

**MUNICIPAL DEVELOPMENT  
FUND OF GEORGIA**

LOAN NO.8494-GE  
(THIRD REGIONAL DEVELOPEMENT PROJECT)

**Special Purpose Project Financial Statements and  
Independent Auditor's Report  
For the Year Ended 31 December 2015**

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPEMENT PROJECT  
LOAN NO.8494-GE**

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# MUNICIPAL DEVELOPMENT FUND OF GEORGIA

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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Management of the Third Regional Development Project (the "Project") implemented by the Municipal Development Fund of Georgia (MDF) is responsible for the preparation of the special purpose project financial statements that present fairly the financial position of the Project as at 31 December 2015, and the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure (SOE), designated account statements in compliance with the basis of accounting described in Note 2 of accompanying these special purpose project financial statements and in conformity with World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures that enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts;
- Making an assessment of the Projects ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines on Annual Financial Reporting and Auditing for World Bank – Financed Activities issued by the World Bank's Financial Management Sector Board;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the year ended 31 December 2015 were authorised for issue on 6 June 2016 by the Management.

**On behalf of Management:**

  
\_\_\_\_\_  
**Juansher Burchuladze**  
Executive Director

6 June 2016

  
\_\_\_\_\_  
**Natalie Godziashvili**  
Head of Financial Management and  
Investments Unit

6 June 2016



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## INDEPENDENT AUDITOR'S REPORT

### To the management of the Municipal Development Fund of Georgia:

We have audited the accompanying special purpose project financial statements of the Third Regional Development Project (the "Project") financed under the Loan Agreement No. 8494-GE dated 7 August 2015, implemented by the Municipal Development Fund of Georgia, which comprise the Project's statement of financial position as at 31 December 2015, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditures (SOE) and designated account statements for the year ended 31 December 2015 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements"). The special purpose project financial statements are prepared by management of the Municipal Development Fund of Georgia in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Financial Management Manual for World Bank Financed Investment Operations.

#### *Management's responsibility for the special purpose project financial statements*

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Financial Management Manual for World Bank Financed Investment Operations and for such internal control as management determines is necessary to enable the preparation of the special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

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

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

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# Deloitte.

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

## *Opinion*

In our opinion, the accompanying special purpose financial statements of the Project for the year ended 31 December 2015 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Guidelines.

## *Basis of accounting and restriction on distribution and use*

Without modifying our opinion, we draw attention to Note 2 to the special purpose project financial statements which describe the basis of accounting. The special purpose project financial statements are prepared to assist the Project to comply with the requirements of International Development Association. As a result, the special purpose project financial statements may not be suitable for another purpose. Our report is intended solely for use by the management of the Project, the Government of Georgia and International Bank for Reconstruction and Development and should not be distributed or used by anyone other than these specified parties.

*Deloitte & Touche*

6 June 2016  
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPEMENT PROJECT  
LOAN NO.8494-GE**

**SUMMARY OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

	Actual		Planned		Variance		PAD Life of the project
	Year ended 31.12.2015	Cumulative as at 31.12.2015	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>	
<b>OPENING WORKING CAPITAL</b>							
Cash	-	-					
Prepayments	-	-					
Payables	-	-					
	-	-					
<b>SOURCES OF FUNDS</b>							
IBRD Loan	5,150,000	5,150,000					60,000,000
Government of Georgia	164,214	164,214					15,000,000
Other income	97	97					
<b>TOTAL</b>	<b>5,314,311</b>	<b>5,314,311</b>					<b>75,000,000</b>
<b>EXPENDITURES</b>							
Works and goods, consulting service, training	105,496	105,496	580,000	580,000	474,504	474,504	73,850,000
Operating costs	2,029	2,029	-	-	(2,029)	(2,029)	1,000,000
Front-end fee	150,000	150,000	150,000	150,000	-	-	150,000
<b>TOTAL</b>	<b>257,525</b>	<b>257,525</b>	<b>730,000</b>	<b>730,000</b>	<b>472,475</b>	<b>472,475</b>	<b>75,000,000</b>
Foreign exchange gain/(loss)	5,772	5,772					
<b>CLOSING WORKING CAPITAL</b>							
Cash	4,745,378	4,745,378					
Prepayments	317,180	317,180					
Payables	-	-					
<b>TOTAL</b>	<b>5,062,558</b>	<b>5,062,558</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

On behalf of Management:

  
Juansher Burchuladze  
Executive Director

  
Natalie Godziasvili  
Head of Financial Management and Investments Unit

6 June 2016

6 June 2016


The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPEMENT PROJECT  
LOAN NO.8494-GE**

**STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

	Note	<u>31 December 2015</u>
<b>ASSETS</b>		
IBRD Special Account		4,745,378
Prepayments		<u>317,180</u>
<b>TOTAL ASSETS</b>		<b><u>5,062,558</u></b>
<b>NET ASSETS</b>		
		<b><u>5,062,558</u></b>
<b>Funds received:</b>		
IBRD loan		5,150,000
Government of Georgia		164,214
Other Income		97
<b>Total funds received</b>		<b><u>5,314,311</u></b>
<b>Expenditure:</b>		
Project expenditure:		<u>257,525</u>
		<b><u>257,525</u></b>
Foreign exchange gain		<u>5,772</u>
<b>TOTAL NET ASSETS</b>		<b><u>5,062,558</u></b>

On behalf of Management:

  
\_\_\_\_\_  
Juansher Burchuladze  
Executive Director

  
\_\_\_\_\_  
Natalie Godziashvili  
Head of Financial Management and  
Investments Unit

6 June 2016

6 June 2016

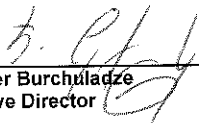
The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

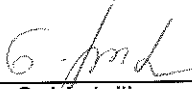
**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPEMENT PROJECT  
LOAN NO.8494-GE**

**SUMMARY OF EXPENDITURE BY ACTIVITY  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

Project activities	Actual		Planned		Variance	
	Year ended 31.12.2015	Cumulative as at 31.12.2015	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>
<b>Part A:</b>						
Infrastructure investment	255,496	255,496	730,000	730,000	474,504	474,504
<b>Part B:</b>						
Institutional development	2,029	2,029	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b><u>257,525</u></b>	<b><u>257,525</u></b>	<b><u>730,000</u></b>	<b><u>730,000</u></b>	<b><u>472,475</u></b>	<b><u>472,475</u></b>

On behalf of Management:

  
 Juansher Burchuladze  
 Executive Director

  
 Natalie Godziashvili  
 Head of Financial Management and  
 Investments Unit

6 June 2016

6 June 2016

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.



**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPMENT PROJECT  
LOAN NO.8494-GE**

**STATEMENT OF DESIGNATED ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

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Account No.	202255093
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

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Opening Balance	-
Funds received from IBRD	5,150,000
Less front end fee	(150,000)
Less: Refund to WB from Designated Account (DA)	-
<b>Present outstanding amount advanced to Designated Account (DA)</b>	<b><u>5,000,000</u></b>
Designated Account (DA) closing balance as at 31 December 2015	4,745,378
Add: Amount of eligible expenditures paid	254,621
<b>Total advance accounted for</b>	<b><u><u>5,000,000</u></u></b>

On behalf of Management:

  
\_\_\_\_\_  
Juansher Burchuladze  
Executive Director

  
\_\_\_\_\_  
Natalie Godziashvili  
Head of Financial Management and  
Investments Unit

6 June 2016

6 June 2016

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPEMENT PROJECT  
LOAN NO.8494-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

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**1. BACKGROUND**

Municipal Development Fund (MDF) was established by the Government of Georgia by Presidential Decree # 294 of June 7, 1997 to manage allocated credits/loans received from the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), the Asian Development Bank (ADB) and the European Investment Bank (EIB) and monitor the implementation of infrastructure sector projects.

The International Bank for Reconstruction and Development Loan Agreement No. 8494-GE (the "Agreement") in the amount of 60 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 7 August 2015 ("inception").

The main objectives of the loan are: providing finance for Investment Subprojects for the urban regeneration of old towns and villages in the Samtskhe-Javakheti and Mtkheta-Mtianeti regions; support Local Self Governments in financing investment subprojects for the creation of public infrastructure to attract private sector investments; enhance the institutional capacity and performance of the Georgia National Tourism Administration, the Agency for Culture Heritage Preservation of Georgia, the National Museum, MDF and other local and regional entities. The closing date of the loan is 31 December 2019.

**2. ACCOUNTING POLICIES**

**Basis of accounting** – These special purpose project financial statements have been prepared in accordance with the *Accrual Basis of Accounting* and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the Guidelines on Annual Financial Reporting and Auditing for World Bank – Financed Activities issued by the World Bank's Financial Management Sector Board.

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of project funds when the expenditures are incurred.

**Functional currency** – These special purpose project financial statements are expressed in United States Dollars ("US Dollar" or "USD").

**Transactions in other currencies** – Transactions in currencies other than reporting currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction. Monetary items are translated into US Dollars at the National Bank of Georgia (NBG) official exchange rate at the reporting date.

**Cash** – Cash comprises balances with State Treasury.

**3. DESIGNATED ACCOUNT**

Designated account is a special disbursement account of the Project maintained in US Dollars at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorisation from IBRD in accordance with the Agreement.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPMENT PROJECT  
LOAN NO.8494-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**  
*(in US Dollars)*

**4. BASIS OF FUNDING**

According to the terms of the Agreement, the expenditure is co-financed by proceeds received from IBRD and the Government of Georgia (GoG) at a proportional rate of 80% and 20%, respectively.

	<u>IBRD</u>	<u>GoG</u>	<u>Total</u>
Works and goods, non-consulting service, consulting service, training	59,050,000	14,800,000	<b>73,850,000</b>
Operating costs	800,000	200,000	<b>1,000,000</b>
Front-end fee	150,000	-	<b>150,000</b>
<b>Total:</b>	<b><u>60,000,000</u></b>	<b><u>15,000,000</u></b>	<b><u>75,000,000</u></b>

**5. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the loan to 31 December 2015 were as follows:

**(a) Designated Account**

Municipal Development Fund withdraws the eligible amounts from the designated account and prepares and sends replenishment requests to the World Bank with authorised signatures. The replenishment requests and respective documentation are reviewed by the World Bank and an approved amount is transferred to the designated account.

**(b) Direct Payment**

Available amounts are drawn from time to time within limits determined under the loan agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by the World Bank directly to third parties. MDF forms withdrawal applications for request of direct payments and sends it to the World Bank, for settlement.

**(c) GoG Current Account**

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

**6. STATEMENT OF EXPENDITURE**

Withdrawals are to be made on the basis of SOEs for expenses on contracts within the following contractual limits:

- (i) All expenditures for works valued at less than USD 4,000,000;
- (ii) Consultant services contracts (firms) valued at less than USD 200,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000;
- (iv) All expenditures for goods valued at less than USD 300,000;

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPEMENT PROJECT  
LOAN NO.8494-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)  
(in US Dollars)**

**7. PREPAYMENTS**

	<u>31 December 2015</u>
Advances to contractors	317,180
<b>Total:</b>	<b><u>317,180</u></b>

Payments of advances to contractors are made at the beginning of the contract in amount of 10%-20% of total contract amount. Retention of advance is done periodically upon submission of works completed certificates by contractors.

**8. PROJECT EXPENDITURE BY FUNDS**

Project activities	<u>Actual</u>	
	<u>Year to date</u>	<u>Cumulative to date</u>
Works and goods, non-consulting service, consulting service, training	-	-
Operating cost	1,623	1,623
Front end fee	150,000	150,000
<b>IBRD TOTAL</b>	<b><u>151,623</u></b>	<b><u>151,623</u></b>
Works and goods, non-consulting service, consulting service, training	105,496	105,496
Operating cost	406	406
Front end fee	-	-
<b>GoG TOTAL</b>	<b><u>105,902</u></b>	<b><u>105,902</u></b>
<b>TOTAL PROJECT EXPENDITURE</b>	<b><u>257,525</u></b>	<b><u>257,525</u></b>

The Project consists of the following main components:

Component 1 – Infrastructure Investment

- Urban regeneration of old towns and villages, including restoration of building facades and roofs, public spaces, museums, etc.
- Provision of Public Infrastructure to Attract Private Investments

Component 2 - Institutional Development

- Support institutional capacity and performance of the Georgia National, Tourism Administration (GNTA), National Agency for Culture Heritage Preservation of Georgia (NACHP), National Museum, Project Implementing Entity (MDF), and other local and regional entities.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
THIRD REGIONAL DEVELOPEMENT PROJECT  
LOAN NO.8494-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**  
*(in US Dollars)*

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**9. COMMITMENTS AND CONTINGENCIES**

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2015 and on the funds received and disbursed during the year then ended.

**10. OPERATING ENVIRONMENT**

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Throughout 2015 Georgia's neighbouring countries, which are large trading partners of Georgia, have experienced significant political and economic turmoil which has had a knock-on effect on the Georgian economy. This has resulted in a significant devaluation of the Georgian Lari against the US dollar and other major currencies.

**11. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

There were no significant events subsequent to the balance sheet date.

**12. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS**

These special purpose project financial statements were authorised for issue by the Management of MDF on 6 June 2016.