

**SUPPORTING SUSTAINABLE WASTEWATER MANAGEMENT
PROJECT**

SIDA GRANT TF014912

**IMPLEMENTED BY
MUNICIPAL DEVELOPMENT FUND OF GEORGIA**

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

For the year ended 31 December 2014

SUPPORTING SUSTAINABLE WASTEWATER MANAGEMENT PROJECT

SIDA GRANT TF014912

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The management of the Municipal Development Fund of Georgia (the MDF) is responsible for the preparation of the special purpose financial statements of "Supporting Sustainable Wastewater Management" project (the Project) financed by SIDA Grant TF014912 that presents fairly the financial position of the Project as at 31 December 2014, and its sources and uses of funds, Summary Reports and SOEs, designated account balances and movements for the year then 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 SIDA Grant TF014912 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 year ended 31 December 2014 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 74

*On the special purpose financial statements of the
"Supporting Sustainable Wastewater Management" project
for the year ended 31 December 2014*

To the management of Municipal Development Fund of Georgia

We have audited the accompanying special purpose financial statements of the "Supporting Sustainable Wastewater Management" project (the Project) financed under SIDA Grant TF014912 and implemented by Municipal Development Fund of Georgia (the MDF), which comprise the Project's statement of financial position as at 31 December 2014, 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 year then ended 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.

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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 31 December 2014, as well as sources and uses of funds 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 Letter Agreement dated 12 July 2013 (SIDA Grant TF014912) between the Georgia, represented by the Minister of Finance, and the International Development Association (IDA), acting as administrator of grant funds provided by Sweden International Development Cooperation Agency (SIDA), 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 SIDA Grant TF014912;
4. The Designated account used has been maintained in accordance with the provision of the SIDA Grant TF014912, and World Bank related guidelines.

"SOS-Audit" LLC
30 June 2015


Manvel Ghazaryan
Director




Gnel Khachatryan, FCCA
Auditor

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**Supporting Sustainable Wastewater Management Project
SIDA Grant TF014912**

Statement of Financial Position

As at 31 December 2014


(Amounts are shown in US dollars)

	Note	31 December 2014	31 December 2013
ASSETS			
Cash	3	302,945	400,000
Prepayments	4	93,546	-
Total Assets		396,491	400,000
LIABILITIES			
Payables		-	-
Total Liabilities		-	-
NET ASSETS			
Cumulative Funds Received	5		
SIDA Grant TF014912		552,056	400,000
Government of GE		536	-
		552,592	400,000
Cumulative Expenditures	6		
Project expenditures		154,737	-
		154,737	-
Foreign exchange gain/(loss)		(1,364)	-
Total Net Assets		396,491	400,000


Ilia Darchiashvili
Executive Director

30 June 2015




Natalie Godziashvili
Head of Financial Management
and Investments Unit

The notes on pages 11-16 form an integral part of these special purpose project financial statements.

Supporting Sustainable Wastewater Management Project
SIDA Grant TF014912

Statement of sources and uses of funds
 For the year ended 31 December 2014
 (Amounts are shown in US dollars)

	Actual		Budget		Variance		PAD Life of Project
	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	
OPENING WORKING CAPITAL							
Cash	400,000	-					
Total Working Capital	400,000	-					
SOURCES OF FUNDS							
SIDA Grant TF014912	152,056	552,056					9,252,155
Government of GE	536	536					1,665,388
Total Sources of Funds	152,592	552,592					10,917,543
EXPENDITURES							
I. Goods, Works, Consulting Services and Training	154,737	154,737	246,834	246,834	(92,097)	(92,097)	10,917,543
Total Expenditures	154,737	154,737	246,834	246,834	(92,097)	(92,097)	10,917,543
Foreign Exchange gain/(loss)	(1,364)	(1,364)					
CLOSING WORKING CAPITAL							
Cash	302,945	302,945					
Prepayments	93,546	93,546					
Total Closing Capital	396,491	396,491					



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Ilia Darchiashvili
 Executive Director

Natalie Godziashvili
 Head of Financial Management
 and Investments Unit

30 June 2015

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Supporting Sustainable Wastewater Management Project
SIDA Grant TF014912

Statement of expenditures by activities
 For the year ended 31 December 2014
 (Amounts are shown in US dollars)

Parts	Actual		Planned		Variance	
	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014	Year ended 31.12.2014	Cumulative as at 31.12.2014
Part I. Technical Assistance	154,737	154,737	246,834	246,834	(92,097)	(92,097)
Part II. Investment Grants	-	-	-	-	-	-
TOTAL EXPENDITURES	154,737	154,737	246,834	246,834	(92,097)	(92,097)

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Ilia Darchiashvili
Executive Director



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Natalie Godziashvili
Head of Financial Management
and Investments Unit

30 June 2015

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Supporting Sustainable Wastewater Management Project
SIDA Grant TF014912

Statement of Summary Reports and SOEs

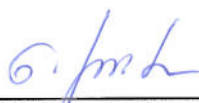
For the year ended 31 December 2014

(Amounts are shown in US dollars)

Withdrawal application No	Withdrawal application value date	Disbursement categories	Total
		1. Goods, Works, Consulting Services and Training	
2	15.07.2014	152,056.41	152,056.41
		152,056.41	152,056.41


Ilia Darchiashvili
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Head of Financial Management
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30 June 2015

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**Supporting Sustainable Wastewater Management Project
SIDA Grant TF014912**

Statement of Designated Account
For the year ended 31 December 2014
(Amounts are shown in US dollars)


Bank account number	GE65NB0331100001150207- 205236743
Bank	National Bank of Georgia
Bank location	3/5, Leonidze Str. Tbilisi, Georgia
Currency	USD

	SIDA Grant TF014912
1. Opening balance as at 01.01.2014	400,000
2. Add: opening discrepancy	-
3. WB advance/replenishment	152,056
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	552,056
6. DA closing balance as at 31.12.2014	302,945
7. Add: Amount of eligible expenditures paid	249,111
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	552,056
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 11-16 form an integral part of these special purpose project financial statements.

Notes to the special purpose financial statements

For the year ended 31 December 2014

1. General information

1.1. The Project

The Letter Agreement SIDA Grant TF014912 (the Grant) in the total amount of 9,252,155 United States dollar (USD), was signed on 12 July 2013 between the Georgia, represented by the Minister of Finance, and International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) (both “World Bank”), acting as administrator of grant funds provided by Sweden through the Sweden International Development Cooperation Agency (SIDA).

The Grant is provided for the implementation of “Supporting Sustainable Wastewater Management project” (the Project).

The Closing date financing under the Grant is set 31 December 2015.

The Grace period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing date: 30 April 2016.

1.2. The Project objectives

The objective of the Project is to promote sustainable wastewater management in the Georgia and pilot the implementation of wastewater treatment plants.

The Project consists of the following parts:

Part I: Technical Assistance

- a) Provision of technical assistance to support in developing adequate policy environment documents for improved wastewater treatment infrastructure.
- b) Carrying out of on-the-job training in wastewater operation and maintenance, including sludge management, disposal and rescue of water resources.
- c) Carrying out of: (i) training on wastewater management, including affordability, sustainability and cost recover; and (ii) study tours to learn about good practices of different sustainable wastewater technologies.
- d) Development of policy for sludge management, including final disposal.
- e) Carrying out of stakeholder consultations on wastewater management to promote public participation.
- f) Preparation of feasibility studies, engineering designs, construction supervision, monitoring and evaluation activities and provision of technical assistance to the MDF and United Water Supply Company (UWSC).

Part II: Investment Grants

Improvement of 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.

**Supporting Sustainable Wastewater Management Project
SIDA Grant TF014912**

Notes to the special purpose financial statements

For the year ended 31 December 2014

1.3. The Project Budget

The Project is being financed by:

- SIDA Grant TF014912,
- Government of Georgia cofinancing (for taxes) (Government of GE).

The Project budget and percentage of expenditures to be financed by WB per each category is follows:

Category	SIDA Grant TF014912	Government of GE (taxes)	Total	Percentage of Expenditure to be financed by WB (exclusive of taxes)
	USD	USD	USD	%
1. Goods, works, consultants' services and training	9,252,155	1,665,388	10,917,543	100%
Total	9,252,155	1,665,388	10,917,543	

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.

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), is 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 31 December 2014 is: USD 1 = 1.8636 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.

**Supporting Sustainable Wastewater Management Project
SIDA Grant TF014912**

**Notes to the special purpose financial statements
For the year ended 31 December 2014**

3. Cash

	As at 31.12.2014 USD	As at 31.12.2013 USD
Designated account (in USD) (SIDA Grant TF014912)	302,945	400,000
Total	302,945	400,000

4. Prepayments

	As at 31.12.2014 USD	As at 31.12.2013 USD
On consulting service*	93,546	-
Total	93,546	-

(*) Prepayment of 30% is provided on consulting service. Half of prepayment outstanding as of 31.12.2014 is settled off on March 2015.

5. Financing

5.1. SIDA Grant TF014912

	Year ended 31.12.2014 USD	Cumulative as at 31.12.2014 USD
Advances	-	400,000
SOE and Summary Report	152,056	152,056
Total	152,056	552,056
Total financing budget		9,252,155
Percentage of finance provided as at 31 Dec 2014		6%

5.2. Government of GE

	Year ended 31.12.2014 USD	Cumulative as at 31.12.2014 USD
Cash contributions	536	536
Total	536	536
Total financing budget		1,665,388
Percentage of finance provided as at 31 Dec 2014		0.1%

6. Project Expenditures

6.1. Project expenditure financing per funds

USD

Category	Year ended 31 Dec 2014			Cumulative as at 31 Dec 2014		
	SIDA Grant TF014912	Government of GE	Total	SIDA Grant TF014912	Government of GE	Total
1. Goods, works, consultants' services and training	154,201	536	154,737	154,201	536	154,737
Subtotal	154,201	536	154,737	154,201	536	154,737
Prepayments	94,910	-	91,910	94,910	-	91,910
Total	249,111	536	249,647	249,111	536	249,647

6.2. Project expenditure budget execution

Category	Cumulative Expenditures as at 31 Dec 2014	Total budget	Execution
	USD	USD	%
1. Goods, works, consultants' services and training	154,737	10,917,543	1.4%
Total	154,737	10,917,543	1.4%

7. Event after reporting date

The application N 3 in the total amount of 156,193.59 USD, that includes expenditures relating to the year ended 31 December 2014 in the amount of 97,054.57, was submitted to WB on 13 May 2015 and approved on 14 May 2015.

8. Litigations

There are no pending litigations related to the Project as at reporting date and as at approval date of these special purpose financial statements.