

**MUNICIPAL DEVELOPMENT
FUND OF GEORGIA**

GRANT NO.TF014912
(SUSTAINABLE WASTEWATER MANAGEMENT PROJECT)

Special Purpose Project Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2017

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	1
INDEPENDENT AUDITOR'S REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017:	
Summary of sources and uses of funds	4
Statement of financial position	5
Summary of expenditure by activity	6
Statement of expenditure ("SOE")	7
Statement of designated account	8
Notes to the special purpose project financial statements	9-12

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 2017

Management of the Sustainable Wastewater Management Project (the "Project") financed under the Grant Agreement No. TF014912 dated 12 July 2013, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present the financial position of the Project as at 31 December 2017, and its summary of sources and uses of funds, summary of expenditure by activity, statements of expenditure ("SOE") and designated account statement, 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 year ended 31 December 2017 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 Sustainable Wastewater Management Project (the "Project") financed under the Grant Agreement No. TF014912 dated 12 July 2013, implemented by the Municipal Development Fund of Georgia, which comprise the Project's statement of financial position as at 31 December 2017, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements for the year ended 31 December 2017 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 year ended 31 December 2017 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 12 of these special purpose project financial statements, which discloses that the closing date of the grant is 30 June 2018. 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 scepticism 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
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO. TF014912**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in US Dollars)**

	Actual		Planned		Variance		Project appraisal document Life of the project
	Year ended 31.12.2017	Cumulative as at 31.12.2017	Year ended 31.12.2017 <i>Unaudited</i>	Cumulative as at 31.12.2017 <i>Unaudited</i>	Year ended 31.12.2017 <i>Unaudited</i>	Cumulative as at 31.12.2017 <i>Unaudited</i>	
OPENING WORKING CAPITAL							
Cash	750,000	-					
Prepayments	831,762	-					
	1,581,762						
SOURCES OF FUNDS							
SIDA Grant	1,443,885	3,599,714					9,252,155
Government of Georgia	307,338	383,820					1,665,388
TOTAL	1,751,223	3,983,534					10,917,543
EXPENDITURE							
Works and goods, consulting services, training	2,114,617	2,750,204	2,227,000	2,862,587	112,383	112,383	10,917,543
TOTAL	2,114,617	2,750,204	2,227,000	2,862,587	112,383	112,383	10,917,543
Foreign exchange gain/(loss), net	6,545	(8,417)					
CLOSING WORKING CAPITAL							
Cash	633,675	633,675					
Prepayments	766,446	766,446					
Payables	(175,208)	(175,208)					
TOTAL	1,224,913	1,224,913					

On behalf of Management:

J. Burchuladze
Juansher Burchuladze
Acting Executive Director



Natalie Godziashvili
Head of Financial Management and Investments Unit

15 June 2018

15 June 2018

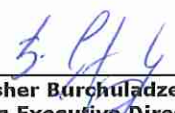
The notes on pages 9 to 12 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2017
(in US Dollars)**

	Note	31 December 2017	31 December 2016
ASSETS			
IBRD Designated Account		633,675	750,000
Prepayments		766,446	831,762
TOTAL ASSETS		1,400,121	1,581,762
 Payables		 (175,208)	 -
TOTAL LIABILITIES		(175,208)	-
 NET ASSETS		 1,224,913	 1,581,762
 Funds received:			
SIDA Grant		3,599,714	2,155,829
Government of Georgia		383,820	76,482
Total funds received		3,983,534	2,232,311
 Expenditure:			
Project expenditure:	7	2,750,204	635,587
Foreign exchange loss		(8,417)	(14,962)
TOTAL NET ASSETS		1,224,913	1,581,762

On behalf of Management:


Juansher Burchuladze
Acting Executive Director

15 June 2018


Natalie Godzjashvili
Head of Financial Management and
Investments Unit

15 June 2018

The notes on pages 9 to 12 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**


**SUMMARY OF EXPENDITURE BY ACTIVITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in US Dollars)**

Project activities	Actual		Planned		Variance	
	Year ended	Cumulative	Year ended	Cumulative	Year ended	Cumulative
	31.12.2017	as at 31.12.2017	31.12.2017 <i>Unaudited</i>	as at 31.12.2017 <i>Unaudited</i>	31.12.2017 <i>Unaudited</i>	as at 31.12.2017 <i>Unaudited</i>
Part I:						
Technical Assistance	348,016	983,603	400,000	1,035,587	51,984	51,984
Part II:						
Investment Grants	1,766,601	1,766,601	1,827,000	1,827,000	60,399	60,399
TOTAL EXPENDITURES	2,114,617	2,750,204	2,227,000	2,862,587	112,383	112,383

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 12 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**STATEMENT OF EXPENDITURE ("SOE")
FOR THE YEAR ENDED 31 DECEMBER 2017
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE	Works and goods, consulting services, training
9	12.04.2017	226,953	226,953
12	10.08.2017	4,997	4,997
14	16.11.2017	9,775	9,775
		241,725	241,725

On behalf of Management:


Juansher Burchuladze
Acting Executive Director

15 June 2018




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

15 June 2018

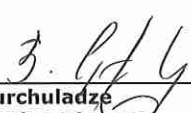
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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
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GRANT NO.TF014912**

**STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017
(in US Dollars)**

Account No.	205236743
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia
Opening Balance	<u>750,000</u>
Funds received from IBRD	385,059
Present outstanding amount advanced to Designated Account (DA)	<u>1,135,059</u>
Designated Account (DA) closing balance as at 31 December 2017	633,675
Add: Amount of eligible expenditures paid	<u>501,384</u>
Total advance accounted for	<u>1,135,059</u>

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 12 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
(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 Swedish International Development Cooperation Grant Agreement No.TF014912 (the "Agreement") in the amount of 9,252,155 United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD"), acting as administrator of grant funds, on 12 July 2013 ("inception"). Amendment to the agreement was signed on June 24, 2015 based on which the amount of grant was increased to USD 10,052,155.

The main objectives of the grant are: the provision of technical assistance to support the recipient in developing adequate policy environment documents for improved wastewater treatment infrastructure; carrying out of on the job training in wastewater operation and maintenance; development of a policy for sludge management, carrying out of stakeholder consultations on wastewater management to promote public participation and improvement of the efficiency of the water and wastewater sector. The closing date of the grant is 30 June 2018.

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
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (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 100% and 0%, respectively. GoG is responsible for paying all value added, non-residential and other taxes.

	IBRD	GoG	Total
Works and goods, consultants' services and training	10,052,155	1,809,388	11,861,543
Total:	10,052,155	1,809,388	11,861,543

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2017 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 contracts valued at less than USD 400,000;

7. PREPAYMENTS

	31 December 2017	31 December 2016
Advances to contractors	766,446	831,762
Total:	766,446	831,762

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.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in US Dollars)

8. PROJECT EXPENDITURE BY FUNDS

Project activities	Actual	
	Year to date	Cumulative to date
Part I: Technical Assistance	280,720	835,916
Part 2: Investment Grants	1,510,794	1,510,794
IBRD TOTAL	1,791,514	2,346,710
Part I: Technical Assistance	67,296	147,687
Part 2: Investment Grants	255,807	255,807
GoG TOTAL	323,103	403,494
TOTAL PROJECT EXPENDITURE	2,114,617	2,750,204

The Project consists of the following main components:

Part I – Technical Assistance

- Provision of technical assistance to support the recipient in developing adequate policy environment documents for improved wastewater treatment infrastructure;
- Carrying out of on-the-job training in wastewater operation and maintenance;
- Developing of a policy for sludge management, including final disposal

Part I – Investment grants

- Improvement of the efficiency of the water and wastewater sector through: (a) the rehabilitation of approximately two to three wastewater treatment plants; and (b) the provision of Investment Subproject Grants to support the implementation of Investment Subprojects.

9. RECONCILIATION OF DESIGNATED ACCOUNT

	IBRD	GoG	Total
Expenditures incurred during the year	1,791,514	323,103	2,114,617
Direct payment	(1,058,826)	-	(1,058,826)
Change in prepayments	(65,316)	-	(65,316)
Change in payables	(161,658)	(13,550)	(175,208)
Foreign exchange	(4,330)	(2,215)	(6,545)
Amount of eligible expenditure paid	501,384	307,338	

10. 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 purpose project financial statements as at 31 December 2017 and on the funds received and disbursed during the year then ended.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in US Dollars)

11. 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 2017 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.

12. PROLONGATION OF THE PROJECT'S CLOSING DATE

Due to closing date of the grant on 30 June 2018, the Ministry of Finance of Georgia on 16 May 2018, requested from South Caucasus Regional Office of World Bank an extension of the closing date of the Sustainable Wastewater Management Project until 28 February 2020 for the completion of ongoing works under this Project. At the date of signing of these special purpose project financial statements, the approval from South Caucasus Regional Office of World Bank has not been received yet.

13. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Except for the events disclosed in Note 12, there were no other significant events subsequent to the balance sheet date that would require adjustment or disclosure in these special purpose project financial statements.

14. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

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