

**MUNICIPAL DEVELOPMENT  
FUND OF GEORGIA**

LOAN NO.8148-GE  
(REGIONAL DEVELOPEMENT PROJECT)

**Special Purpose Project Financial Statements and  
Independent Auditor's Report  
For the Year Ended 31 December 2015**

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

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# MUNICIPAL DEVELOPMENT FUND OF GEORGIA

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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Management of the Regional Development Project (the "Project") financed under the Loan Agreement No. 8148-GE dated 28 March 2012, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present fairly the project's statement of financial position as at 31 December 2015, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements, in compliance with the basis of accounting described in Note 2 of accompanying these special purpose project financial statements and in conformity 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;
- Making an assessment of the Projects ability to continue as a going concern.

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 2015 were authorised for issue on 6 June 2016 by the Management.

On behalf of Management:

  
\_\_\_\_\_  
**Juansher Burchuladze**  
Executive Director

6 June 2016

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

6 June 2016



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## INDEPENDENT AUDITOR'S REPORT

### To the management of the Municipal Development Fund of Georgia:

We have audited the accompanying special purpose project financial statements of the Regional Development Project (the "Project") financed under the Loan Agreement No. 8148-GE dated 28 March 2012, implemented by the Municipal Development Fund of Georgia, which comprise the Project's statement of financial position as at 31 December 2015, 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 2015 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements"). The special purpose project financial statements are prepared by management of the Municipal Development Fund of Georgia 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.

#### *Management's responsibility for the special purpose project financial statements*

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

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the special purpose project financial statements 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 Project's internal control. An audit also includes evaluating 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 project financial statements.

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# Deloitte

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

## *Opinion*

In our opinion, the accompanying special purpose financial statements of the Project for the year ended 31 December 2015 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Guidelines.

## *Basis of accounting and restriction on distribution and use*

Without modifying our opinion, we draw attention to Note 2 to the special purpose project financial statements which describe the basis of accounting. The special purpose project financial statements are prepared to assist the Project to comply with the requirements of International Bank for Reconstruction and Development. As a result, the special purpose project financial statements may not be suitable for another purpose. Our report is intended solely for use by the management of the Project, the Government of Georgia and International Bank for Reconstruction and Development and should not be distributed or used by anyone other than these specified parties.

## *Other matter*

These special purpose financial statements for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 30 June 2015.

*Deloitte & Touche*

6 June 2016  
Tbilisi, Georgia

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

**SUMMARY OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

	Actual		Planned		Variance		PAD Life of the project
	Year ended 31.12.2015	Cumulative as at 31.12.2015	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>	
<b>OPENING WORKING CAPITAL</b>							
Cash	5,449,650	-					
Prepayments	522,303	-					
Payables	(559,903)	-					
	<b>5,412,050</b>	<b>-</b>					
<b>SOURCES OF FUNDS</b>							
IBRD Loan 8148-GE	3,933,315	56,307,828					60,000,000
Government of Georgia	1,189,140	14,493,514					15,000,000
MDF Funds	-	44,788					-
Other income	1,425	94,976					-
<b>TOTAL</b>	<b>5,123,880</b>	<b>70,941,106</b>					<b>75,000,000</b>
<b>EXPENDITURE</b>							
Works and goods	2,626,661	58,905,305	3,000,000	59,278,644	373,339	373,339	69,640,000
Consulting services and training	689,177	3,507,242	900,000	3,718,065	210,823	210,823	3,660,000
Operating costs	4,074	1,282,821	4	1,278,751	(4,070)	(4,070)	1,530,000
Resettlement costs	15,907	102,911	20,000	107,004	4,093	4,093	-
Front-end fee	-	150,000	-	150,000	-	-	150,000
<b>TOTAL</b>	<b>3,335,819</b>	<b>63,948,279</b>	<b>3,920,004</b>	<b>64,532,464</b>	<b>584,185</b>	<b>584,185</b>	<b>75,000,000</b>
Foreign exchange gain&loss	(16,793)	190,491					
<b>CLOSING WORKING CAPITAL</b>							
Cash	6,507,928	6,507,928					
Prepayments	1,091,502	1,091,502					
Payables	(416,112)	(416,112)					
<b>TOTAL</b>	<b>7,183,318</b>	<b>7,183,318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

On behalf of Management:

  
Juansher Burchuladze  
Executive Director

  
Natalie Godziashvili  
Head of Financial Management and Investments Unit

6 June 2016

6 June 2016

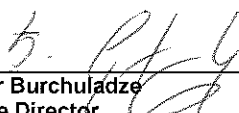
The notes on pages 9 to 12 form an integral part of these special purpose project financial statements.

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

**STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

	Note	31 December 2015	31 December 2014
<b>ASSETS</b>			
IBRD Special Account		6,507,928	5,449,650
Prepayments		1,091,502	522,303
<b>TOTAL ASSETS</b>		<b>7,599,430</b>	<b>5,971,953</b>
<b>LIABILITIES</b>			
Payables		416,112	559,903
<b>Total liabilities</b>		<b>416,112</b>	<b>559,903</b>
<b>NET ASSETS</b>		<b>7,183,318</b>	<b>5,412,050</b>
<b>Cumulative Funds received:</b>			
IBRD Loan 8148-GE		56,307,828	52,374,513
Government of Georgia		14,493,514	13,304,374
MDF Funds		44,788	44,788
Other income		94,976	93,551
<b>Total funds received</b>		<b>70,941,106</b>	<b>65,817,226</b>
<b>Cumulative expenditure:</b>			
Cumulative project expenditure:		63,948,279	60,612,460
		<b>63,948,279</b>	<b>60,612,460</b>
Foreign exchange gain		190,491	207,284
<b>TOTAL NET ASSETS</b>		<b>7,183,318</b>	<b>5,412,050</b>

On behalf of Management:

  
 \_\_\_\_\_  
 Juansher Burchuladze  
 Executive Director

  
 \_\_\_\_\_  
 Natalie Godziashvili  
 Head of Financial Management and  
 Investments Unit

6 June 2016

6 June 2016

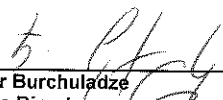
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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**SUMMARY OF EXPENDITURE BY ACTIVITY  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

Project activities	Actual		Planned		Variance	
	Year ended 31.12.2015	Cumulative as at 31.12.2015	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>	Year ended 31.12.2015 <i>Unaudited</i>	Cumulative as at 31.12.2015 <i>Unaudited</i>
<b>Part A:</b>						
Infrastructure investment	2,642,568	59,008,216	3,020,000	59,385,648	377,432	377,432
<b>Part B:</b>						
Institutional development	693,251	4,790,063	900,004	4,996,816	206,753	206,753
Front end fee	-	150,000	-	150,000	-	-
<b>TOTAL EXPENDITURE</b>	<b>3,335,819</b>	<b>63,948,279</b>	<b>3,920,004</b>	<b>64,532,464</b>	<b>584,185</b>	<b>584,185</b>

On behalf of Management:

  
 Juansher Burchuladze  
 Executive Director

  
 Natalie Godziashvili  
 Head of Financial Management and  
 Investments Unit

6 June 2016

6 June 2016

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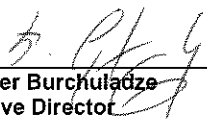
**MUNICIPAL DEVELOPMENT FUND OF GEORGIA  
REGIONAL DEVELOPMENT PROJECT  
LOAN NO. 8148-GE**

**STATEMENT OF EXPENDITURE ("SOE")  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE	Works and Goods	Consulting services and training	Operating costs
20	20.02.2015	693,888	609,608	-	84,280
21	17.08.2015	763,138	759,040	3,897	201
22	16.12.2015	1,384,918	1,383,981	-	937
		<b>2,841,944</b>	<b>2,752,629</b>	<b>3,897</b>	<b>85,418</b>

The total expenditure under withdrawal application No. 20 is attributable to 2014 and recorded as expenditure in the 2014 financial statements respectively. The withdrawal application for these expenses were submitted to International Bank for Reconstruction and Development in 2015.

On behalf of Management:

  
 Juansher Burchuladze  
 Executive Director

  
 Natalie Godziashvili  
 Head of Financial Management and  
 Investments Unit

6 June 2016

6 June 2016

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

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

**STATEMENT OF DESIGNATED ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

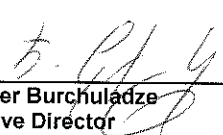
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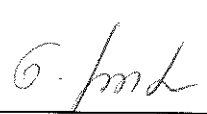
Account No.	202250930
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

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Opening Balance	<u>5,449,650</u>
Funds received from IBRD	3,933,315
Less: Refund to WB from Designated Account ("DA")	-
<b>Present outstanding amount advanced to DA</b>	<b><u>9,382,965</u></b>
DA closing balance as at 31 December 2015	6,507,928
Add: Amount of eligible expenditure paid	<u>2,875,037</u>
<b>Total advance accounted for</b>	<b><u>9,382,965</u></b>

On behalf of Management:

  
\_\_\_\_\_  
Juansher Burchuladze  
Executive Director

  
\_\_\_\_\_  
Natalie Godziashvili  
Head of Financial Management and  
Investments Unit

6 June 2016

6 June 2016

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

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(in US Dollars)**

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**1. BACKGROUND**

Municipal Development Fund ("MDF") was established by the Government of Georgia by Presidential Decree # 294 of June 7, 1997 to manage allocated credits/loans received from the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), the Asian Development Bank ("ADB") and the European Investment Bank (EIB) and monitor the implementation of infrastructure sector projects.

The International Bank for Reconstruction and Development Loan Agreement No. 8148-GE (the "Agreement") in the amount of 60 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 28 March 2012 ("inception").

The main objectives of the loan are: providing support to Local Self Governments to carry out investment subprojects for urban regeneration, including the rehabilitation of municipal infrastructure and utilities in the central historical areas, the conservation and upgrading of public spaces, carrying out investment subprojects to attract private sector investments in tourism and agroprocessing; Enhance the institutional capacity and performance of the Georgia National Tourism Administration, the Agency for Culture Heritage Preservation of Georgia, MDF and other local and regional entities. The closing date of the loan is 31 December 2016.

**2. ACCOUNTING POLICIES**

**Basis of accounting** – These special purpose project financial statements have been prepared in accordance with the *Accrual Basis of Accounting* and incorporate the following principal accounting policies, which have been consistently followed in all material respects and 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.

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

**Expenditure** - Expenditure is recognised on an accruals basis as a use of project funds when liabilities are incurred.

**Functional currency** – These special purpose project financial statements are expressed in United States Dollars ("US Dollar" or "USD").

**Transactions in other currencies** – Transactions in currencies other than reporting currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction. Monetary items are translated into US Dollars at the National Bank of Georgia ("NBG") official exchange rate at the reporting date.

**Cash** – Cash comprises balances with State Treasury.

**3. DESIGNATED ACCOUNT**

Designated account is a special disbursement account of the Project maintained in US Dollars at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorisation from IBRD in accordance with the Agreement.

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)  
(in US Dollars)**

**4. BASIS OF FUNDING**

According to the terms of the Agreement, the expenditure is co-financed by proceeds received from IBRD and the Government of Georgia ("GoG") at a proportional rate of 80% and 20%, respectively.

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

**5. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the loan to 31 December 2015 were as follows:

**(a) Designated Account**

Municipal Development Fund withdraws the eligible amounts from the designated account and prepares and sends replenishment requests to the World Bank with authorized signatures. The replenishment requests and respective documentation are reviewed by the World Bank and an approved amount is transferred to the designated account.

**(b) Direct Payment**

Available amounts are drawn from time to time within limits determined under the loan agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by the World Bank directly to third parties. MDF forms withdrawal applications for request of direct payments and sends it to the World Bank, for settlement.

**(c) GoG Current Account**

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

**6. STATEMENT OF EXPENDITURE**

Withdrawals are to be made on the basis of SOEs for expenses on contracts within the following contractual limits:

- (i) All expenditures for works valued at less than USD 4,000,000;
- (ii) Consultant services contracts (firms) valued at less than USD 200,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000;
- (iv) All expenditures for Goods valued at less than USD 300,000;

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)  
(in US Dollars)**

**7. PREPAYMENTS**

	<u>31 December 2015</u>	<u>31 December 2014</u>
Advances to contractors	1,091,502	522,303
<b>Total:</b>	<b><u>1,091,502</u></b>	<b><u>522,303</u></b>

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.

**8. PROJECT EXPENDITURE BY FUND**

Project activities	Actual	
	<u>Year to date</u>	<u>Cumulative to date</u>
Works and goods	2,101,329	46,349,312
Consulting services and training	534,868	2,163,622
Operating costs	1,195	1,019,497
Front-end fee	-	150,000
<b>IBRD TOTAL</b>	<b><u>2,637,392</u></b>	<b><u>49,682,431</u></b>
Works and goods	525,332	12,417,654
Consulting services and training	154,309	1,343,620
Operating costs	2,879	263,324
Resettlement costs	15,907	102,911
<b>GoG TOTAL</b>	<b><u>698,427</u></b>	<b><u>14,127,509</u></b>
Works and goods	-	138,339
<b>MDF TOTAL</b>	<b><u>-</u></b>	<b><u>138,339</u></b>
<b>TOTAL PROJECT EXPENDITURE</b>	<b><u>3,335,819</u></b>	<b><u>63,948,279</u></b>

The Project consists of the following main components:

Component 1 – Infrastructure Investment

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

Component 2 – Institutional Development

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

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

*(in US Dollars)*

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

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

**9. COMMITMENTS AND CONTINGENCIES**

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2015 and on the funds received and disbursed during the year then ended.

**10. OPERATING ENVIRONMENT**

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly 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 2015 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.

**11. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

There were no significant events subsequent to the balance sheet date.

**12. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS**

These special purpose financial statements were authorised for issue by the Management of MDF on 6 June 2016.