financial Reporting Standards (SLFRS). The institution has duly complied with all the reporting requirements of the relevant laws and regulatory authorities. The financial statements of the institution were audited by the Auditor Generals.

GOING CONCERN

Local Loans & Development Fund is continuing its business with a sufficient liquidity position.

STATUTORY OBLIGATIONS

The Commissioners to the best of their knowledge and belief are satisfied that all financial obligations due to the government and to the employees have been duly paid or adequately provided in the financial statements.

RELATIONSHIP WITH OTHER STAKE HOLDERS

a) Employees

The Board ensures that the vision, goals and objectives formulated by the Board are clearly communicated and understood by all employees. The LL&DF ensures that no persons below the minimum age are offered employment. LL&DF affords opportunities to potential employees regardless of gender race and once recruited would continue in their career path without discrimination.

b) Regulatory Bodies

The Board ensures that a meaningful relationship is maintained with institutions such as the Treasury, relevant line Ministry and the Department of Inland Revenue. LL&DF operation and activities strictly adhere to the rules, regulations set out by the relevant regulatory and advisory bodies and the Laws of the country.

c) Environment

The Board is highly committed to the sustainability of the environment & therefore ensures that the LL&DF & persons adhere to the recommended standards so as to protect and promote the eco system.

ASIAN DEVELOPMENT BANK PROJECTS

ADB LOAN No.1632 SRI (SF)

URBAN DEVELOPMENT & LOW INCOME HOUSING PROJECT (UDLIHP)

LL&DF is the recovery agent of Loan component of the above project implemented by the Ministry of Urban Development since year 1998 to 2002. A total of Rs.2,270 m has to be recovered from 27 Local Authorities. While 85 % of the loans are being recovered and the rest is in dispute. Because most of the Market Centers implemented under this project are failures and the others are in dispute.

Recovery Progress (UDLIHP) – Last 05 Years

(Rs.Million)

Year	Recovery Capital	Recovery Interest
2014	89.6	80.0
2015	94.7	69.4
2016	97.1	70.9
2017	74.0	68.3
2018	84.5	67.6

ADB LOAN No.2201 SRI (SF)
LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT (LGIIP)

As per the Asian Development Bank Loan No.2201 SRI (SF) (Local Government Infrastructure Improvement Project), LL&DF has entered into a Project Agreement in January 2006 with the ADB, to provide loan and grant component to LAA for improvement of Infrastructure and Service Delivery under following five categories.

1. Community Water Supply
2. Local Authority Roads
3. Solid Waste Management
4. Storm Water Drainage
5. Local Authority Institutional Infrastructure.

Ministry of Local Government & Provincial Councils is the executing agency under this project and LL&DF is implementing agency for Loan disbursement and recovery. US$ 42.5 m. will be released under component B. This is 100% Loan from the Treasury to Local Loans & Development Fund, repayable in 32 years including a grace period of 8 years, at an interest rate of 1% p.a. during the grace period and 1.5% thereafter.

A very attractive grant varying from 40%- 60% is available to LAA. While the rest is a loan (33% - 53%) at the rate of 9% p.a. A heavy risk is given to LL&DF as the grant has to be manage out of the loan interest of 9%.

As subprojects feasibility based on future income generation of the LAs, FLIP and capacity building is an essential element to safeguard LL&DF loan recovery and to mitigate loan default risks involved. At the same time financial status of the LAs has to be improved to make them sustainable in order for timely repayment of loans. In addition LAs has to be viable organizations to obtain future loans from LL&DF. These are some of the prime objectives of the LGIIP.

OPERATIONAL AND FINANCIAL REVIEW

OPERATIONAL AND FINANCIAL REVIEW

OPERATIONAL PERFORMANCE PERFORMANCE IN THE YEAR 2018

Rs.400 million was allocated in the institutional Budget in 2018 for the purpose of granting loans to the Local Authorities. During the year total Loans granted to 10 Local Authorities were Rs.403.1 million. These Loans are repayable during a period of 05-10 years at concessionary rates of interest. Loans granted summary as follows;

LOANS GRANTED SUMMARY
YEAR - 2018

	Category	Interest Rate	Amount (Rs.)	No of Projects
1	Establishment of Road Maintenance Unit	9.0%	27,000,000	02
2	Construction of Crematoria	6.5%	1,252,971	01
3	Construction of Economic Centers and Weekly Fairs	7.0%	2,577,665	02
4	Construction of Market Buildings	9.0%	334,405,000	02
5	Construction of Public Library	7.0%	35,007,805	01
5	Other Revenue Generating Projects	9.0%	2,897,911	02
	Total		**403,141,352**	**10**

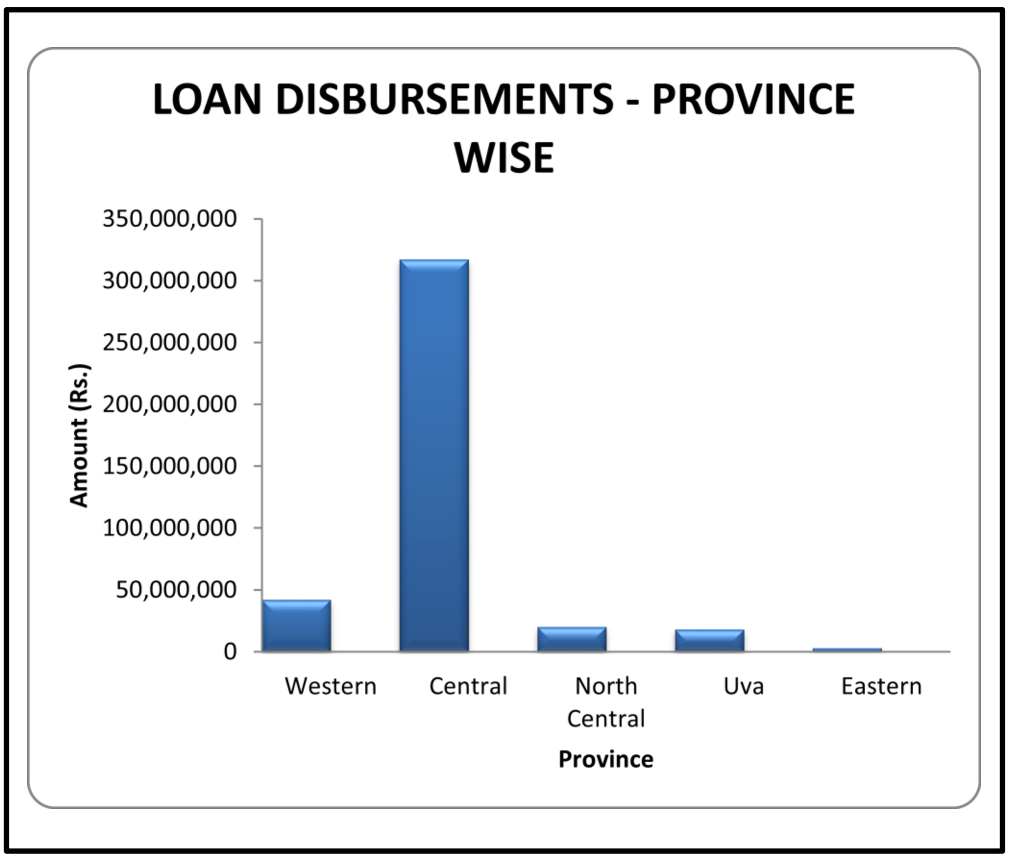
LOCAL LOANS AND DEVELOPMENT FUND
LOAN RELEASED AS AT 31.12.2018

	Councils	Province	Amount	Construction of Crematoria	Establishment of Road Maintenance Unit	Construction of Economic Centers and Weekly Fairs	Construction of Market Building	Construction of Office Building & Library Building	Other Revenue Generating Projects
01	Bingiriya P.S	WP	7,000,000		7,000,000				
02	Negambo M.C	WP	35,007,805					35,007,805	
03	Karathivu P.S	EP	1,777,911						1,777,911
04	Balapitiya P.S	SP	1,252,971	1,252,971					
05	Dehiowita P.S	SAB	1,794,665			1,794,665			
06	Passara P.S	UVA	17,221,000				17,221,000		
07	Navidanweli P.S	EP	1,120,000						1,120,000
08	Kandy M.C	CP	317,184,000				317,184,000		
09	Anuradhapura M.C	NCP	20,000,000		20,000,000				
10	Kandeketiya P.S	UVA	783,000			783,000			
	Total		**403,141,352**	**1,252,971**	**27,000,000**	**2,577,665**	**334,405,000**	**35,007,805**	**2,897,911**

LOAN DISBURSEMENTS - PROVINCE WISE

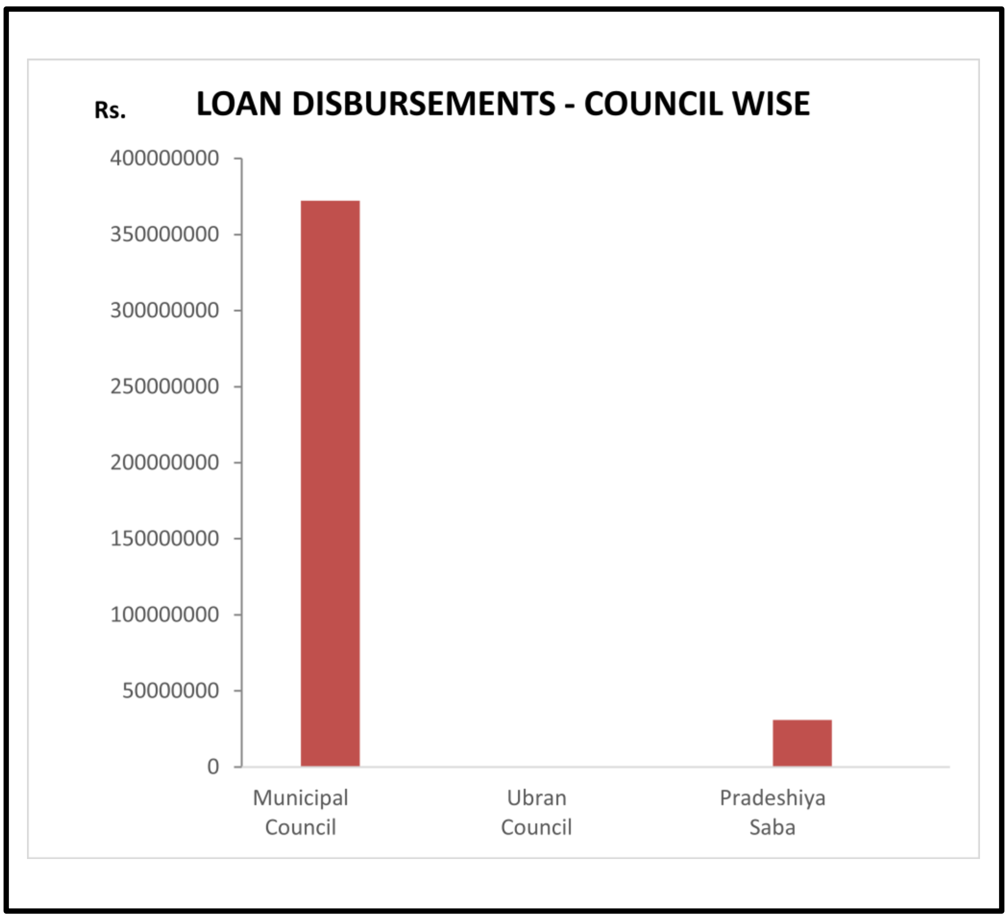
YEAR -2018

Province	Amount (Rs.)	Percentage (%)
Western	42,007,805	10
Central	317,184,000	79
North Central	20,000,000	05
Uva	18,004,000	04
Eastern	2,897,911	01
Southern	1,252,971	00
Sabaragamuwa	1,794,665	01
Total	**403,141,352**	**100**



LOAN DISBURSEMENT FOR THE PERIOD – YEAR 2018 COUNCIL WISE

Council	Amount (Rs.)	% of the Total
Municipal Councils	372,191,805	92
Urban Councils	-	00
Pradeshiya Sabas	30,949,547	08
Total	**403,141,352**	**100**



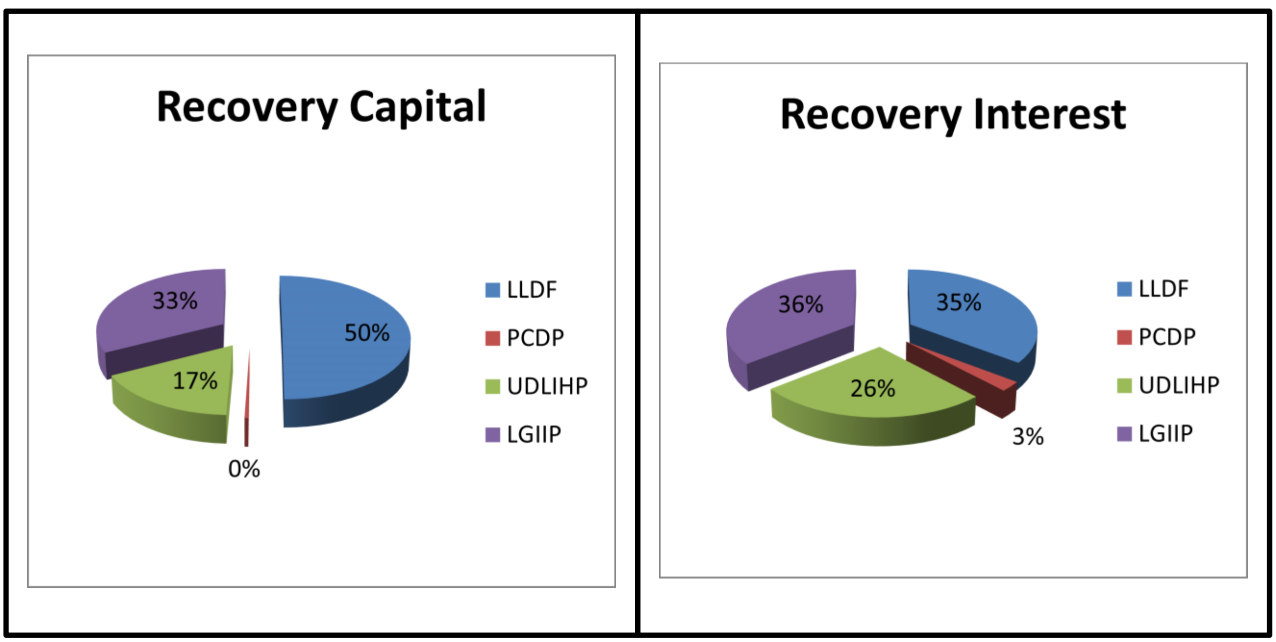
LOAN RECOVERIES

Rs.250.8 million and Rs.90.4 million was recovered being capital and interest due from loans granted by LL&DF own Operations. Further Rs.84.5 million and Rs.67.6 million recovered, being capital and interest on ADB Loan No.1632.SRI (SF). Rs.2.1 million and Rs.6.6 million was recovered under PCDP as capital and interest during the year. Further Rs.162.9 million and Rs.91.2 million recovered, being capital and interest on ADB Loan No.2201 Local Government Infrastructure Improvement Project.

Loan Recovery Progress - 2018

(Rs.Million)

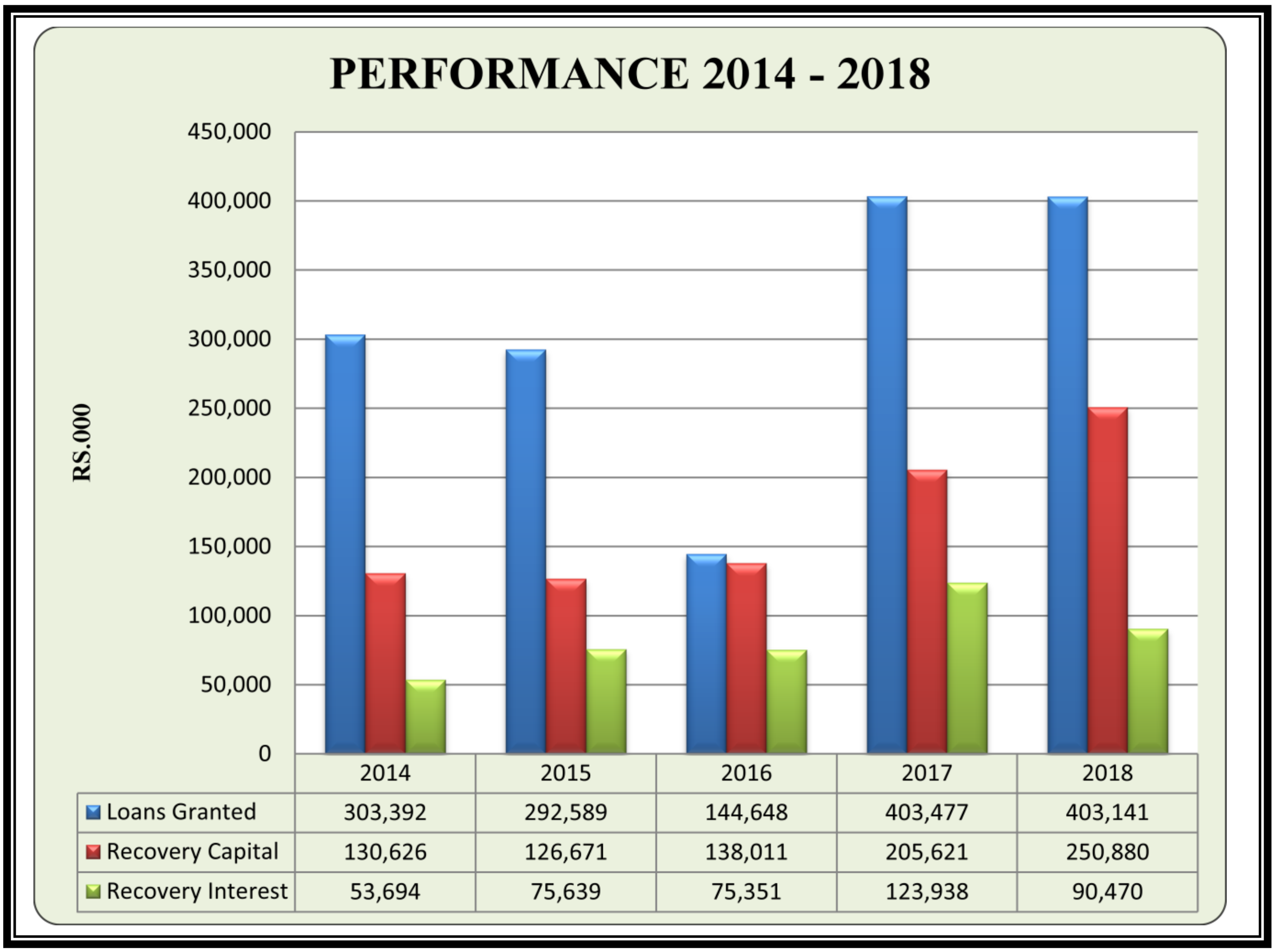
PROJECT	RECOVERY CAPITAL	RECOVERY INTEREST	TOTAL
LLDF	250.8	90.4	341.2
PCDP	2.1	6.6	8.7
UDLIHP	84.5	67.6	152.1
LGIIP	162.9	91.2	254.1
TOTAL	**500.3**	**255.8**	**756.1**



LLDF	Local Loans and Development Fund
PCDP	Perenial Crop Development Project
UDLIHP	Urban Development & Low Income Housing Project
LGIIP	Local Government Infrastructure Improvement Project

Local Loans and Development Fund
Performance 2014 – 2018
(Except ADB Projects)

Year	Loans Granted	Recovery capital	Recovery Interest
2014	303,392	130,626	53,694
2015	292,589	126,671	75,639
2016	144,648	138,011	75,351
2017	403,477	205,621	123,938
2018	403,141	250,880	90,470



FINANCIAL REVIEW

INCOME – YEAR 2018

The fund has earned a Gross Income of Rs.262 million on operations (Including ADB funded projects). Net surplus before tax of Rs.32 million has been earned after making operational expensesand amortization of Rs.187 million (grant component) to LA's under LGIIP project. Further the imparement for loans and receivales for the year 2018 is Rs.4.5 million.

Summary of Financial Performance for last 05 Years

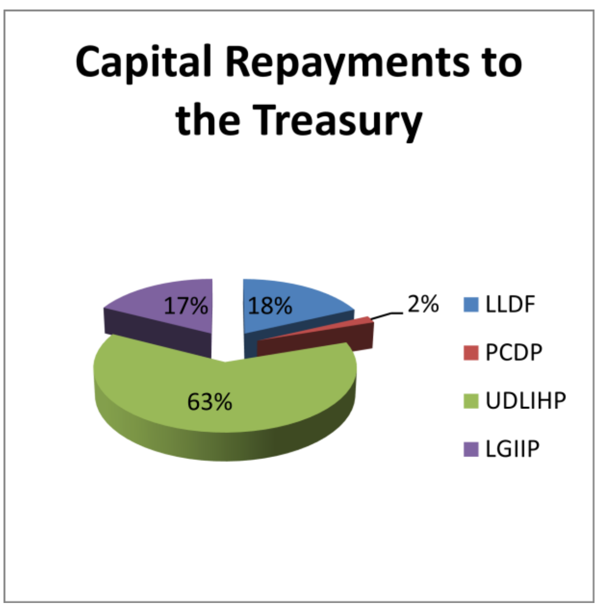
	2014	2015	2016	2017	(Rs.000) 2018
Revenue					
Interest Income	323,611	279,685	305,633	404,872	400,599
Interest Expencess	(159,448)	(152,715)	(127,908)	(138,318)	(137,858)
Net Interest Income	**164,162**	**126,970**	**177,725**	**266,554**	**262,741**
Other Income	670	441	5,177	3,526	2,221
Administrative Expenses	(25,991)	(27,851)	(33,932)	(46,531)	(40,393)
Net Grant amortization	(195,102)	(89,883)	(54,773)	**(223,549)**	(187,976)
Operating Profit	**(56,260)**	**9,677**	**94,196**	**(21,846)**	**36,593**
Impairment for Loans and Other Losses	(98,819)	(26,441)	(142,363)	(210,633)	(4,583)
Financial Income	18,966	21,937	52,628	-	-
Profit Before Tax	**(134,112)**	**5,172**	**4,461**	**12,916**	**32,008**
Tax Expenses	(1,300)	(946)	(892)	3,168	(593)
Profit After Tax	**(135,412)**	**4,226**	**3,569**	**16,083**	**32,601**
Net Profit for the year	(135,412)	4,226	3,569	**16,083**	32,601
Retained Earnings At the Beginning of the year	(804,339)	(939,752)	(935,525)	15,814	32,803
Retained Earnings At the End of the year	**(939,752)**	**(935,525)**	**(931,956)**	**-**	**-**

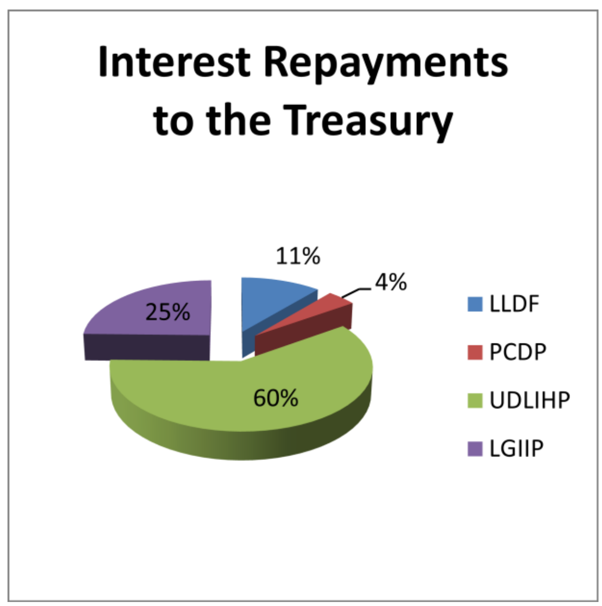
REPAYMENT TO THE TREASURY

During the year Capital repayment to the Treasury was Rs.21.3 million. and the interest payment to the Treasury was Rs.11.9 million for loans obtained under LL&DF and Rs.73.6 million has been paid to the Treasury as capital and Rs.64.1 million as interest under UDLIHP. The Rs.20.6 million has been paid to the Treasury as capital and Rs.26.3 has been paid to the Treasury as interest under LGIIP Loans. Further under ADB Loan No.899 SRI (SF) Rs.2.1 million has been paid to the Treasury as capital and Rs.4.4 million has been paid as interest.

Progress of Loan Repaymnts – year 2018 (Rs.Million)

PROJECT	CAPITAL REPAYMENT	INTEREST PAYMENTS	TOTAL
LLDF	21.3	11.9	33.2
PCDP	2.1	4.4	6.5
UDLIHP	73.6	64.1	137.7
LGIIP	20.6	26.3	46.9
Total	**117.6**	**106.7**	**224.3**



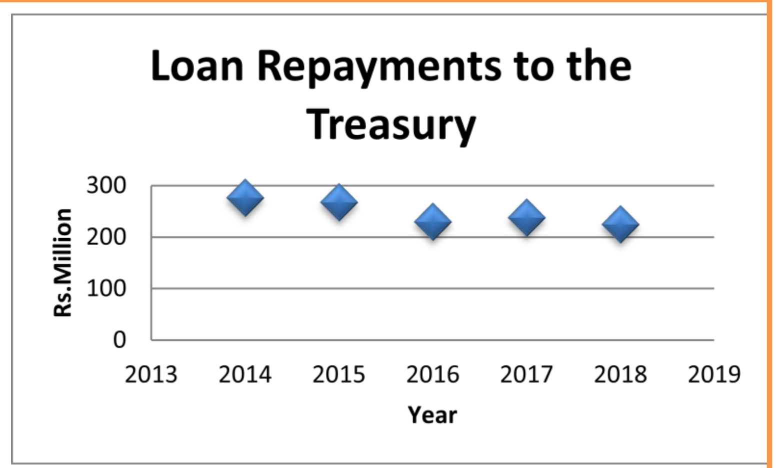


LOCAL LOAN AND DEVELOPMENT FUND
LOAN REPAYMENT TO THE TREASURY
2014 - 2018

Rs. Million

Year	Capital				Interest				Total
	LLDF	PCDP	UDLIHP	LGIIP	LLDF	PCDP	UDLIHP	LGIIP	
2014	22.5	3.80	90.8	-	18.6	5.2	100.0	35.0	275.9
2015	22.2	1.60	90.8	-	16.9	4.9	95.3	35.5	267.2
2016	21.9	3.90	74.1	1.7	15.2	4.8	72.3	35.4	229.3
2017	21.6	4.62	74.0	16.7	13.5	1.9	68.3	36.8	237.4
2018	21.3	2.13	73.6	20.6	11.9	4.4	64.1	26.3	224.3
Total	**109.5**	**16.05**	**403.3**	**39.0**	**76.1**	**21.2**	**400.0**	**169.0**	**1234.1**

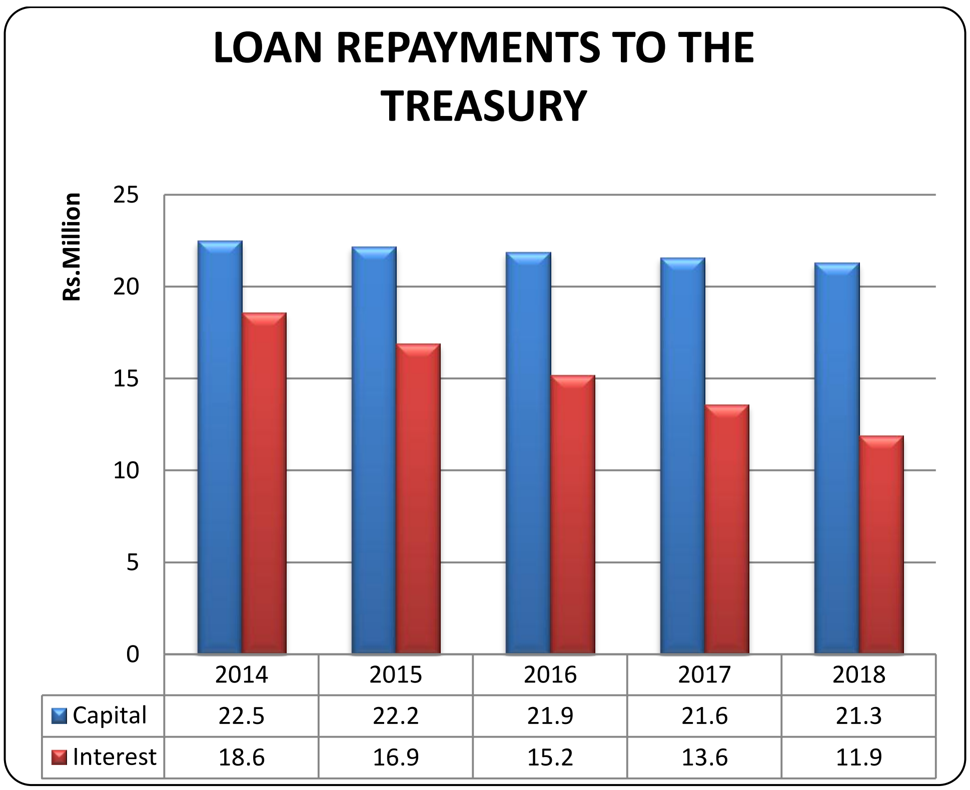
LLDF	Local Loan and Development Funds
PCDP	Prennial Crop Development Project
UDLIHP	Urban Development and Low Income Housing Project
LGIIP	Local Government Infrastructure Improvement Project



LOCAL LOAN & DEVELOPMENT FUND
LOAN REPAYMENTS TO THE TREASURY
2014 – 2018

Rs. 000

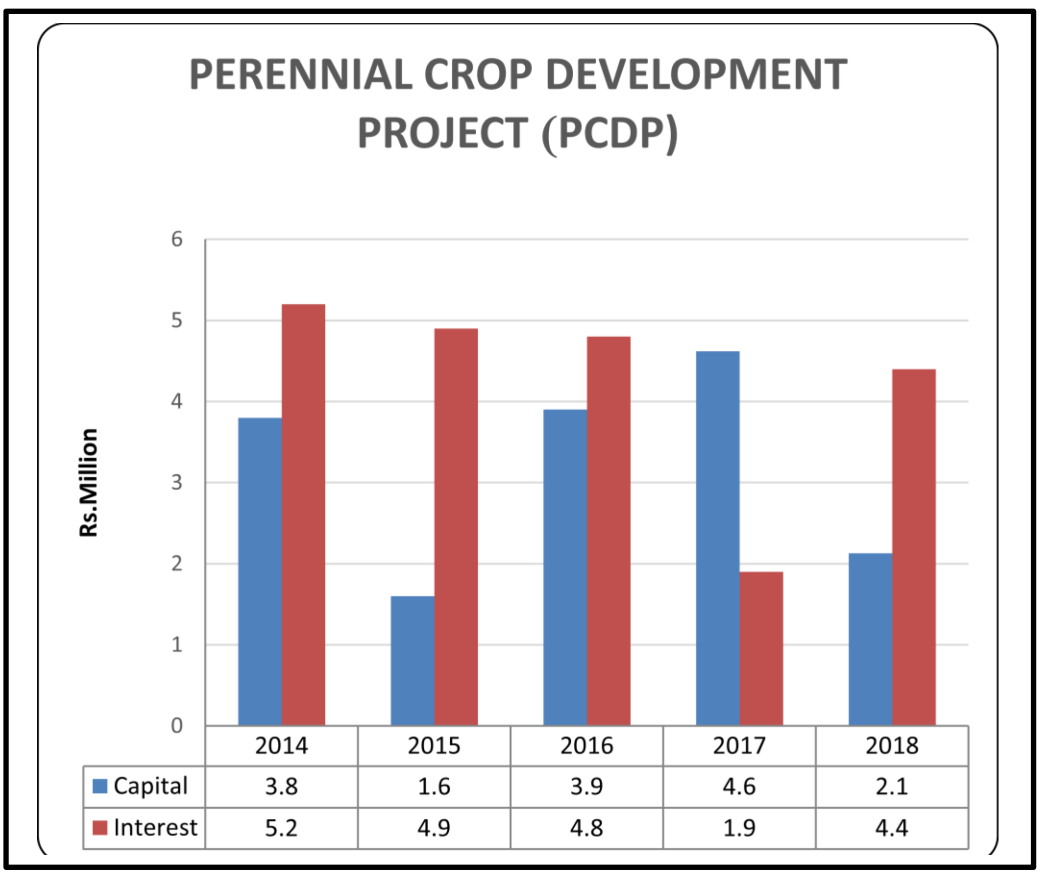
Year	Capital	Interest
2014	22.5	18.6
2015	22.2	16.9
2016	2016	21.9
2017	21.6	13.6
2018	21.3	11.9



LOAN REPAYMENTS TO THE TREASURY
2014 – 2018
PERENNIAL CROP DEVELOPMENT PROJECT (PCDP)

Rs. Million

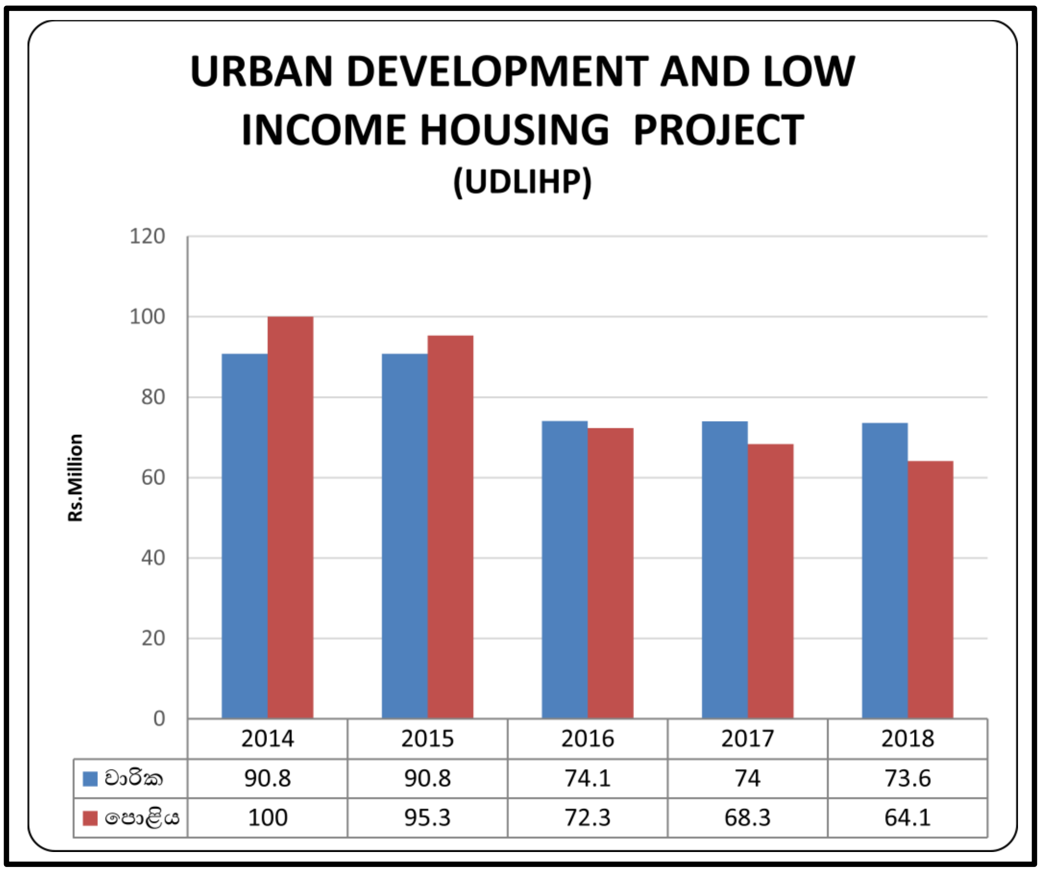
Year	Capital	Interest
2014	3.8	5.2
2015	1.6	4.9
2016	3.90	4.8
2017	4.62	1.9
2018	21.3	11.9



LOAN REPAYMENTS TO THE TREASURY
2014 – 2018
URBAN DEVELOPMENT AND LOW INCOME HOUSING ROJECT (UDLIHP)

Rs. 000

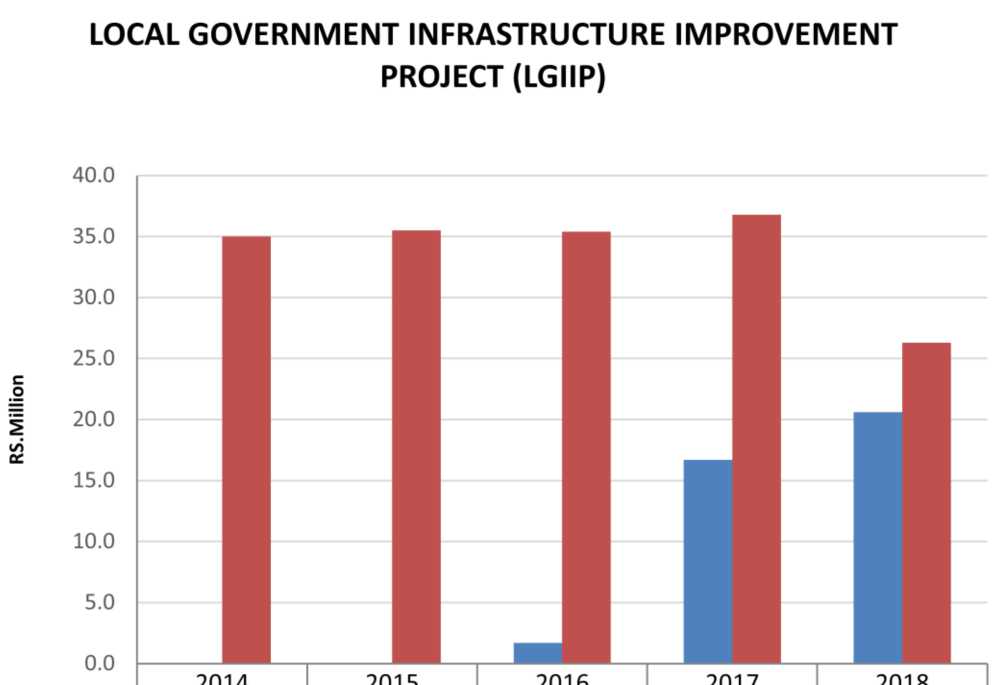
Year	Capital	Interest
2014	90.8	100.0
2015	90.8	95.3
2016	74.1	72.3
2017	74.0	68.3
2018	73.6	64.1



LOCAL GOVERNMENT INFRASTRUCTURE IMPROVEMENT PROJECT (LGIIP)

Rs. Million

Year	Capital	Interest
2014	-	35.0
2015	-	35.5
2016	1.7	35.4
2017	16.7	36.8
2018	20.6	26.3



	2014	2015	2016	2017	2018
Capital	0.0	0	1.7	16.7	20.6
Interest	35.0	35.5	35.4	36.8	26.3

REPORT OF THE AUDIT AND MANAGEMENT COMMITTEE
YEAR - 2018

The Audit & Management Committee of the Local Loans and Development Fund is appointed by the Board of Commissioners as per Public Enterprises Circular No PED/55 of 14.12.2010. The Audit & Management Committee consists of Two Non-Executive Directors and Ministry Internal Auditor. The Committee chaired by the Treasury Representative to the Board of Commissioners and Superintendent of Audit represent the Auditor General, as an observer.

(01) Financial Statements for the year 2017

Financial Statements for 2017 was tabled and reviewed.

(02) Reviewed External Audit Reports

External Audit Reports for 2015, 2016 and 2017 were tabled for observations and reviewed.

(03) Annual Report - Year 2017

Providing guidance and counsel to present the Annual Report 2017 to the Parliament.

(04) Monitored compliance with the statute, regulations, rules and circulars

Instructions issued for the preparation of the Corporate Plan. C.E.O was instructed to obtain Board approval for delegation of functions for financial control for year 2019 as per the F.R 135.

(05) Effectiveness of systems and controls

Management was advised that the budgets in operation to be further developed in order to operate as a control system. The recovery procedure of outstanding loans should also be reviewed and the C.E.O was instructed to take the necessary steps.

(06) Internal Auditor

The Committee has proposed to necessity of a Internal Auditor for LLDF. The Internal Auditor of the Ministry has been appointed as the Internal Auditor of the Fund.

(07) Recovery of Non Performing Loans

Actions has been taken to summon the heads of Local Authorities and Heads of the Provincial Level to discuss the overdue Loans and Committee recommendation was to reschedule the loans. Further Committee recommended to the Board to take legal action against the default parties.

(08) Software for Loan and Financial Management

LL&DF is supposed to be the leading financial provider for Local Community making significant impact on Local Level infrastructure development would equip itself with innovative Loan & Financial Management software that will help LL&DF to optimize it's IT setup and secure a lasting advantage in ever competitive finance sector. Accordingly action has been taken to upgrade the existing Loan Management System.

(09) Reviewed external Audit Query – 2017/2018

Instructions has been given to the management and guide the relevant matters to be corrected by discussing the matters highlighted in the Audit queries.

Committee Members - Year 2018

Ms.M.G.N.Premathilake	Treasury Representative	Chairman
Ms.H.C.Samarakoon	CLG, Western Province	Member
Mr.P.Kodithuwakku	Hon.Minister's Nominee	Member
Mr.A.Danapala	Auditor General's Dept.	Observer
Ms.L.M.D.Padmakumari	Internal Auditor, MPCLG	Convener

FINANCIAL STATEMENTS AND INFORMATION

Report of the Auditor General

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS AND OTHER LEGAL AND REGULATORY REQUIREMENTS OF LOCAL LOANS AND DEVELOPMENT FUND FOR THE YEAR ENDED 31 DECEMBER 2018 IN TERMS OF THE SECTION 12 OF THE NATIONAL AUDIT ACT NO 19 OF 2018

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1. Financial Statements

1.1. Opinion

The audit of the Financial Statements of Local Loans and Development Fund for the year ended 31 December 2018 comprising the statement of financial position, statement of comprehensive income, statement of changes in equity and the cash flow statement for the year then ended and note to the financial statement including a summary of significant accounting policies was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No 19 of 2018 and Finance Act No 38 of 1971. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements provides a true and fair view of the financial position of Local Loans and Development Fund as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards (SLFRSs).

1.2. Basis for opinion

My audit was carried out in compliance with Sri Lanka Audit Standards (SLAS). My responsibility has been further clarified in the part 'Auditor's responsibilities for the audit of the Financial Statements'. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3. Responsibilities of the Management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give true and fair view in accordance with Sri Lanka Audit Standards and for such internal

control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing , as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations , or has no realistic alternative but to do so.

The charged with governance responsible for overseeing the Fund's financial reporting process.

As per section 16 (1) of the National Audit Act No 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets, liabilities, to enable annual and periodic financial statements to be prepared of the institution.

1.4.Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a hole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Audit Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Audit Standards, I Exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. And obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause the institution to cease to continue as a grind concern.

- Evaluate the overall presentation, structure and the content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

  I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Report on other legal and regulatory requirements

National Audit Act No 19 of 2018 includes specific provisions for following requirements.

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Fund as per the requirement of section 12 (a) of the National Audit Act No 19 0f 2018.

- The financial statements is consistent with the preceding year as per requirement of section 6 (1)(d)(III) of the National Audit Act No 19 of 2018.

- The financial statements presented include all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (IV) of the National Audit Act No 19 of 2018.
  Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention.

  - To state that any member of the governing body of the Fund has any direct or indirect interest in any contract entered into by the Fund which is out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act No 19 of 2018.

  - To state that the Fund has not complied with any applicable written law, general and special directions issued by the governing body of the Fund as per the requirement of section 12 (f) of the National Audit Act No 19 of 2018, except following observations

	Reference to laws, rules/provision	Description
(a)	Circular No PED 1/ 2015dated 25 December 2015	A sum total of Rs. 490,000 has been paid from November 2017 without obtaining proper approval to two Deputy Directors serving in the posts, to which transport allowance is not entitled, as a monthly allowance of Rs. 17,500 each.
(b)	Public Finance Circular No. 01/2014 dated 17 February 2014	Even though an action plan has been prepared by the institution, annual budget, proposed investments, annual procurement plan and human resource plan, loan settlement plan, loan recovery plan and internal audit plan, which were to be included as per the circular, have not been included in the action plan.

  - To state that the Fund has not complied with powers and functions of the Fund as per the requirement of section 12 (g) of the National Audit Act No 19 of 2018.

  - To state that the resources of the Fund have not been utilized efficiently, economically and productively in compliance to the rules and regulations within the time frames as per the requirement of section 12 (h) of the National Audit Act No 19 of 2018.

3. Other observations of the audit

(a) 15 Development Officers employed by the Fund have been attached to the Offices of Assistant Commissioner of Local Government spread all over the Island but no appropriate arrangement has been made to engage them in service so as to obtain maximum service from these officers to the institution.

(b) An adequate procedure has not been applied to recover the inactive loan of Rs. 430,152,152, which has been issued from the Fund and projects to Local Government Institutions.

W.P.C.Wickramaratna
Auditor General

LOCAL LOANS AND DEVELOPMENT FUND
STATEMENT OF COMPREHENSIVE INCOME
For The Period ended 31 December 2018

	Notes	2018 (Rs.)	2017 (Rs.)
Interest Income	4	400,599,838	404,872,556
Interest Expense	5	137,858,690	138,318,476
Net Interest Income		**262,741,149**	**266,554,080**
Other Operating Income	6	2,221,055	3,526,399
Total Operating Income		**264,962,203**	**270,080,479**
Impairment Charges	13	4,583,799	(34,762,394)
Net Operating Income		**260,378,404**	**304,842,873**
Personnel expenses	7	24,577,142	25,441,338
Depreciation PPE	14	2,858,246	2,104,447
Grant Amortization	8	187,976,452	245,395,919
Other Operating Expenses	9	12,958,267	18,985,595
Operating Profit Before Tax		**32,008,297**	**12,915,575**
Tax Expense	10	(593,232)	(3,168,076)
Profit For The Year		**32,601,529**	**16,083,651**
Other Comprehensive Income			
Acturial loss on Define benefit plan	18	(202,228)	268,897
Total Comprehensive Income		**32,803,756**	**15,814,754**

LOCAL LOANS AND DEVELOPMENT FUND

STATEMENTS OF FINANCIAL POSITION
Year ended 31 December 2018

	Notes	2018 (Rs.)	2017 (Rs.)
ASSETS			
Cash and Cash Equivalents	11	65,936,851	202,472,312
Balances with Banks	12	1,191,000,000	865,755,292
Loan and Receivables	13	3,308,466,702	3,424,474,887
Property Plant and Equipments	14	6,929,292	8,196,016
Deffered Tax Asset	17.1	3,774,030	3,168,076
Other Assets	15	586,786,696	831,996,859
TOTAL ASSETS		**5,162,893,572**	**5,336,063,443**
EQUITY AND LIABILITIES			
LIABILITIES			
Interest bearing Borrowings & Treasury Payables	16	5,246,972,399	5,373,094,036
Current Tax liability	17	-	-
Deffered Tax liability	17.1	-	-
Post employment benefit obligation	18	3,044,594	3,166,193
Other liability	19	155,919,181	235,898,908
TOTAL LIABILITIES		**5,405,936,175**	**5,612,159,137**
EQUITY			
Retain Earnings		(243,042,602)	(276,095,695)
TOTAL LIABILITIES AND EQUITY		**5,162,893,572**	**5,336,063,443**

The Accounting Policies from page 08 to 17 and notes to the financial statements from page 18 to 33 form an integral part of the Financial Statements.

These Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards and certify that the above financial statements give a true and fair view of the state of affairs of Local Loans & Development Fund as at 31st December 2018 and its surplus for the period then ended.

A.H.Lakshan De Zoysa
Act.Chief Executive Officer

K.A.D.D.Kahandawala
Deputy Director (Finance & Administration)

The Board of Commissioner's is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by;

H.T.Kamal Pathmasiri
Chairman

D.P.Wimalasena
Treasury Representative

22nd February 2019
Colombo

LOCAL LOANS AND DEVELOPMENT FUND
STATEMENTS OF CASH FLOWS
Year ended 31 December 2018

	Notes	2018 (Rs.)	2017
Cash flows from operating activities			
Profit Before Tax		**32,008,297**	**12,915,575**
Adjustments for;			
Depreciation & Amortization		190,834,698	247,500,366
Impairment Charges		4,583,799	(34,762,394)
Grant Amortization Income		-	(130,576)
Other Income		-	(100,791)
Gratuity & Accrued Expence		979,401	2,508,366
Interest Expense		137,858,690	138,318,476
Debtor Income Receivable		(16,844,236)	(29,682,193)
Investment Income		(127,046,108)	(121,246,228)
Operating profit before working capital changes		**222,374,540**	**215,320,601**
(Increase)/Decrease other assets		(13,332,356)	74,038,588
Increase/(Decrease) other liability		(9,413,660)	(31,530,136)
Cash generated from operations		**199,628,524**	**257,829,053**
Net proceeds of loan debtors		119,174,918	110,069,432
Tax paid		-	-
Interest Expencess paid		(121,098,540)	(192,985,304)
Gratuity paid		(450,374)	-
Net cash generated /(used in) from operating activities		**197,254,528**	**174,913,181**
Cash flows from investing activities			
Purchase PPE		(122,522)	(1,046,410)
Proceeds from sale of PPE		-	-
Net purchase intangible assets		(1,485,344)	-
Net Investments		(289,652,979)	255,399,631
Investment Income received		100,350,626	101,727,518
Net cash generated /(used in) from investing activities		**(190,910,219)**	**(154,718,523)**
Cash flows from financing activities			
Net borrowings		(142,879,770)	(191,127,524)
Net cash generated /(used in) from financing activities		**(142,879,770)**	**(191,127,524)**
Net increase /(Decrease) in Cash & Cash Equivalent		**(136,535,461)**	**(170,932,865)**
Cash & Cash Equivalent at the beginning of the year		202,472,312	373,405,177
Cash & Cash Equivalent at the end of the year		**65,936,851**	**202,472,312**
Cash & Cash Equivalent		65,936,851	202,472,312
		65,936,851	**202,472,312**

LOCAL LOANS AND DEVELOPMENT FUND

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Retained Earnings Rs.	Total Equity Rs.
Balance as at 1 January 2017	(291,524,173)	(291,524,173)
Adjustment to Retain Earnings	(386,275)	(386,275)
Profit for the year	16,083,651	16,083,651
Other comprehensive income (net of tax)	-	-
Balance as at 31 December 2017	(276,095,695)	(276,095,695)
As at 01st Jan 2018	(276,095,695)	(276,095,695)
Adjustment to Retain Earnings	249,336	249,336
Profit for the year	32,601,529	32,601,529
Other comprehensive income (net of tax)	202,228	202,228
Balance as at 31 December 2018	(243,042,602)	(243,042,602)

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

4 INTEREST INCOME

	2018	2017
	Rs.	**Rs.**
Interest from loans and advances	272,766,611	283,359,380
Interest Income from Investments	127,046,108	121,246,228
Staff loan Interest	787,119	266,948
	400,599,838	**404,872,556**

	2018	2017
5 INTEREST EXPENSE	**Rs.**	**Rs.**
Interest expense for treasury borrowings	**137,858,690**	**138,318,476**

	2018	2017
6 OTHER OPERATING INCOME	**Rs.**	**Rs.**
Penalty Income(Liquidated damages) & Other	**2,221,055**	**3,526,399**

	2018	2017
7 PERSONNEL EXPENSES	**Rs.**	**Rs.**
Salaries & Other benefits	21,463,577	22,334,364
EPF & ETF	2,500,896	2,540,533
Gratuity expense	612,669	566,441
	24,577,142	**25,441,338**

	2018	2017
8 GRANT AMORTIZATION-LGIIP	**Rs.**	**Rs.**
Debit Grant	258,542,519	337,517,164
Less: Credit Grant	70,566,067	92,121,245
Net Grant Amortization	**187,976,452**	**245,395,919**

	2018	2017
9 OTHER OPERATING EXPENSES	**Rs.**	**Rs.**
Office administration & establishment expenses	12,644,267	17,176,595
Professional & legal expenses	314,000	309,000
Auditor's remuneration	-	1,500,000
		18,985,595
	12,958,267	**18,985,595**

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

		2018	2017
10	**TAX EXPENSES**	**Rs.**	**Rs.**
	Current tax provision	-	-
	Under Provision / (Over Provision) of Current Taxes	-	-
	Deferred Tax Expense/(Income)	(593,232)	(3,168,076)
		(593,232)	(3,168,076)

10.1	Accounting profit /(loss) before tax	32,008,297	12,915,575
	Aggregated disallowed items	8,054,713	-
	Aggregated allowable items	(2,935,379)	-
	Adjusted profit from Business	37,127,630	12,915,575
	Interest income	(127,046,108)	(121,246,228)
	Total statutory income	(89,918,478)	(108,330,653)
	Less -Allowable losses	-	-
	Taxable income	(89,918,478)	108,330,653

10.2	Statutory Tax Rate		
	Current income tax expenses	-	-
	(Tax Liability for the period @ rate - 10%)		

Income tax is calculated the rates mentioned as above of the assessable profit for the year.

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

		2018	2017
		Rs.	**Rs.**
11	**CASH AND CASH EQUIVALENTS**		
	Savings account with banks	7,368,019	11,507,626
	Current account with banks	41,068,832	40,964,686
	Reverse Repurchase	17,500,000	150,000,000
		65,936,851	**202,472,312**

		2018	2017
12	**BALANCES WITH BANKS**	**Rs.**	**Rs.**
	Fixed deposits with banks	1,191,000,000	865,755,292
		1,191,000,000	**865,755,292**

		2018	2017
13	**LOANS AND RECEIVABLES**		
		Rs.	**Rs.**
	Loan receivables (Note 13.1)	4,201,223,864	4,312,648,250
	Less : Allowance for Impairment (Note 13.2)	892,757,162	888,173,363
		3,308,466,702	**3,424,474,887**

13.1	**Analysis - (By Projects)**		
	LLDF	1,237,903,096	1,096,670,783
	LGIIP	1,068,529,960	1,239,566,529
	PCDP	86,589,643	86,936,151
	UDLIHP	1,782,267,798	1,876,857,576
	NWSDB	6,724,005	7,222,380
	Staff Loans	19,209,361	5,394,831
		4,201,223,864	**4,312,648,250**

13.2	**Movement in impairment charge during the year**		
	As at 1 January	**888,173,363**	922,935,757
	Written off during the year		-
	Charge for the year	4,583,799	(34,762,394)
	As at 31 December	**892,757,162**	**888,173,363**

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

14 PROPERTY PLANT AND EQUIPMENTS

Cost

Description	**Cost as at 01.01.2018**	**Additions**	**Disposals/Transfer**	**Cost as at 31.12.2018**
Office Equipment	1,163,114	106,178	-	1,269,292
Furniture and Fittings	1,748,813	-	-	1,748,813
Computer Hardware & Software	8,536,500	1,485,344	-	10,021,844
Motor Vehicle	7,995,000	-	-	7,995,000
Total	**19,443,428**	**1,591,522**	**-**	**21,034,949**

Accumulated Depreciation

Description	**Balance as at 01.01.2018**	**Depreciation for the year**	**Disposals/Transfer**	**Balance as at 31.12.2018**
Office Equipment	743,907	120,183	-	864,090
Furniture and Fittings	559,020	146,830	-	705,849
Computer Hardware & Software	5,147,485	992,233	-	6,139,718
Motor Vehicle	4,797,000	1,599,000	-	6,396,000
Total	**11,247,411**	**2,858,246**	**-**	**14,105,657**

Written Down Value	**6,929,292**

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

		2018	2017
15	**OTHER ASSETS**	**Rs.**	**Rs.**
	Liqudated Damage Receivable	1,480,731	1,506,454
	LGIIP Grant to Local Authorities	515,078,448	773,620,967
	Inventory	93,622	76,207
	Other Receivables	70,133,896	56,793,231
		586,786,696	**831,996,859**

		2018	2017
16	**INTEREST BEARING BORROWINGS & TREASURY PAYABLES**	**Rs.**	**Rs.**
	LLDF	150,268,321	171,574,953
	LGIIP	3,487,259,904	3,533,074,000
	PCDP	53,541,833	55,678,972
	UDLIHP	1,555,902,341	1,612,766,111
		5,246,972,399	**5,373,094,036**

17	**CURRENT TAX LIABILITY**	**2018**	**2017**
		Rs.	**Rs.**
	Balance as at the beginning of the Year	9,288,491	924,575
	Add : Provision for theCurrent Year/Adjustment under provision	419,782	419,782
	Less: Payment made during the Year	1,344,358	1,344,358
	Withholding Tax	6,478,083	9,288,491
		(16,691,149)	**9,288,491**

17.1	**Deffered tax Assst / (Liability)**	**2018**	**2017**
		Rs.	**Rs.**
	Deffered Tax Assets	3,180,798	4,409,520
	Deffered Tax Liabilities	(3,774,030)	(1,241,443)
		(593,232)	**3,168,076**

18	**POST EMPLOYEMENT BENEFIT OBLIGATION**	**2018**	**2017**
	As at 1st January	3,166,193	2,330,855
	Amount recognize in income statement (Note 18.1)	612,669	566,441
	Amount recognize in other comprehensive income	(202,228)	268,897
	Payments made during the year	(532,040)	-
	As at 31st December	**3,044,594**	**3,166,193**

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

	2018	2017

18.1 Amount recognize in income statement

	2018	2017
Current service cost	280,218	566,441
Interest cost	332,450	268,897
	612,669	835,338

18.2 The principal assumptions used for compute the gratuity liability are as follows:

	2018	2017
Rate of interest	12.0%	10.5%
Salary increment rate	Fixed increment per annum	5%
Staff turnover	9.8%	5%
Retirement age	60 years	60 years

18.3 Sensitivity of Assumptions Employed in Computation

A quantitative sensitivity analysis for significant assumption as at 31 December 2018 is as shown below:

Assumptions	**Discount rate**		**Salary escalation rate**	
Sensitivity Level	**1% increase**	**1% decrease**	**1% increase**	**1% decrease**
Impact on defined defined benefit liability	2,919,346	3,180,800	3,396,041	2,960,753

19 OTHER LIABILITIES

	2018	**2017**
	Rs.	**Rs.**
GOSL Grant	140,584,459	211,150,526
LGIIP-Capital Grant	5,314,508	5,314,508
Deferred tax payable		
Pre-paid Debtors & Advances	7,753,358	16,991,950
Other payable	2,266,856	2,441,925
	155,919,181	**235,898,908**

LOCAL LOANS AND DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

20.EXPENSE BREAK-UP	**2018**	**2017**
	Rs.	**Rs.**
PERSONNEL EXPENSES		
Staff Salaries	13,157,083	11,782,782
Adjustment Allowance	1,052,640	2,600,286
C.O.L Allowance - LLDF	3,250,788	3,379,220
Staff bonus	504,125	980,000
Allowance For Chairman	450,000	455,000
Allowance for B.Com	345,000	958,408
Overtime & Holly day Pay	88,007	146,994
Development Ass. Traveling	822,391	749,189
Allowance for DO	55,326	53,100
Travelling Expence-Office staff	900,961	291,976
E.P.F.	2,000,717	2,032,427
E.T.F.	500,179	508,107
Staff Health Insurance	837,257	937,409
Gratuity expenses	612,669	566,441
	24,577,142	25,441,338

	2018	2017
OTHER OPERATING EXPENSES	**Rs.**	**Rs.**
Staff Welfare	296,090	292,530
Meeting Expenses	52,739	115,825
Audit Expenses	-	1,500,000
Postage,Telephone & Internet	701,260	689,938
Stationery / Printing	351,897	191,831
Vehicle Maintenance	99,046	442,946
Fuel	174,833	171,098
Vehicle Insurance	134,272	144,665
Electricity	989,219	765,851
Security Charges	1,010,725	844,050
Water Supply	20,501	37,678
Cleaning service Charges	355,520	341,475
Maintanance & Equipments	103,804	510,213
Maintanance & Building	20,715	579,070
Staff Training & Developments	2,624,664	2,449,027
Computer Maintance	425,461	1,290,315
Tax & Rates	-	50,555
Office rent	4,800,000	2,800,000
Awareness programmes	20,920	-
Professional charges	200,000	59,500
Press Notification	332,170	816,236
Legal Expenses	114,000	249,500
Stamp Duty	325	-
Bank Charges	4,040	65
Other Expenses	126,067	4,643,227
	12,958,267	18,985,595

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2018

21 COMMITMENT AND CONTINGENCIES

To the best of knowledge and information available to the Board, the Fund does not have any significant commitments and contingencies as at the reporting date.

21.1 Set out below is the unresolved legal claim against the Fund as at December 31, 2018 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claim based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

(i) Court action has been initiated by an ex-employee of the Fund in Rathnapura Labour Court in proceedings No.6R/7455/2015 as a labour tribunal case.Next hearing of the cases is fixed for February 5th, 2019.

22 EVENTS OCCURRING AFTER THE REPORTING DATE

No circumstances have arisen and no material event have occurred during the period between the balance sheet date and the date in which the account has been signed and no event is required to disclosure or adjust to the Financial Statements.

23 RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows;

23.1 Transactions with Key Management Personnel (KMP)

As per the Sri Lanka Accounting Standard (LKAS -24) - “Related Party Disclosures”, the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Commisioners of the Fund have been classified as KMPs of the Company.

23.2 Key management personnel compensation	**2018 Rs.**	**2017 Rs.**
Short term employment benefits		
Short Term Employee Benefits	795,000	1,413,408

* Further, the company has not provided any non cash benefits to Key Management Personnel in terms of employment contracts with them.

* Fund has not entered into any transactions, arrangements and agreements involving Key Management Personnel (KMPs), their Close Family Members (CFMs) and their related entities.

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS - Year ended 31 December 2018

24.LLDF Segmental Comprehensive Income

2018	LLDF	LGIIP	PCDP	UDLIHP	Consolidation-LLDF
Interest Income	101,150,558	193,842,240	4,454,164	101,152,876	400,599,838
Interest Expense	11,953,599	40,589,993	4,440,485	80,874,613	137,858,690
Net Interest Income	**89,196,960**	**153,252,247**	**13,679**	**20,278,263**	**262,741,149**
Other Operating Income	2,220,652	52	-	351.20	2,221,055
Total Operating Income	**91,417,611**	**153,252,299**	**13,679**	**20,278,614**	**264,962,203**
Impairment Charges	1,356,834	1,178,558	94,909	1,953,498	4,583,799
Net Operating Income	**90,060,777**	**152,073,741**	**(81,230)**	**18,325,116**	**260,378,404**
Personnel expenses	8,479,638.18	14,215,248.35	1,269	1,880,987	24,577,142
Depreciation PPE	986,155.73	1,653,189	148	218,753	2,858,246
Grant Amortization	-	187,976,452	-	-	187,976,452
Other Operating Expenses	4,470,878.60	7,494,971.87	668.99	991,747.88	12,958,267
Operating Profit Before Tax	**76,124,105**	**(59,266,212)**	**83,315**	**15,233,629**	**32,008,297**

2017	LLDF	LGIIP	PCDP	UDLIHP	Consolidation-LLDF
Interest Income	96,175,125	201,405,193	6,079,370	101,212,868	404,872,556
Inteserst Expense	13,586,645	36,820,264	1,953,854	85,957,713	138,318,476
Net Interest Income	**82,588,480**	**164,584,929**	**4,125,516**	**15,255,155**	**266,554,080**
Other Operating Income	3,425,608	100,791	-	-	3,526,399
Total Operating Income	**86,014,088**	**164,685,721**	**4,125,516**	**15,255,155**	**270,080,479**
Impairment Charges	(8,850,861)	(10,062,414)	(701,632)	(15,147,486)	(34,762,394)
Net Operating Income	**94,864,949**	**174,748,135**	**4,827,148**	**30,402,641**	**304,842,873**
Personnel expenses	8,102,449.61	15,513,246.60	388,620	1,437,022	25,441,338
Depreciation PPE	670,215.37	1,283,219	32,146	118,867	2,104,447
Grant Amortization	-	245,395,919	-	-	245,395,919
Other Operating Expenses	6,046,451.80	11,576,757.95	290,007.54	1,072,377.35	18,985,595
Operating Profit Before Tax	**80,045,832**	**99,021,008**	**4,116,375**	**27,774,375**	**12,915,575**

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25. FAIR VALUES

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Set out below is a comparison, by class, of the caring amount and fair values of the fund's financial instruments that are not carried at fair value in the financial statements.

As at 31 December	Fair value hierarchy	Carrying Value 2018 Rs.	Carrying Value 2017 Rs.	Fair Value 2018 Rs.	Fair Value 2017 Rs.
Financial Assets					
Cash and Cash Equivalents		65,936,851	202,472,312	65,936,851	202,472,312
Balances with Banks		1,191,000,000	865,755,292	1,191,000,000	865,755,292
Loan and Receivables	Level 2	3,308,466,702	3,459,237,281	1,275,557,135	1,333,685,720
Other Assets		586,786,696	831,996,859	586,786,696	831,996,859
Total		**5,152,190,250**	**5,359,461,744**	**3,119,280,683**	**3,233,910,183**
Financial liabilities					
Interest bearing Borrowings & Treasury Payables	Level 2	5,246,972,399	5,373,094,036	1,549,445,493	1,586,689,561
Other liability		155,919,181	235,898,908	155,919,181	235,898,908
Total		**5,402,891,581**	**5,608,992,944**	**1,705,364,674**	**1,822,588,469**

a) For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to cash in hand, balances with banks , other financial assets, bank overdraft and other financial liabilities without a specific maturity.

b) Loan receivables with fixed interest rates were fair valued using average lending rate for average loan tenure. Conversely, interest bearing borrowings and treasury payables discounted using weighted average cost of funds.

26. MATURITY OF ASSETS AND LIABILITIES

	2018			2017		
Assets	**Less than one year**	**More than one year**	**Total carrying value**	**Less than one year**	**More than one year**	**Total carrying value**
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and Cash Equivalents	65,936,851	-	65,936,851	202,472,312	-	202,472,312
Balances with Banks	1,191,000,000	-	1,191,000,000	865,755,292	-	865,755,292
Loan and Receivables	393,117,171	2,915,349,531	3,308,466,702	414,853,265	3,044,384,017	3,459,237,281
Property Plant and Equipments	-	6,929,292	6,929,292	-	9,850,732	9,850,732
Deffered Tax Assets		3,774,030	3,774,030		3,168,076	3,168,076
Other Assets	71,708,249	515,078,448	586,786,696	58,375,892	773,620,967	831,996,859
Total assets	**1,721,762,270**	**3,441,131,301**	**5,162,893,572**	**1,541,456,760**	**3,831,023,792**	**5,372,480,552**
Liabilities						
Interest bearing Borrowings & Treasury Payables	184,143,945	5,062,828,454	5,246,972,399	157,950,277	5,215,143,759	5,373,094,036
Current Tax liability	-	-	-	-	-	-
Deffered Tax liability	-	-	-	-	-	-
Post employment benefit obligation	-	3,044,594	3,044,594	-	4,001,531	4,001,531
Other liability	10,020,214	145,898,967	155,919,181	19,433,874	216,465,034	235,898,908
	194,164,160	**5,211,772,015**	**5,405,936,175**	**177,384,151**	**5,435,610,324**	**5,612,994,475**

27. RISK MANAGEMENT

27.1 Introduction

The fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the fund's exposure to each of the above risks, the fund's objectives, policies and processes for measuring and managing risk.

27.2 Credit Risk

Credit risk is the risk of financial loss to the funfd if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk is mainly arising from fund's receivables in terms of loan receivable and deposits with banks & financial institutions.

Credit risk is managed by evaluating the credit worthiness and by periodical review on the credit granted.

The fund establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables in terms of loans and receivables. The fund policy on impairment consists of allowance for a collective impairment established for similar receivables in term of their credit risk on project basis where the loss event has occurred but not yet identified. The collective impairment is determined based on the historical data of payments statistics for similar financial assets.

27.2.1 Fair value of collateral and credit enhancements held

The following table shows the fair value of collateral and credit enhancements held by the fund.

As at 31 December 2018	**2018**		**2017**	
	Maximum exposure to credit risk	**Net exposure**	**Maximum exposure to credit risk**	**Net exposure**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	65,936,851	65,936,851	202,472,312	202,472,312
Balances with banks and financial institutions	1,191,000,000	1,191,000,000	865,755,292	865,755,292
Loan and receivables	3,308,466,702	3,308,466,702	3,459,237,281	3,459,237,281
Other financial assets	586,786,696	586,786,696	831,996,859	831,996,859
	5,152,190,250	5,152,190,250	5,359,461,744	5,359,461,744

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27. RISK MANAGEMENT (Contd…)

27.2 Credit Risk (Contd…)

27.2.2 Credit quality by class of financial assets

a) **As at 31 December 2018**	**Neither past due nor impaired**	**Past due but not impared**	**Individually Impared**	**Total**
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	65,936,851	-	-	65,936,851
Balance with banks	1,191,000,000	-	-	1,191,000,000
Loan and receivables	3,308,466,702	31,532,988	861,224,174	4,201,223,864
Other assets	586,786,696	-	-	586,786,696
Total financial assets	5,152,190,249	31,532,988	861,224,174	6,044,947,411

b) **As at 31 December 2017**	**Neither past due nor impaired**	**Past due but not impared**	**Individually Impared**	**Total**
Assets	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Cash and cash equivalents	202,472,312	-	-	202,472,312
Balance with banks	865,755,292	-	-	865,755,292
Loan and receivables	3,424,474,887	32,335,839	855,837,524	4,312,648,250
Other assets	831,996,859	-	-	831,996,859
Total financial assets	5,324,699,350	32,335,839	855,837,524	6,212,872,713

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27. RISK MANAGEMENT (Contd...)

27.3 Liquidity Risk

Liquidity risk is the risk that the fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The company uses the maturity analysis all the financial instruments to manage the iquidity risk.

a) Exposure to Liquidity Risk

The fund relies on borrowing as its primary source of funding. Fund actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

b) Management of Liquidity Risk

The fund’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking financial position of the fund while maintaining regulatory requirements and debt covenants agreed with the fund providers.

27.3.1 The maturity analysis of financial liabilities based on undiscounted gross outflow is reflected below,

a) **As at 31 December 2018**	**Carrying amounts**	**Gross nominal outflow**	**On demand**	**Up to 3 months**	**3 to 12 months**	**More than 1 year**
Interest bearing Borrowings & Treasury Payables	5,246,972,399	5,392,544,401	-	-	329,715,946	5,062,828,454
Other liability	155,919,181	155,919,181	-	1,401,733	865,123	153,652,326
	5,402,891,581	**5,548,463,582**	**-**	**1,401,733**	**330,581,069**	**5,216,480,780**

b) **As at 31 December 2017**	**Carrying amounts**	**Gross nominal outflow**	**On demand**	**Up to 3 months**	**3 to 12 months**	**More than 1 year**
Interest bearing Borrowings & Treasury Payables	5,373,094,036	5,405,450,167	-	-	190,306,408	5,215,143,759
Other liability	235,898,908	235,898,908	-	1,941,925	500,000	233,456,983
	5,608,992,944	**5,641,349,075**	**-**	**1,941,925**	**190,806,408**	**5,448,600,742**

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

27. RISK MANAGEMENT (Contd...)

27.4 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk of the fund mainly comprises of interest rate risk and currency risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

27.4.1 The table below analyses the fund's interest rate risk exposure on non-trading financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

As at 31 December 2018	**On demand**	**Less than 3 Months**	**4 to 12 Months**	**1 to 5 Years**	**Total as at 31 December 2018**
Interest earning assets					
Cash and cash equivalents	65,936,851	-	-	-	65,936,851
Balances with banks	-	1,191,000,000	-	-	1,191,000,000
Loan and receivables	-	98,279,293	294,837,878	2,915,349,531	3,308,466,702
Other assets	-	-	71,708,249	515,078,448	586,786,696
Total interest earning assets	**65,936,851**	**1,289,279,293**	**366,546,126**	**3,430,427,979**	**5,152,190,250**
Interest bearing liabilities					
Interest bearing borrowings & Treasury payables	-	-	184,143,945	5,062,828,454	5,246,972,399
Other liabilities	-	1,401,733	865,123	153,652,326	155,919,181
Total interest bearing liabilities	-	1,401,733	185,009,068	5,216,480,780	5,402,891,581
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	65,936,851	1,287,877,560	181,537,058	(1,786,052,801)	(250,701,331)

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27. RISK MANAGEMENT (Contd...)

As at 31 December 2017	**On demand**	**Less than 3 Months**	**4 to 12 Months**	**More than 01Year**	**Total as at 31 December 2017**
Interest earning assets					
Cash and cash equivalents	202,472,312	-	-	-	202,472,312
Balances with banks	-	865,755,292	-	-	865,755,292
Loan and receivables	-	102,757,991	308,273,974	3,048,205,315	3,459,237,281
Other assets	-	-	58,375,892	773,620,967	831,996,859
Total interest earning assets	202,472,312	**968,513,284**	**366,649,866**	**3,821,826,282**	**5,359,461,744**
Interest bearing liabilities					
Interest bearing borrowings & Treasury payables	-	-	157,950,277	5,212,143,759	5,373,094,036
Other liabilities	-	1,941,925	500,000	233,456,983	235,898,908
Total interest bearing liabilities	-	1,941,925	158,450,277	5,448,600,742	5,608,992,944
Gap in interest earning assets and interest bearing liabilities - net assets / (liabilities)	202,472,312	966,571,359	208,199,590	(1,626,774,460)	(249,531,200)

27.4.2 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Statement of Comprehensive Income.

	2018		2017	
	Increase/ decrease in Interest Rate	**Effect on profit before tax**	**Increase/ decrease in Interest Rate**	**Effect on profit before tax**
		Rs.		**Rs.**
Interest Rate	+ 1%	3,200,830	+ 1%	1,291,557
Interest Rate	- 1%	(3,200,830)	- 1%	(1,291,557)

LOCAL LOANS AND DEVELOPMENT FUND

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1. REPORTING ENTITY

1.1. General information

Local Loans and Development Fund (LLDF) is a statutory body established by the Local loan and development ordinance No.22 of 1916. The registered office is located at No.24A, Ward Place, Colombo 07, Sri Lanka.

1.2. Principal activities and nature of operation

The principal activity of the fund is providing loan facilities for local authorities for purpose of public utility. Aim of LLDF is to become a leading financial institution for local level infrastructure financing.

2. BASIS OF PREPARATION

2.1. Basis for Consolidation

Sub activities of LLDF own operation, Urban Development Low Income Housing Project (UDLIHP) Perennial Crop Development Project (PCDP) and Local Government Infrastructure Improvement Project (LGIIP) are identified as segments where direct income and expenditure are processed separately and consolidated at the year end. Assets and liabilities are also consolidated in the Balance sheet.

2.2. Restatement

The fund has restated its previously reported consolidated financial statements as at and for the year ended December 31, 2016 and all related disclosures. The restatement of the fund’s consolidated financial statements followed an internal review of the fund’s consolidated financial statements and accounting records including the correction of all errors previously identified by management. The errors have been corrected by restating each of the affected financial statement line items for the prior periods.

2.3. Functional and Presentation Currency

The consolidated financials are presented in Sri Lankan rupees and all values are rounded to a nearest rupee, except when otherwise indicated.

2.4. Statement of Compliance

The Financial Statements of the Fund comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka.

2.5. Responsibility for Financial Statements

The Board of Commissioners are responsible for the preparation and presentation of the financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2.6. Approval of Financial Statements by the Board of Commissioners

The Financial Statements of the fund as at for the year ended 31st December 2017 were authorized by the Board of Commissioners on 22nd February 2018.

2.7. Basis of Measurement

The Financial Statements of the Fund have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position.

Items	Basis of Measurement
Defined benefit obligations	Recognized at the present value of the defined benefit obligation less the fair value of the plan assets

LOCAL LOANS AND DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

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2.8. Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Fund in conformity with Sri Lanka Accounting Standards requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Some of the amounts reported for the previous period have been restated to correct an error.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Fund are as follows.

2.8.1. Going Concern Basis of Accounting

The Board of Commissioners have made an assessment of the Fund's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Fund. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.8.2. Impairment losses on loans and receivables

The Fund reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

LOCAL LOANS AND DEVELOPMENT FUND

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These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance made.

Loans and advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances are then assessed collectively to determine whether a provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

2.8.3. Taxation

The Fund is subject to income tax and judgment is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

2.8.4. Post-employment benefit obligations

The Post employment benefit obligation and the related charge for the year are determined using projected unit credit method. The method valuations involve making assumptions about discount rates, future salary increases, mortality rates etc. Due to the long term nature of such obligations these estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting period.

2.8.5. Useful –lives of property plant & equipment

The fund reviews the residual values, useful lives and methods of depreciation of assets as at each reporting date. Judgment by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.9. Significant Accounting Policies

2.9.1. Taxation

As per Sri Lanka Accounting Standard - LKAS 12 (Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognized in the Statement of Comprehensive Income, except to the extent it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or in other comprehensive income.

LOCAL LOANS AND DEVELOPMENT FUND

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a) Current taxes

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified in Note 10.2 to the Financial Statements.

b) Deferred taxation

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

The net increase in the carrying amount of deferred tax liability net of deferred tax asset is recognized as deferred tax expense and conversely any net decrease is recognized as reversal to deferred tax expense, in the Statement of Comprehensive Income.

LOCAL LOANS AND DEVELOPMENT FUND

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2.9.2. Cash and Cash Equivalents

Cash and cash equivalents are cash in hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flows statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Financial instruments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.9.3. Property, Plant and Equipment

Cost

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. All items of property, plant and equipment are initially recorded at cost.

The cost of property, plant and equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its condition for its intended use. All other repair and maintenance costs are recognized in the profit or loss as incurred.

Depreciation

Depreciation is charged to Statement of Comprehensive Income so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method and not provided depreciation in the year of purchased. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the

effect of any change in estimate accounted for on a prospective basis. The estimated useful lives of property, plant and equipment are as follows;

LOCAL LOANS AND DEVELOPMENT FUND

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The class of tangible assets	**Useful life**
Furniture & Fittings	10 Years
Office Equipment	5 Years
Computers & Software	4 Years
Motor Vehicle	5 Years

De-recognition

Items of property, plant and equipment are de-recognized upon disposal or when no future economic benefits are expected from its use. Gain or loss arising on de-recognition of an item of property, plant and equipment is determined as the difference between the sales proceed and the carrying amount of the asset and is recognized in the Statement of Comprehensive Income.

2.9.4. Amortization of Debit and Credit grants

Credit grants represents the GOSL fund received from the LGIIP Project together with the ADB loan which are to be utilized for disbursements to Local Authorities(LAs.) under component B of the project. Debit grant represent the grant disbursed to LAs. with the loan component. Debit grant treated as an expenditure is deferred and amortized in systematic way to the income statement throughout the years of interest received from the activity. Credit grant is also amortized in the same system.

In this arrangement, the amalgamated before tax profit of LLDF should not be fallen to less than 5% of the before tax and net amortization profit.

2.9.5. Inventory

Inventory represents items value below Rs.5000 per each and cannot categorized under property, plant & equipment also consider life time of assets to categorize as inventory. If asset is not owning considerable life time, then cost taken as expense to Statement of Comprehensive Income.

LOCAL LOANS AND DEVELOPMENT FUND

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2.9.6. Post-employment benefit obligations

a) Defined benefit plan – Gratuity

Gratuity is a Defined Benefit Plan. The Fund annually measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method by using expert knowledge of Actuarial Valuer.

Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income.

The gratuity liability is not internally or externally funded.

b) Defined contribution plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations.

2.9.7. Provisions

Provisions are recognized when the fund has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.9.8. Other non-financial assets

All other non-financial assets are valued net of specific provision, where necessary, so as to reduce the carrying value of such assets to their estimated realizable value.

2.9.9. Other non-financial liabilities

Other Non-Financial Liabilities are recognized at their nominal amount.

2.9.10. Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is higher of asset's fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash

LOCAL LOANS AND DEVELOPMENT FUND
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inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2.9.11. Financial instruments – Initial recognition and subsequent measurement

The Fund's financial instruments consist of loans and receivables and other financial liabilities, of which accounting policies on subsequent measurement, impairment and re-recognition are set out below;

i) Financial assets

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the Effective Interest Rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognized in the Statement of Comprehensive Income. Loans and receivables are presented in the Statement of Financial Position.

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De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when,

i. The rights to receive cash flows from the asset have expired

ii. The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) The Fund has transferred substantially all the risks and rewards of the asset, or

(b) The Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

For accounting purposes, the LLDF uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following.

- Significant financial difficulty of the customer (Local Authority)
- A breach of contracts such as a default of payment
- Where the LLDF grants the Local Authority a concession due to the LA experiencing financial difficulty

- It becomes probable that the Local Authority will encounter financial difficulties
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans
- Board of Commissioners has restricted the loans given to LA's

Individual assessed allowances

LLDF determines the allowances appropriate for each individually significant Loans and Receivables on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

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Impairment allowance are evaluated at each reporting date, unless unforeseen circumstance requires more careful attention. LLDF management determines the threshold limit of Rs.10 MN.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant loans and advances that have been assessed individually and found not to be impaired. Provide 1% allowance for debtors at amortized cost as at balance sheet date for collective impairment.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

ii) Financial liabilities

Financial liabilities within the scope of LKAS 39 are classified as interest bearing loans and borrowings, trade and other payables as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

The Fund recognizes financial liabilities in the Statement of Financial Position when the Fund becomes a party to the contractual provision of the liability and classifies financial liabilities as other financial liabilities in accordance with the substance of the contractual arrangements at the definitions of financial liabilities.

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De-recognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange of modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the Statement of Comprehensive Income.

iii) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market

for the asset or liability The principal or the most advantageous market

must be accessible by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

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- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable for the purpose of fair value disclosures, the fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Board of Commissioners of the Fund determines the policies and procedures for both recurring fair value measurement, such as investment property, and other property, plant and equipment items measured at fair value.

External valuation specialists are involved for valuation of significant assets. Involvement of external valuation specialists are decided upon annually by the Board of Commissioners after discussion with and approval by the Management of the

Fund. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Board of Commissioners decides, after discussions with the external valuation specialists, which valuation techniques and inputs to use for each case.

At each reporting date, the Board of Commissioners analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Board of Commissioners verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Board of Commissioners, in conjunction with the Fund's external valuation specialists, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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2.9.12. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the fund and the revenue and associated costs incurred or to be incurred can be reliably measured, regardless of when the payment is being made. The following specific criteria are used for the purpose of recognition of revenue.

a) Interest income and expenses

Interest income and expense are recognized in Statement of Comprehensive Income using accrued basis and the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset and liability. When calculating the effective interest rate, the fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

b) Other Income

Other Income accounted for on accrual basis. Other income included penalty and liquidated damages income, capital grant amortization and any other non-operational income.

2.9.13. Expenses recognition

Expenditure is recognized in the Statement of Comprehensive Income on the basis of direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a rate of efficiency has been charged to income in arriving at the profit for the year.

For the purpose of presentation of the Statement of Comprehensive Income the commissioners are of the opinion that the nature of expense method presents fairly the elements of the Fund’s performance, and hence such presentation method is adopted. Repairs and renewals are charged to the Statement of Comprehensive Income in the year in which the expenditure is incurred

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2.9.14. Statement of Cash Flows

The cash flows statement has been prepared using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard LKAS - 7 'Statement of Cash Flows'.

Cash and cash equivalents comprise of cash in hand and cash at banks and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

2.9.15. Related party disclosures

Transactions with related parties are conducted in the normal course of business

2.9.16. Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote.

3. EFFECT OF SRI LANKA ACCOUNTING STANDARDS ISSUED, BUT NOT EFFECTIVE

A number of new standards and amendments to standards, which have been issued but not yet effective as at the reporting date, have not been applied in preparing these Consolidated Financial Statements. Accordingly, the following Accounting Standards have not been applied in preparing these Financial Statements and plans to apply these standards on the respective effective dates. Accounting standard summary of the requirements possible impact on Consolidated Financial Statements:

SLFRS 9 – Financial Instruments

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 – Financial Instruments: Recognition and Measurement. SLFRS 9 contains three principal classification categories for financial assets – i.e. measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss

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(FVTPL). The existing LKAS 39 categories of Held-to-maturity, Loans and receivables and Available-for-sale are removed. SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new model applies to financial assets that are not measured at FVTPL. The model uses a dual measurement approach, under which the loss allowance is measured as either:12 month expected credit loss; or Lifetime expected credit losses.

The measurement basis will generally depend on whether there has been a significant increase in credit risk since initial recognition. A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times. Special rules apply to assets that are credit impaired at initial recognition. SLFRS 9 introduces new presentation requirements and extensive new disclosure requirements. Effective date of SLFRS 9 has been deferred till January 01, 2018. Judgment will need to be applied to ensure that the measurement of expected credit losses reflects reasonable and supportable information. Given the nature of the Fund's operation, this standard is expected to have a pervasive impact on the Financial Statements. In particular, calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.

SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. New qualitative and quantitative disclosure requirements aim to enable Financial Statements users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Entities will apply five-step model to determine when to recognize revenue and at what amount. The model specified that revenue is recognized when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts' and IFRIC 13 on 'Customer Loyalty Programs'. SLFRS 15 is effective for annual reporting periods beginning on or after January 01, 2018, with early adoption permitted. The Fund does not expect significant impact on its Financial Statements resulting from the application of SLFRS 15.