

**SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE
DEVELOPMENT PROJECT**

IBRD LOAN NUMBER 8380-GE

**IMPLEMENTED BY
MUNICIPAL DEVELOPMENT FUND OF GEORGIA**

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

For the year ended 31 December 2014

SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT

IBRD LOAN NUMBER 8380-GE

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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 "Second Regional and Municipal Infrastructure Development Project" (the Project) financed by IBRD Loan Number 8380-GE 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 IBRD Loan Number 8380-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.

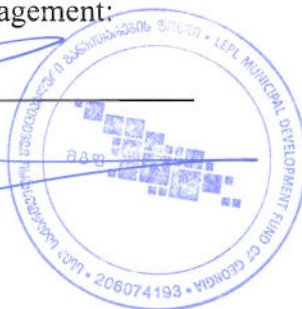
The special purpose project financial statements for the year ended 31 December 2014 were authorized for issue on 30 June 2015 by the Management.

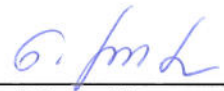
On behalf of the Management:



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 73

*On the special purpose financial statements of the
"Second Regional and Municipal Infrastructure Development 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 "Second Regional and Municipal Infrastructure Development Project" (the Project) financed under IBRD Loan Number 8380-GE 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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ՀՀ, ք. Երևան 0037, Ա.Տիգրանյան 38/55; Հեռ.՝ (+37410) 20 11 51; Ֆաքս՝ (+37410) 20 11 50; www.sosaudit.am; Էլ-փոստ՝ info@sosaudit.am

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"SOS-AUDIT" LTD

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 Loan Agreement dated 18 August 2014 (IBRD Loan Number 8380-GE) between the Georgia, represented by the Minister of Finance, and the International Bank for Reconstruction and Development (IBRD), 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;
4. The Designated account used has been maintained in accordance with the provision of the IBRD Loan Number 8380-GE, and World Bank related guidelines.

"SOS-Audit" LLC
30 June 2015


Manvel Ghazaryan
Director




Gnel Khachatryan, FCCA
Auditor

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Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

Statement of Financial Position
 As at 31 December 2014
 (Amounts are shown in US dollars)

	Note	As at 31 December 2014
ASSETS		
Cash	3	1,052,718
Prepayments	4	<u>795,797</u>
Total Assets		<u>1,848,515</u>
LIABILITIES		
Payables		<u>-</u>
Total Liabilities		<u>-</u>
NET ASSETS		
Cumulative Funds Received	5	
IBRD Loan Number 8380-GE		2,075,000
Government of GE		941
Municipality		<u>188,874</u>
		<u>2,264,815</u>
Cumulative Expenditures	6	
Project expenditures		<u>404,651</u>
		<u>404,651</u>
Foreign exchange gain/(loss)		<u>(11,649)</u>
Total Net Assets		<u>1,848,515</u>

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Ilia Darchiashvili
 Executive Director





Natalie Godziashvili
 Head of Financial Management
 and Investments Unit

30 June 2015

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

Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

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							
SOURCES OF FUNDS							
IBRD Loan Number 8380-GE	2,075,000	2,075,000	-	-	-	-	30,000,000
Swiss Grant Number TF018090	-	-	-	-	-	-	5,000,000
MDF funds	-	-	-	-	-	-	12,925,000
Government of GE	941	941	-	-	-	-	2,250,000
Municipality	188,874	188,874	-	-	-	-	8,760,000
Total Sources of Funds	2,264,815	2,264,815	-	-	-	-	58,935,000
EXPENDITURES							
(1.a) Good and works, under Part A.1(a)	-	-	-	-	-	-	32,315,000
(1.b) Good and works, under Part A.1(b)	324,971	324,971	2,035,500	2,035,500	(1,710,529)	(1,710,529)	15,295,000
(2) Consultants' services, Training and Incremental Operating Costs under Part A.2	4,680	4,680	20,000	20,000	(15,320)	(15,320)	2,500,000
(3) Goods, consultants' services and Training under Part B	-	-	-	-	-	-	8,750,000
(4) Front-end Fee	75,000	75,000	75,000	75,000	-	-	75,000
Total Expenditures	404,651	404,651	2,130,500	2,130,500	(1,725,849)	(1,725,849)	58,935,000

Foreign Exchange gain/(loss) (11,649) (11,649)

CLOSING WORKING CAPITAL

Cash	1,052,718	1,052,718					
Prepayments	795,797	795,797					
Total Closing Working Capital	1,848,515	1,848,515					

Ilia Darchiasvili
 Executive Director

30 June 2015

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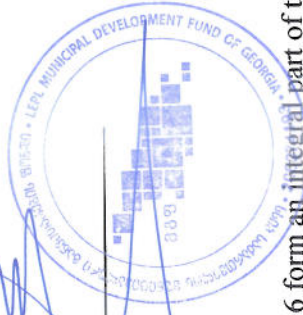
Natalie Godziasivili
 Head of Financial Management



Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

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

Parts	Actual		Planned		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	
Part A: Infrastructure Investment							
A.1.(a) Provision of financing on a credit basis	-	-	-	-	-	-	32,315,000
A.1.(b) Provision of financing on a grant basis	324,971	324,971	2,035,500	2,035,500	(1,710,529)	(1,710,529)	15,295,000
A.2. Technical assistance for Investment Subprojects	4,680	4,680	20,000	20,000	(15,320)	(15,320)	2,500,000
	329,651	329,651	2,055,500	2,055,500	(1,725,849)	(1,725,849)	50,110,000
Part B: Institutional Development							
B.1. Improving the institutional capacity and performance of LSGs	-	-	-	-	-	-	-
B.2. Improving the institutional capacity and performance of MDF	-	-	-	-	-	-	8,750,000
Front-end Fee	75,000	75,000	75,000	75,000	-	-	75,000
TOTAL EXPENDITURES	404,651	404,651	2,130,500	2,130,500	(1,725,849)	(1,725,849)	58,935,000



Ilia Darchiashvili
 Executive Director

Natalie Godziashvili

Natalie Godziashvili
 Head of Financial Management
 and Investments Unit

30 June 2015

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

Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

Statement of Summary Reports and SOEs

For the year ended 31 December 2014

(Amounts are shown in US dollars)

There were no Summary Reports and SOEs submitted during the year ended 31 December 2014.


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.

Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

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


Bank account number	GE65NB0331100001150207-202250160
Bank	National Bank of Georgia
Bank location	3/5, Leonidze Str. Tbilisi, Georgia
Currency	USD

	IBRD Loan Number 8380-GE
1. Opening balance as at 16.12.2014	-
2. Add: opening discrepancy	-
3. WB advance/replenishment	2,000,000
4. Less: Refund to WB from DA	-
5. Present outstanding amount advanced to DA	2,000,000
6. DA closing balance as at 31.12.2014	1,026,513
7. Add: Amount of eligible expenditures paid	973,487
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	2,000,000
10. Closing discrepancy (5)-(9)	-


Ilia Darehiashvili
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 Loan Agreement (IBRD Loan Number 8380-GE) (“Loan”) in the total amount of 30,000,000 United States dollar (USD), was signed on 18 August 2014 between the Georgia, represented by the Minister of Finance, and International Bank for Reconstruction and Development (“IBRD”, “World Bank”).

The Loan is provided for the implementation of “Second Regional and Municipal Infrastructure Development Project” (the Project).

Swiss Grant Agreement (Swiss Grant Number TF018090) (“Grant”) in the total amount of 5,000,000 United States dollar (USD), was signed on 1 May 2015 between the Georgia, represented by the Minister of Finance, and International Bank for Reconstruction and Development (“IBRD”, “World Bank”).

The Closing date financing under the Loan is set 30 June 2019 and under the Grant is set 31 December 2018.

The Grace period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing date: 31 October 2019 and 30 April 2019, respectively.

1.2. The Project objectives

The objective of the Project is to improve the efficiency and reliability of targeted municipal services and infrastructure.

The Project consists of the following parts:

Part A: Infrastructure Investment

1. Provision of financing:
 - (a) on a credit basis, to select Local Self Governments (LSGs) to finance Investment Subprojects for the rehabilitation and expansion of priority municipal services and infrastructure needs on a sustainable basis;
 - (b) on a grant basis, to select LSGs to finance Investment Subprojects for selected municipal services and infrastructure projects.
2. Preparation of feasibility studies, engineering designs, construction supervision, monitoring and evaluation activities for Investment Subprojects.

Part B: Institutional Development

1. Improving the institutional capacity and performance of LSGs in: (a) asset management planning; (b) project cycle management; and (c) fiscal discipline and accounting;
2. Improving the institutional capacity and performance of the MDF in: (a) technical appraisal; (b) credit risk management; and (c) fiduciary functions.

Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

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:

- IBRD Loan Number 8380-GE,
- Swiss Grant Number TF018090,
- MDF funds,
- Government of Georgia cofinancing (Government of GE),
- Municipalities.

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

Category	IBRD Loan Number 8380-GE	Swiss Grant Number TF018090	MDF funds	Government of GE	Municipalities	Total	Percentage of Expenditure to be financed by WB (inclusive of taxes)
	USD	USD	USD	USD	USD	USD	%
(1.a) Good and works, under Part A.1(a)	12,925,000	-	12,925,000	-	6,465,000	32,315,000	40%
(1.b) Good and works, under Part A.1(b)	13,000,000	-	-	-	2,295,000	15,295,000	85%
(2) Consultants' services, Training and Incremental Operating Costs under Part A.2	2,000,000	-	-	500,000	-	2,500,000	80%
(3) Goods, consultants' services and Training under Part B	2,000,000	5,000,000	-	1,750,000	-	8,750,000	Loan-22.8%; Grant-57.2% (WB-80%)
(4) Front-end Fee	75,000	-	-	-	-	75,000	100%
Total	30,000,000	5,000,000	12,925,000	2,250,000	8,760,000	58,935,000	

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 year ended 31 December 2014

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 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.

Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

Notes to the special purpose financial statements

For the year ended 31 December 2014

3. Cash

	As at 31.12.2014
	USD
Designated account (in USD), IBRD Loan Number 8380-GE	973,487
Local account (in GEL), Municipality	79,231
	1,052,718

4. Prepayments

	As at 31.12.2014
	USD
(1.a) Good and works, under Part A.1(a)	636,095
(1.b) Good and works, under Part A.1(b)	159,702
	795,797

(*) Prepayment up to 15% is provided on construction works. Prepayment outstanding as of 31.12.2014 is mostly settled as at the date of signing these special purpose financial statements.

5. Financing

5.1. IBRD Loan Number 8380-GE

	Year ended	Cumulative as
	31.12.2014	at 31.12.2014
	USD	USD
Advances	2,000,000	2,000,000
SOE and Summary Report	-	-
Front-end Fee	75,000	75,000
Total	2,075,000	2,075,000
		30,000,000
Total financing budget		6.9%
Percentage of finance provided as at 31 Dec 2014		

5.2. Government of GE

	Year ended	Cumulative as
	31.12.2014	at 31.12.2014
	USD	USD
Cash contributions	941	941
Total	941	941
		2,250,000
Total financing budget		0.1%
Percentage of finance provided as at 31 Dec 2014		

Second Regional and Municipal Infrastructure Development Project
IBRD Loan Number 8380-GE

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

5.3. Municipality

	Year ended 31.12.2014 USD	Cumulative as at 31.12.2014 USD
Cash contributions	188,874	188,874
Total	188,874	188,874
Total financing budget		8,760,000
Percentage of finance provided as at 31 Dec 2014		2.2%

6. Project Expenditures

6.1. Project expenditure financing per funds

USD

Category	Year ended 31 Dec 2014					
	IBRD Loan Number 8380-GE	Swiss Grant Number TF018090	MDF funds	Governme nt of GE	Munici- palities	Total
(1.a) Good and works, under Part A.1(a)	-	-	-	-	-	-
(1.b) Good and works, under Part A.1(b)	276,226	-	-	-	48,745	324,971
(2) Consultants' services, Training and Incremental Operating Costs under Part A.2	3,744	-	-	936	-	4,680
(3) Goods, consultants' services and Training under Part B	-	-	-	-	-	-
(4) Front-end Fee	75,000	-	-	-	-	75,000
Subtotal	354,970	-	-	936	48,745	404,651
Prepayments	746,543	-	-	-	49,254	795,797
Total	1,101,513	-	-	936	97,999	405,448

Category	Cumulative as at 31 Dec 2014					
	IBRD Loan Number 8380-GE	Swiss Grant Number TF018090	MDF funds	Governme nt of GE	Munici- palities	Total
(1.a) Good and works, under Part A.1(a)	-	-	-	-	-	-
(1.b) Good and works, under Part A.1(b)	276,226	-	-	-	48,745	324,971
(2) Consultants' services, Training and Incremental Operating Costs under Part A.2	3,744	-	-	936	-	4,680
(3) Goods, consultants' services and Training under Part B	-	-	-	-	-	-
(4) Front-end Fee	75,000	-	-	-	-	75,000
Subtotal	354,970	-	-	936	48,745	404,651
Prepayments	746,543	-	-	-	49,254	795,797
Total	1,101,513	-	-	936	97,999	405,448

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

6.2. Project expenditure budget execution

Category	Cumulative Expenditures as at 31 Dec 2014	Total budget	Execution
	USD	USD	%
(1.a) Good and works, under Part A.1(a)	-	32,315,000	-
(1.b) Good and works, under Part A.1(b)	324,971	15,295,000	2.1
(2) Consultants' services, Training and Incremental Operating Costs under Part A.2	4,680	2,500,000	0.2
(3) Goods, consultants' services and Training under Part B	-	8,750,000	-
(4) Front-end Fee	75,000	75,000	100
Total	404,651	58,935,000	0.7

7. Event after reporting date

The application N 2 in the total amount of 726,234.09 USD, that consists of expenditures relating to the year ended 31 December 2014, 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.