

**MUNICIPAL DEVELOPMENT
FUND OF GEORGIA**

LOAN NO.8148-GE
(REGIONAL DEVELOPMENT PROJECT)

Special Purpose Project Financial Statements
and Independent Auditor's Report
For the Period Ended 30 April 2018

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO.8148-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 PERIOD ENDED 30 APRIL 2018

Management of the Regional Development Project (the "Project") financed under the Loan Agreement No. 8148-GE dated 28 March 2012, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present the project's statement of financial position as at 30 April 2018, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements, in accordance with the 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 special purpose project 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;

Management is also responsible for:

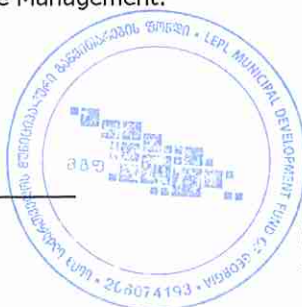
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of 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 period ended 30 April 2018 were authorised for issue on 15 June 2018 by the Management.

On behalf of Management:


Juansher Burchuladze
Acting Executive Director

15 June 2018




Natalie Godziashvili
Head of Financial Management
and Investments Unit

15 June 2018

INDEPENDENT AUDITOR'S REPORT

To the management of the Municipal Development Fund of Georgia:

Opinion

We have audited the accompanying special purpose project financial statements of the Regional Development Project (the "Project") financed under the Loan Agreement No. 8148-GE dated 28 March 2012, implemented by the Municipal Development Fund of Georgia, which comprise the Project's statement of financial position as at 30 April 2018, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements for the 16 months period ended 30 April 2018 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose financial statements of the Project for the period ended 30 April 2018 are prepared, in all material respects, in accordance with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreement, which requires the special purpose project financial statements to comply with the World Bank Guidelines. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the Project's management in reporting the information to the Government of Georgia and International Bank for Reconstruction and Development. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than the Project's management in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Project completion date

We draw your attention to Note 11 of these special purpose project financial statements, which discloses that the project's closing date is 31 December 2017 with a grace period of four months after the closing date. Our opinion is not modified in respect of this matter.

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Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation 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 special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and access 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 our 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 Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tamar Natsvlishvili
On behalf of Deloitte and Touche LLC

15 June 2018
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE PERIOD ENDED 30 APRIL 2018
(in US Dollars)**

	Actual		Planned		Variance	
	Period ended 30.04.2018	Cumulative as at 30.04.2018	Period ended 30.04.2018 <i>Unaudited</i>	Cumulative as at 30.04.2018 <i>Unaudited</i>	Period ended 30.04.2018 <i>Unaudited</i>	Project appraisal document Life of the project <i>Unaudited</i>
OPENING WORKING CAPITAL						
Cash	6,086,170	-				
Prepayments	895,937	-				
Payables	(421,705)	-				
	6,560,402					
SOURCES OF FUNDS						
IBRD Loan 8148-GE	271,026	59,671,734				60,000,000
Government of Georgia	1,165,009	16,816,658				15,000,000
MDF Funds	-	44,788				-
Other income	1,035	96,011				-
TOTAL	1,437,070	76,629,191				75,000,000
EXPENDITURE						
Works and goods	4,679,789	67,582,213	4,679,789	67,582,213	-	69,640,000
Consulting services and training	934,232	5,273,806	934,232	5,273,806	-	3,680,000
Operating costs	257,709	1,552,420	257,709	1,552,420	-	1,530,000
Resettlement costs	-	102,911	-	102,911	-	-
Front-end fee	-	150,000	-	150,000	-	150,000
TOTAL	5,871,730	74,661,350	5,871,730	74,661,350	-	75,000,000
Foreign exchange gain, net	97,723	255,624				
CLOSING WORKING CAPITAL						
Cash	2,404,990	2,404,990				
Prepayments	-	-				
Payables	(181,525)	(181,525)				
TOTAL	2,223,465	2,223,465				

On behalf of Management:

Juansher Burchuladze
Acting Executive Director

Natalie Godzhashvili
Head of Financial Management and
Investments Unit




15 June 2018

15 June 2018

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 APRIL 2018
(in US Dollars)**

	Note	30 April 2018	31 December 2016
ASSETS			
IBRD Special Account		2,404,990	6,086,170
Prepayments		-	895,937
TOTAL ASSETS		2,404,990	6,982,107
LIABILITIES			
Payables		181,525	421,705
TOTAL LIABILITIES		181,525	421,705
NET ASSETS		2,223,465	6,560,402
Cumulative Funds received:			
IBRD Loan 8148-GE		59,671,734	59,400,708
Government of Georgia		16,816,658	15,651,649
MDF Funds		44,788	44,788
Other income		96,011	94,976
Total funds received		76,629,191	75,192,121
Cumulative expenditure:			
Cumulative project expenditure:	7	74,661,350	68,789,619
		74,661,350	68,789,619
Foreign exchange gain		255,624	157,900
TOTAL NET ASSETS		2,223,465	6,560,402
On behalf of Management:			
 Juansher Burchuladze Acting Executive Director		 Natalie Godziashvili Head of Financial Management and Investments Unit	
15 June 2018		15 June 2018	


The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

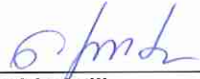
**SUMMARY OF EXPENDITURE BY ACTIVITY
FOR THE PERIOD ENDED 30 APRIL 2018
(in US Dollars)**

Project activities	Actual		Planned		Variance	
	Period ended 30.04.2018	Cumulative as at 30.04.2018	Period ended 30.04.2018 <i>Unaudited</i>	Cumulative as at 30.04.2018 <i>Unaudited</i>	Period ended 30.04.2018 <i>Unaudited</i>	Cumulative as at 30.04.2018 <i>Unaudited</i>
Component 1:						
Infrastructure investment	4,679,789	67,685,124	4,679,789	67,685,124	-	-
Component 2:						
Institutional development	1,191,941	6,826,226	1,191,941	6,826,226	-	-
Front end fee	-	150,000	-	150,000	-	-
TOTAL EXPENDITURE	5,871,730	74,661,350	5,871,730	74,661,350	-	-

On behalf of Management:


Juansher Burchuladze
Acting Executive Director

15 June 2018


Natalie Godziashvili
Head of Financial Management and
Investments Unit

15 June 2018

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.


**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**STATEMENT OF EXPENDITURE ("SOE")
FOR THE PERIOD ENDED 30 APRIL 2018
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE	Works and Goods	Consulting services and training	Operating costs
25	17.05.2017	745,639	722,172	-	23,467
26	03.10.2017	998,657	837,772	49,098	111,787
27	14.11.2017	630,362	570,619	24,706	35,037
29	20.12.2017	225,726	202,910	6,496	16,320
31	05.04.2018	504,023	453,501	34,743	15,779
32	26.04.2018	188,788	188,788	-	-
		3,293,195	2,975,762	115,043	202,390

Part of the expenditure in amount of USD 519,944 under withdrawal application No. 25 is attributable to 2016 and recorded as expenditure in the 2016 financial statements respectively. The withdrawal application for these expenses were submitted to International Bank for Reconstruction and Development in 2017.

On behalf of Management:


Juansher Burchuladze
Acting Executive Director

15 June 2018


Natalie Godziashvili
Head of Financial Management and
Investments Unit

15 June 2018

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.


**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**STATEMENT OF DESIGNATED ACCOUNT
FOR THE PERIOD ENDED 30 APRIL 2018
(in US Dollars)**

Account No.	202250930
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Opening Balance	Note	6,086,170
Funds received from IBRD		-
Less: Refund to WB from Designated Account ("DA")		-
Present outstanding amount advanced to DA		6,086,170
DA closing balance as at 30 April 2018		2,404,990
Add: Amount of eligible expenditure paid	9	3,681,180
Total advance accounted for		6,086,170

On behalf of Management:


Juansher Burchuladze
Acting Executive Director

15 June 2018


Natalie Godziashvili
Head of Financial Management and
Investments Unit

15 June 2018

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2018
(in US Dollars)**

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. 8148-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 28 March 2012 ("inception").

The main objectives of the loan are: providing support to Local Self-government to carry out investment subprojects for urban regeneration, including the rehabilitation of municipal infrastructure and utilities in the central historical areas, the conservation and upgrading of public spaces, carrying out investment subprojects to attract private sector investments in tourism and agroprocessing; Enhance the institutional capacity and performance of the Georgia National Tourism Administration, the Agency for Culture Heritage Preservation of Georgia, MDF and other local and regional entities. The closing date of the loan is 31 December 2017.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" and the accounting policies set out below.

The special purpose project financial statements have been prepared on the accrual basis of accounting.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the information to the Government of Georgia and International Bank for Reconstruction and Development. As a result these special purpose project financial statements may not be suitable for another purpose.

Funds received – Project financing is recognised as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable.

Expenditure – Expenditure is recognised on an accruals basis as a use of project funds when liabilities 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
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2018 (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.

	IBRD	GoG	Total
Works and goods	55,681,000	13,959,000	69,640,000
Consulting services and training	2,945,000	735,000	3,680,000
Operating costs	1,224,000	306,000	1,530,000
Front-end fee	150,000	-	150,000
Total:	60,000,000	15,000,000	75,000,000

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 30 April 2018 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 authorized 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; and
- (iv) All expenditures for Goods valued at less than USD 300,000;

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2018 (CONTINUED)**
(in US Dollars)

7. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Works and goods	3,077,170	52,620,241
Consulting services and training	653,313	3,481,655
Operating costs	202,498	1,221,996
Front-end fee	-	150,000
IBRD TOTAL	3,932,981	57,473,892
Works and goods	1,602,619	14,823,633
Consulting services and training	280,919	1,792,151
Operating costs	55,211	330,424
Resettlement costs	-	102,911
GoG TOTAL	1,938,749	17,049,119
Works and goods	-	138,339
MDF TOTAL	-	138,339
TOTAL PROJECT EXPENDITURE	5,871,730	74,661,350

The Project consists of the following main components:

Component 1 – Infrastructure Investment

- Provision of financial resources to local self-government to carry out investment subprojects for Urban regeneration: an integrated approach for renewal of Telavi, Kvareli and the heritage village of Dartlo;
- Tourism circuit development: Integrated approach to culture heritage site upgrading and improved management in the most attractive 11 cultural heritage sites located along the main tourism circuit/route in Kakheti; and
- Provision of financial resources to local self-government to carry out Investment Subprojects for public infrastructure to attract private sector investments in tourism and agro-processing.

Component 2 – Institutional Development

Enhancing the institutional capacity and performance of the Georgia National Tourism Administration ("GNTA"), the Agency for Culture Heritage Preservation of Georgia ("ACHP"), the Project Implementing Entity (MDF), and other local and regional entities to carry out the following activities:

- Destination management and promotion, including local outreach campaign;
- Geo-tourism routes and tourism portal;
- Skilled workforce development and capacity building;
- Construction supervision and sustainable site management of cultural heritage; and
- Performance monitoring and evaluation activities.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2018 (CONTINUED)
(in US Dollars)**

8. RECONCILIATION OF DESIGNATED ACCOUNT

	WB	GoG	Total
Expenditures incurred during the year	3,932,981	1,938,749	5,871,730
Direct payment	(271,026)	-	(271,026)
Change in prepayments	(199,089)	(696,848)	(895,937)
Change in payables	149,816	90,364	240,180
Foreign exchange	68,498	29,225	97,723
Amount of eligible expenditure paid	3,681,180	1,361,490	

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 30 April 2018 and on the funds received and disbursed during the period 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, 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.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2016 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

11. PROJECT COMPLETION

The Project was completed as at 31 December 2017 (the Closing Date), and the Grace period for submitting withdrawal application for expenditures incurred before the Closing date is 30 April 2018 (Reporting date).

As at the date of signing these special purpose financial statements:

- No expenditures related to the Project were incurred after the Closing Date; the payments made during the Grace period related to expenditures incurred before the Closing Date.
- No expenditure related to the Project were submitted to World Bank after the Reporting date;
- No withdrawals from IBRD Loan 8148-GE were made after the Reporting date;
- The amount of USD 2,404,990 outstanding at the designated account of IBRD Loan 8148-GE was refunded to World Bank on 29 May 2018;
- The current outstanding payable under ongoing contracts in the amount of USD 181,525 will be settled by MDF with assistance of the Government of Georgia;
- The management is not aware about any pending or existing litigations against the Project.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
REGIONAL DEVELOPMENT PROJECT
LOAN NO. 8148-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2018 (CONTINUED)**
(in US Dollars)

12. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Except the matters discussed in the Note 11 above, there were no significant events subsequent to the balance sheet date that require adjustment or disclosure in these special purpose project financial statements.

13. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose financial statements were authorised for issue by the Management of MDF on 15 June 2018.