

REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT

IDA CREDIT 4516-GE

**IMPLEMENTED BY
MUNICIPAL DEVELOPMENT FUND OF GEORGIA**

**Special Purpose Project Financial Statements
and
Independent Auditor's Report**

For the period from 1 January 2014 to 30 April 2015

REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT

IDA CREDIT 4516-GE

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES	3
INDEPENDENT AUDITOR'S REPORT	4-5
SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 APRIL 2015:	
Statement of financial position	6
Statement of sources and uses of funds	7-8
Statement of expenditures by activities	9
Statement of Summary Reports and SOEs	10
Statement of Designated Account	11
Notes to the special purpose financial statements	12-18
ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE MDF AND DISBURSED BY THE WORLD BANK	19

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 APRIL 2015

The management of the Municipal Development Fund of Georgia (the MDF) is responsible for the preparation of the special purpose financial statements of "Regional and Municipal Infrastructure Development Project" (the Project) financed by IDA Credit 4516-GE that present fairly the financial position of the Project as at 30 April 2015, and its sources and uses of funds, expenditures by activities, Summary Reports and SOEs, designated account balances and movements for the period from 1 January 2014 to 30 April 2015 ended, in compliance with the basis of accounting described in Note 2 of accompanying these special purpose financial statements and the Financial Management Manual for World Bank Financed Investment Operations (WB 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 regarding to the Project to the special purpose financial statements.

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, and which enable to ensure that the special purpose financial statements of the Project comply with the basis of accounting adopted;
- Maintaining statutory accounting records in compliance with Georgian legislation and donor's requirements;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project and to affirm that funds received on the basis of IDA Credit 4516-GE were used in accordance with relevant general conditions, relevant financing agreements and relevant disbursement letters, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided; and
- Preventing and detecting fraud and other errors.

The special purpose project financial statements for the period from 1 January 2014 to 30 April 2015 were authorized for issue on 30 June 2015 by the Management.

On behalf of the Management:

Ilia Darchiashvili
Executive Director

30 June 2015



Natalie Godziashvili
Head of Financial Management
and Investments Unit



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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT N 75

*On the special purpose financial statements of the
"Regional and Municipal Infrastructure Development Project"
for the period from 1 January 2014 to 30 April 2015*

To the management of Municipal Development Fund of Georgia

We have audited the accompanying special purpose financial statements of the "Regional and Municipal Infrastructure Development Project" (the Project) financed under IDA Credit 4516-GE and implemented by Municipal Development Fund of Georgia (the MDF), which comprise the Project's statement of financial position as at 30 April 2015, the statement of sources and uses of funds, statement of expenditures by activities, statement of Summary Reports and SOEs, statement of Designated account for the period from 1 January 2014 to 30 April 2015 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Management of the MDF is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis of accounting described in the Note 2 accompanying these special purpose financial statements, and Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines), and for such internal control as management determines is necessary to enable the preparation of the special purpose financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain reasonable audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special purpose financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes 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 financial statements.

Քրոու Հորվաթ Բիզնես Ալյանսի Ասոցիացված Անդամ

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

Opinion

In our opinion,

1. the special purpose financial statements present fairly in all material respects the financial position of the Project as at 30 April 2015, as well as sources and uses of funds for the period from 1 January 2014 to 30 April 2015 in accordance with the basis of accounting described in the Note 2 accompanying these special purpose financial statements and WB Guidelines;
2. funds have been used in accordance with the conditions of the Financing Agreement IDA Credit 4516-GE signed on 3 October 2008 between the Georgia and International Development Association (IDA), and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the IDA Credit 4516-GE.
4. The Designated account used has been maintained in accordance with the provision of the IDA Credit 4516-GE, and World Bank related guidelines.

Emphasis of matters

Without qualifying our opinion we draw your attention to Note 8 of these special purpose financial statements which disclosed that the Project was completed as at the reporting date.

"SOS-Audit" LLC
30 June 2015

Manvel Ghazaryan
Director

Gnel Khachatryan, FCCA
Auditor

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Regional and Municipal Infrastructure Development Project
IDA Credit 4516-GE

Statement of Financial Position

As at 30 April 2015

(Amounts are shown in US dollars)

	Note	30 April 2015	31 December 2013
ASSETS			
Cash	3	473,848	435,652
Prepayments and receivables	4	5,352	15,572
Total Assets		479,200	451,224
LIABILITIES			
Payables	5	459,686	814,851
Total Liabilities		459,686	814,851
NET ASSETS			
Cumulative Funds Received	6		
IDA Credit 4516-GE		39,238,173	39,238,174
ECTF Grant No. TF097715		3,628,140	3,628,140
Government of GE		8,996,479	8,994,408
MDF cofinancing		3,421,123	3,421,123
Municipalities cofinancing		5,763,456	5,688,358
Other		397,336	397,336
		61,444,707	61,367,539
Cumulative Expenditures	7		
Cumulative Project Expenditures		62,529,289	62,518,931
		62,529,289	62,518,931
Foreign exchange gain/(loss)		1,104,096	787,765
Total Net Assets		19,514	(363,627)

Ilia Darchiashvili
 Executive Director

Natalie Godziashvili
 Head of Financial Management
 and Investments Unit

30 June 2015

The notes on pages 12-19 form an integral part of these special purpose project financial statements.

Regional and Municipal Infrastructure Development Project
IDA Credit 4516-GE

Statement of sources and uses of funds

For the period from 1 January 2014 to 30 April 2015

(Amounts are shown in US dollars)

	Actual		Budget		Variance		PAD
	Period 01.01.2014- 30.04.2015	Cumulative as at 30.04.2015	Period 01.01.2014- 30.04.2015	Cumulative as at 30.04.2015	Period 01.01.2014- 30.04.2015	Cumulative as at 30.04.2015	Life of Project
OPENING WORKING CAPITAL							
Cash	435,652	-					
Prepayments and receivables	15,572	-					
Payables	(814,851)	-					
	(363,627)	-					
SOURCES OF FUNDS							
IDA Credit 4516-GE	-	39,238,173					40,000,000
ECTF Grant No.TF097715	-	3,628,140					3,600,000
Government of GE	2,070	8,996,479					10,800,000
MDF cofinancing	-	3,421,123					4,700,000
Municipalities cofinancing	75,098	5,763,456					7,900,000
Other	-	397,336					-
	77,168	61,444,707					67,000,000
EXPENDITURES							
1. Works and Goods, under:							
a. Part A.1.	-	12,936,977	-	12,936,977	-	-	11,300,000
b. Part A.2	-	25,113,096	-	25,113,096	-	-	26,400,000
c. Part B of the Project – before amendment	-	14,281,156	5,353	14,286,509	(5,353)	(5,353)	12,970,000
d. Part B of the Project – after amendment	-	8,161,651	-	8,161,651	-	-	14,300,000
2. Consulting services	10,358	2,033,501	10,500	2,033,643	(142)	(142)	2,000,000
3. Training	-	-	-	-	-	-	30,000
4. Operating costs and the commission visibility	-	2,908	-	2,908	-	-	-
	10,358	62,529,289	15,853	62,534,784	(5,495)	(5,495)	67,000,000

Regional and Municipal Infrastructure Development Project
IDA Credit 4516-GE

Statement of sources and uses of funds

For the period from 1 January 2014 to 30 April 2015

(Amounts are shown in US dollars)

	Actual	
	Period 01.01.2014- 30.04.2015	Cumulative as at 30.04.2015
Foreign exchange gain/(loss)	316,331	1,104,096
CLOSING WORKING CAPITAL		
Cash	473,848	473,848
Prepayments and receivables	5,352	5,352
Payables	(459,686)	(459,686)
	19,514	19,514

Ilia Darchiashvili
Executive Director

30 June 2015



Natalie Godziashvili
Head of Financial Management
and Investments Unit

The notes on pages 12-19 form an integral part of these special purpose project financial statements.

Regional and Municipal Infrastructure Development Project
IDA Credit 4516-GE

Statement of expenditures by activities
For the period from 1 January 2014 to 30 April 2015
(Amounts are shown in US dollars)

Parts	Actual		Planned		Variance		PAD Life of Project
	Period 01.01.2014- 30.04.2015	Cumulative as at 30.04.2015	Period 01.01.2014- 30.04.2015	Cumulative as at 30.04.2015	Period 01.01.2014- 30.04.2015	Cumulative as at 30.04.2015	
Part A. Infrastructure investment							
Part A.1	-	12,936,977	-	12,936,977	-	-	11,300,000
Part A.2	-	25,113,096	-	25,113,096	-	-	26,400,000
	-	38,050,073	-	38,050,073	-	-	37,700,000
Part B. Emergency rehabilitation and construction	-	22,445,715	5,353	22,451,068	(5,353)	(5,353)	27,300,000
Part C. Institutional Development	10,358	2,033,501	10,500	2,033,643	(142)	(142)	2,000,000
TOTAL EXPENDITURES	10,358	62,529,289	15,853	62,534,784	(5,495)	(5,495)	67,000,000



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30 June 2015

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Regional and Municipal Infrastructure Development Project
IDA Credit 4516-GE


Statement of Summary Reports and SOEs

For the period from 1 January 2014 to 30 April 2015

(Amounts are shown in US dollars)

Withdrawal application No	Withdrawal application value date	Disbursement Category			Total
		1.A.Works and Goods under Part A.1 of the project	1.B.Works and Goods under Part A.2 of the project	2. Consultants' services	
31	17.10.2014	3,680.01	28,399.18	25,073.51	57,152.70
32	30.04.2015	-	23,008.30	8,286.22	31,294.52
Total		3,680.01	51,407.48	33,359.73	88,447.22


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30 June 2015

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Regional and Municipal Infrastructure Development Project
IDA Credit 4516-GE

Statement of Designated Account

For the period from 1 January 2014 to 30 April 2015

(Amounts are shown in US dollars)

Bank account number	GE65NB0331100001150207-202251767
Bank	National Bank of Georgia
Bank location	3/5, Leonidze Str. Tbilisi, Georgia
Currency	USD

	IDA Credit 4516-GE
1. Opening balance as at 01.01.2014	71,871
2. Add: opening discrepancy	-
3. WB advance/replenishment	-
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	71,871
6. DA closing balance as at 30.04.2015	14,162
7. Add: Amount of eligible expenditures paid	57,709
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	71,871
10. Closing discrepancy (5)-(9)	-


Ilia Darchiashvili
Executive Director

30 June 2015




Natalie Godziashvili
Head of Financial Management
and Investments Unit

The notes on pages 12-19 form an integral part of these special purpose project financial statements.

Notes to the special purpose financial statements

For the period from 1 January 2014 to 30 April 2015

1. General information

1.1. The Project

The "Regional and Municipal Infrastructure Development Project" (the Project) is being implemented in accordance with the Financing Agreement IDA Credit 4516-GE in the total amount of 25,500,000 Special Drawing Rights (SDR) signed on 3 Oct 2008 between the Georgia and International Development Association (IDA).

The Grant Agreement ECTF Grant No. TF097715 for the Project in the amount of 2,822,823 Euro (EUR) was signed on 13 Sept 2010 between the Georgia and the International Bank for Reconstruction and Development (IBRD).

The closing date of expenditure to be financed under both IDA Credit 4516-GE is set 31 December 2014 (as updated by the WB letter dated 27 June 2013). The Grace period for submitting withdrawal applications is 30 April 2015.

1.2. The Project objectives

The objectives of the Project are:

- (a) to improve the efficiency and reliability of selected municipal infrastructure and service; and
- (b) to assist in restoring infrastructure and services and in improving housing conditions for conflict affected people.

The Project consists of the following parts:

Part A: Infrastructure Investment

Provision of financial resources to creditworthy Local Self Governments (the "LSGs") to finance investment subprojects for the rehabilitation and expansion of priority municipal services and infrastructure needs on a sustainable basis, through the performance of works and provision of goods and consultants' services (USD 20,000,000 IDA financing, USD 6,700,000 MDF contribution and USD 6,700,000 LSG's contribution).

Provision of financing on the grant basis to carry out investment subprojects for municipal services and infrastructure projects in non-creditworthy LSGs, through the carrying out of works and provision of goods and consultants' services (USD 7,000,000 IDA financing and USD 1,200,000 LSG's contribution).

Part B: Emergency Rehabilitation and Construction

Infrastructure restoration and improvement of housing conditions for conflict affected people in Georgia, which includes: (i) increasing the volume of water supply, improving public water standpipes and provision of grey water house connection to about 1963 internally displaced people's houses in eleven settlements; (ii) rehabilitating drainage channels and pedestrian crossings in eleven settlements, and constructing a bridge at the Mtkvari River leading to Akhalsopeli settlement; (iii) providing about 133 solid-waste containers and eleven trucks in twelve settlements; and (iv) improving the physical conditions of the walls and floors, and provision of entrance sheds and air ventilators in about 1,263 houses in nine (9) settlements, all through the carrying out of works and provision of goods and consultants' services.

Part C: Institutional Development

Enhancing the institutional capacity and performance of the Ministry of Finance, the Municipal Development Fund, LSGs, and utilities to assist in the carrying out of programs for the development of capacity to discharge public services functions with economy and efficiency, through the provision of goods, consultants' services and training (USD 3,000,000 IDA financing and USD 800,000 Government cofinancing).

Notes to the special purpose financial statements

For the period from 1 January 2014 to 30 April 2015

1.3. The Project Budget

The Project is being financed by the following sources:

- IDA Credit 4516-GE,
- ECTF Grant No. TF097715,
- The Government the Georgia (GoGE) cofinancing,
- MDF cofinancing,
- Municipalities cofinancing.

The Project budget is follows:

Category of expenditures	IDA Credit 4516-GE (a)		ECTF Grant TF097715		Others' cofinancing	Total
	SDR	USD equivalent (b)	EUR	USD equivalent	USD	USD
1. Works and Goods						
a. Part A.1	3,672,000	5,650,297	-	-	5,650,297	11,300,594
b. Part A.2	14,584,815	22,442,412	-	-	3,960,425	26,402,837
c. Part B –before amendment	4,193,632	6,452,959	-	-	6,452,959	12,905,918
d. Part B –after amendment (a)	2,077,951	3,197,451	2,721,593	3,498,030	1,651,320	8,346,801
2. Consulting services under Parts A and C	950,000	1,461,814	99,800	128,272	469,912	2,059,998
3.Training under Parts A and C	21,602	33,240	-	-	-	33,240
4.Operating costs and the Commission Visibility	-	-	1,430	1,838	1,497	3,335
Total	25,500,000	39,238,173	2,822,823	3,628,140	18,186,410	61,052,723

(a) Amendment of the financing agreement IDA Credit 4516-GE was approved by WB on 27.07.2013.

(b) Budget USD equivalents for IDA Credit 4516-GE, with underling currency of SDR, are calculated based on cumulative funds received in USD plus, if any, USD equivalent of undisbursed funds in SDR as at reporting date. SDR/USD rate as at 30.04.2015 is 1.41 (31.12.2013 is set at 1.54).

(c) Updated budget of GE cofinancing is calculated based on % of cofinancing.

The percentage of expenditures to be financed by IDA Credit 4516-GE and ECTF Grant TF097715 is follows:

Category of expenditures	IDA Credit 4516-GE	ECTF Grant TF097715
1. Works and Goods		
a. Part A.1	50%	-
b. Part A.2	85%	-
c. Part B –before amendment	50%	-
d. Part B –after amendment	40%	55%
2. Consulting services under Parts A and C	80%	55%
3.Training under Parts A and C	100%	-
4.Operating costs and the Commission Visibility	-	55%

Notes to the special purpose financial statements
For the period from 1 January 2014 to 30 April 2015

1.4. Project Implementation

The Project is implemented by Municipal Development Fund of Georgia (MDF) established pursuant to the Republic of Georgia Presidential Decree No. 294 dated 7 June 1997.

The MDF address is: 3rd Floor, #150 D. Aghmashenebeli Ave., 0112, Tbilisi, Georgia.

Notes to the special purpose financial statements

For the period from 1 January 2014 to 30 April 2015

2. Summary of significant accounting policies

2.1. Preparation and presentation of financial statements

The special purpose financial statements are prepared based on the accrual basis of accounting and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2 Accrual basis of accounting

In accordance with the accrual bases of accounting the expenditure is recognized when the transaction occurs (expense incurred), and not only when cash or its equivalent is received or paid. The transactions are recorded in the accounting records and recognized in the special purpose financial statements of the periods to which they relate.

2.3 Reporting currency

The reporting currency of these special purpose financial statements is United States dollar (USD). Transactions in currencies other than reporting are converted to US Dollars at the exchange rate prevailing at the date of the transaction.

Transaction in local currency, Georgian Lari (GEL), are recorded in the special purpose financial statements at the rates of exchange defined by the National Bank of Georgia ("NBG") prevailing on the dates of transactions. At the reporting date, the monetary items denominated in currencies other than the presentation currency are translated into USD at the NBG rate effective at the reporting date. The effect of exchange rate changes on non-reporting currency transactions and items is reported as separate line item in the statement of financial position.

The exchange rate defined by the NBG as at 31 December 2013 is: USD 1 = 1.7363 GEL.
The exchange rate defined by the NBG as at 30 April 2015 is: USD 1 = 2.3093 GEL.

2.4. Cash

Cash comprises cash at treasure account of the Government of Georgia and bank accounts.

2.5. Budgeting

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated procurement plans for the period.

Notes to the special purpose financial statements
For the period from 1 January 2014 to 30 April 2015

3. Cash

	As at 30.04.2015 USD	As at 31.12.2013 USD
Designated account (in USD) (IDA Credit 4516-GE) (Note 8.c)	14,162	71,871
Current account (in GEL) (Municipalities) (Note 8.d)	459,686	363,781
Total	473,848	435,652

4. Prepayments and receivables

	As at 30.04.2015 USD	As at 31.12.2013 USD
Receivables from municipalities	5,353	14,300
Advances for civil works	-	1,272
Total	5,353	15,572

5. Payables

	As at 30.04.2015 USD	As at 31.12.2013 USD
Payables to Municipalities (Note 8.d)	459,686	471,784
Payables for civil works	-	2,796
Payables for LDG	-	151,893
Payables to other projects	-	188,378
Total	459,686	814,851

6. Financing

6.1. IDA Credit 4516-GE

	Period 01.01.2014- 30.04.2015 USD	Cumulative as at 30.04.2015 USD
Advances/ (advance recovery)*	(88,447)	14,162
SOE and Summary Sheet	88,447	39,224,012
Total	-	39,238,174
Total financing budget		39,238,174
Percentage of finance provided as at 30 April 2015		100%

(*) The outstanding balance of Advance as at 30.04.2015 in the amount of 14,162.18 was refunded to WB on 18 May 2015 (Note 8.c).

Notes to the special purpose financial statements
For the period from 1 January 2014 to 30 April 2015

6.2. ECTF Grant No. TF097715

	Period 01.01.2014- 30.04.2015 USD	Cumulative as at 30.04.2015 USD
Cash contribution	-	3,628,140
Total	-	3,628,140
Total financing budget		3,628,140
Percentage of finance provided as at 30 April 2015		100%

6.3. Other cofinancing

	Period 01.01.2014- 30.04.2015 USD	Cumulative as at 30.04.2015 USD
Government of GE	2,070	8,996,479
MDF	-	3,421,123
Municipalities	75,098	5,763,456
Total	77,168	18,181,058
Total financing budget		18,186,410
Percentage of finance provided as at 30 April 2015		100%

7. Expenditure budget execution

The progress of the expenditure budget execution is presented below:

Category	Cumulative Expenditures as at 30.04.2015 USD	Total budget USD	Execution %
1. Works and Goods			
a. Part A.1	12,936,977	11,300,594	114
b. Part A.2	25,113,096	26,402,837	95
c. Part B –before amendment	14,281,156	12,905,918	111
d. Part B –after amendment (a)	8,161,651	8,346,801	98
2. Consulting services under Parts A and C	2,033,501	2,059,998	99
3.Training under Parts A and C	0	33,240	-
4.Operating costs and the Commission Visibility	2,908	3,335	87
Total	62,529,289	61,052,723	102

Notes to the special purpose financial statements

For the period from 1 January 2014 to 30 April 2015

8. Project completion

The Project was completed as at 31 December 2014 (the Closing Date), and the Grace period for submitting withdrawal application for expenditures incurred before the Closing date is 30 April 2015 (Reporting date).

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

- a. 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;
- b. No withdrawals from IDA Credit 4516-GE account were made after Reporting date;
- c. The cash balance USD 14,162.18 outstanding at Designated account was refunded to WB on 18 May 2015;
- d. The cash balance equivalent of USD 459,686 outstanding in current account of Municipality cofinancing is refundable to Municipalities against the payables outstanding (Note 5);
- e. No expenditures related to the Project were submitted to the WB after the Reporting date;
- f. There were no uncovered prepayments or payables outstanding to contractors related to the Project as at the Reporting Date
- g. We are not aware about any pending or existing litigations against the Project.

Regional and Municipal Infrastructure Development Project
IDA Credit 4516-GE

**ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE MDF AND
DISBURSED BY THE WORLD BANK**

For the period from 1 January 2014 to 30 April 2015

(Amounts are shown in US dollars)

Expenditure Category	Appl.	MDF	WB	Difference
Advance(repayment)	31		(57,152.70)	
	32		(31,294.52)	
			(88,447.22)	
1.A.Works and Goods under Part A.1 of the project	31	3,680.01	3,680.01	-
		3,680.01	3,680.01	
1.B.Works and Goods under Part A.2 of the project	31	28,399.18	28,399.18	-
	32	23,008.30	23,008.30	-
		51,407.48	51,407.48	
2. Consultants' services	31	25,073.51	25,073.51	-
	32	8,286.22	8,286.22	-
		33,359.73	33,359.73	
Total		88,447.22	-	