

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

LOAN NO.8380-GE

GRANT NO.TF018090

(SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE
DEVELOPMENT PROJECT)

Special Purpose Project Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2018

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE
 DEVELOPMENT PROJECT
 LOAN NO.8380-GE GRANT NO.TF018090**

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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 2018

Management of the Second Regional Development and Municipal Infrastructure Development Project (the "Project"), financed under the Loan Agreement No. 8380-GE dated 18 August 2014 and Grant Agreement No. TF018090 dated 1 May 2015, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present the Project's statement of financial position as at 31 December 2018, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements, in accordance with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

In preparing the special purpose project financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures that enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in designated accounts; and

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 to 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 2018 were authorised for issue on 28 June 2019 by the Management.

On behalf of Management:


George Shengelia
Executive Director



28 June 2019


Levan Sharvadze
Deputy Director – Chief Financial Officer

28 June 2019

INDEPENDENT AUDITOR'S REPORT

To the management of the Municipal Development Fund of Georgia:

Opinion

We have audited the accompanying special purpose project financial statements of Second Regional and Municipal Infrastructure Development Project (the "Project") financed under the Loan Agreement No. 8380-GE dated 18 August 2014 and Grant Agreement No. TF018090 dated 1 May 2015, implemented by the Municipal Development Fund of Georgia, which comprise the Project's summary of sources and uses of funds for the year ended 31 December 2018, statement of financial position as at 31 December 2018, summary of expenditure by activity, statement of expenditure ("SOE") and designated account statements for the year ended 31 December 2018 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreement, which requires the special purpose project financial statements to comply with the World Bank Guidelines. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the Project's management in reporting the information to the Government of Georgia and International Bank for Reconstruction and Development. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than the Project's management in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Project Completion Date

We draw your attention to note 1 of these special purpose project financial statements, which disclose that the closing date of the loan and grant is 30 April 2021. Our opinion is not modified in respect of this matter.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2 and in conformity with the World Bank's Financial Management Manual for World Bank Financed Investment Operations and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Special Purpose Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and access the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Stuart Leighton
On behalf of Deloitte and Touche LLC



28 June 2019
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)**

	Actual		Planned**		Variance		Project appraisal document Life of the project
	Year ended 31.12.2018	Cumulative as at 31.12.2018	Year ended 31.12.2018 Unaudited	Cumulative as at 31.12.2018 Unaudited	Year ended 31.12.2018 Unaudited	Cumulative as at 31.12.2018 Unaudited	
OPENING WORKING CAPITAL							
Cash	1,210,549	-					
Prepayments	1,664,526	-					
Receivables from Municipalities	1,580,032	-					
Payables	(827,625)	-					
TOTAL	3,627,482	-					
SOURCES OF FUNDS							
IBRD loan 8380-GE	2,097,671	17,968,578					30,000,000
SDC funds	1,589,164	2,811,373					5,000,000
Government of Georgia	640,955	5,532,324					2,250,000
MDF funds	904,263	3,711,687					12,925,000
Municipal funds	(323,246)	4,361,284					8,760,000
Other income*	174,328	426,056					-
TOTAL	5,083,135	34,811,302					58,935,000
EXPENDITURE							
Works and goods (part A.1(a) and part A1 (b))	4,266,887	25,498,071	5,133,229	26,364,413	866,342	866,342	47,610,000
Consultants service and training, and IOC under part A.2	598,048	2,832,549	1,000,000	3,234,501	401,952	401,952	2,500,000
Goods, consultants, training under Part B	2,249,809	4,443,886	3,000,000	5,194,077	750,191	750,191	8,750,000
Front-end fee	-	75,000	-	75,000	-	-	75,000
TOTAL	7,114,744	32,849,506	9,133,229	34,867,991	2,018,485	2,018,485	58,935,000
Foreign exchange gain/(loss), net	66,207	(299,716)					


**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**


**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in US Dollars)**

CLOSING WORKING CAPITAL			
Cash	1,028,878		1,028,878
Prepayments	926,104		926,104
Receivables from Municipalities	155,810		155,810
Payables	<u>(448,712)</u>		<u>(448,712)</u>
TOTAL	<u>1,662,080</u>		<u>1,662,080</u>

*Other income for the year ended 31 December 2018 represent penalty amount to the counterparty.
**The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2018 included in the financial statements represent the final figures reflected in the State Budget for FY2018 adjusted to the accrual model.

On behalf of Management:


George Shergelia
Executive Director



28 June 2019

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


Levan Sharvadze
Deputy Director – Chief Financial Officer

28 June 2019

**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**


**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR EDNED 31 DECEMBER 2018
(in US Dollars)**

	Note	<u>31 December 2018</u>	<u>31 December 2017</u>
ASSETS			
Cash	3,8	1,028,878	1,210,549
Prepayments	7	926,104	1,664,526
Receivables from Municipalities		155,810	1,580,032
Other assets		-	-
TOTAL ASSETS		<u>2,110,792</u>	<u>4,455,107</u>
LIABILITIES			
Payables		(448,712)	(827,625)
Total liabilities		<u>(448,712)</u>	<u>(827,625)</u>
NET ASSETS		<u>1,662,080</u>	<u>3,627,482</u>
Cumulative funds received:			
IBRD loan 8380-GE		17,968,578	15,870,907
SDC grant		2,811,373	1,222,209
Government of Georgia		5,532,324	4,891,369
MDF funds		3,711,687	2,807,424
Funds from Municipalities		4,361,284	4,684,530
Other income		426,056	251,728
Total funds received		<u>34,811,302</u>	<u>29,728,167</u>
Cumulative expenditures:			
Cumulative project expenditure	9	32,849,506	25,734,762
		<u>32,849,506</u>	<u>25,734,762</u>
Foreign exchange loss, net		(299,716)	(365,923)
TOTAL NET ASSETS		<u>1,662,080</u>	<u>3,627,482</u>

On behalf of Management:


George Shengelia
Executive Director

28 June 2019


Levan Sharvadze
Deputy Director – Chief Financial
Officer

28 June 2019

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


**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**STATEMENT OF EXPENDITURE BY ACTIVITIES
FOR THE YEAR EDNE 31 DECEMBER 2018
(in US Dollars)**

Project activities	Actual		Planned*		Variance	
	Year ended 31.12.2018	Cumulative as at 31.12.2018	Year ended 31.12.2018 <i>Unaudited</i>	Cumulative as at 31.12.2018 <i>Unaudited</i>	Year ended 31.12.2018 <i>Unaudited</i>	Cumulative as at 31.12.2018 <i>Unaudited</i>
Component 1: Infrastructure investment	4,864,935	28,330,620	6,133,229	29,598,914	1,268,294	1,268,294
Component 2: Institutional development	2,249,809	4,443,886	3,000,000	5,194,077	750,191	750,191
Front end fee	-	75,000	-	75,000	-	-
TOTAL EXPENDITURES	<u>7,114,744</u>	<u>32,849,506</u>	<u>9,133,229</u>	<u>34,867,991</u>	<u>2,018,485</u>	<u>2,018,485</u>

* The budget figures are updated several times during the year. Planned figures for the year ended 31 December 2018 included in the financial statements represent the final figures reflected in the State Budget for FY2018 adjusted to the accrual model.

On behalf of Management:


George Shengelia
Executive Director

28 June 2019


Levan Sharvadze
Deputy Director – Chief Financial Officer

28 June 2019

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**MUNICIPAL DEVELOPMENT FUND
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**STATEMENT OF EXPENDITURE (SOE)
FOR THE YEAR EDNE 31 DECEMBER 2018
(in US Dollars)**

Withdrawal applications for Loan:

<u>Withdrawal No.</u>	<u>Withdrawal application date</u>	<u>Total SOE</u>	<u>Category 1a: Works and Goods</u>	<u>Category 1b: Works and Goods</u>	<u>Category 2: Consultants service, Training and Incremental operating costs under Part A2</u>	<u>Category 3: Goods, Consulting Service, Training under B2</u>
13	13.04.2018	709,548	479,350	230,198	-	-
14	01.06.2018	374,276	235,596	34,237	104,443	-
15	19.10.2018	433,425	433,425	-	-	-
16	13.12.2018	12,416	-	-	6,073	6,343
		<u>1,529,665</u>	<u>1,148,371</u>	<u>264,435</u>	<u>110,516</u>	<u>6,343</u>

Total expenditure in amount of USD 709,548 under withdrawal application No. 13 is attributable to 2017 and recorded as expenditure in the 2017 special purpose project financial statements respectively. The withdrawal application for these expenses were submitted to International Bank for Reconstruction and Development in 2018.

Withdrawal applications for Grant:

<u>Withdrawal No.</u>	<u>Withdrawal application date</u>	<u>Total SOE</u>	<u>Goods, Consulting service, Training under B2</u>
13	19.10.2018	4,199	4,199
			<u>4,199</u>

On behalf of Management:


George Shengelia
Executive Director

28 June 2019


Levan Sharvadze
Deputy Director – Chief Financial Officer

28 June 2019

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
 LOAN NO.8380-GE
 GRANT NO.TF018090**

**STATEMENT OF DESIGNATED ACCOUNT
 FOR THE YEAR ENDED 31 DECEMBER 2018
 (in US Dollars)**


Account No.	202250160
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Opening balance		<u>704,896</u>
Funds received from IBRD (Loan)		2,097,671
Present outstanding amount advanced to Designated Account ("DA")		<u>2,802,567</u>
DA closing balance as at 31 December 2018	8	192,124
Add: Amount of eligible expenditures paid	10	2,610,443
Total advance accounted for		<u><u>2,802,567</u></u>

On behalf of Management:


 George Shengelia
 Executive Director

28 June 2019


 Levah Sharvadze
 Deputy Director – Chief Financial
 Officer

28 June 2019

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
 LOAN NO.8380-GE
 GRANT NO.TF018090**

**STATEMENT OF DESIGNATED ACCOUNT
 FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
 (in US Dollars)**

Account No.	202230160	
Depository Bank	State Treasury	
Address	16 V. Gorgasali street	
	Tbilisi, 0114	
	Georgia	
<hr/>		
Opening balance		<u>254,751</u>
Funds received from IBRD (Grant)		806,675
Present outstanding amount advanced to DA		<u>1,061,426</u>
DA closing balance as at 31 December 2018	8	322,556
Add: Amount of eligible expenditures paid	10	738,870
		<hr/>
Total advance accounted for		<u><u>1,061,426</u></u>

On behalf of Management:


 George Shengelia
 Executive Director

28 June 2019




 Levan Sharvadze
 Deputy Director – Chief Financial
 Officer

28 June 2019

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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)**

1. BACKGROUND

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

The International Bank for Reconstruction and Development Loan Agreement No. 8380-GE (the "Agreement") in the amount of 30 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 18 August 2014 ("inception"). Swiss Grant Agreement No. TF018090 (the "Agreement") in the amount of 5 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 1 May 2015.

The main objectives of the loan/grant are: providing finance on the credit and grant basis to selected Local self-governments ("LSG") to finance investment sub-projects related to municipal services; preparation of feasibility studies, construction supervision, monitoring and evaluation activities for investment subprojects; enhancing the institutional capacity and performance of LSGs and MDF. In May 2019, the closing date of the loan and grant has been prolonged to 30 April 2021.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" and the accounting policies set out below.

The special purpose project financial statements have been prepared on the accrual basis of accounting.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the information to the Government of Georgia and International Bank for Reconstruction and Development. As a result these special purpose project financial statements may not be suitable for another purpose.

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

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

Functional currency – The functional currency of the project and its presentational currency is United States Dollars ("US Dollar" or "USD").

Transactions in other currencies – Transactions in currencies other than the reporting currency 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

The 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
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in US Dollars)**

4. BASIS OF FUNDING

According to the terms of the Agreement, expenditure is co-financed by proceeds received from IBRD, Swiss Grant (SDC), the Government of Georgia ("GoG"), MDF and Municipalities.

The financing is provided from the following sources:

- Goods and Works under part A.1 (a) - IBRD, MDF and Municipalities: 40%, 40% and 20%, respectively;
- Goods and Works under part A.1 (b) - IBRD and Municipalities: 85% and 15%, respectively;
- Consultants' services, training under Part A.2 of the Project and Incremental Operating Costs - IBRD and GoG: 80% and 20%, respectively; and
- Goods, consultants' services and training under Part B of the Project - IBRD, Swiss Grant and GoG: 22.8%, 57.2% and 20%, respectively.

	<u>IBRD</u>	<u>Swiss Grant</u>	<u>GoG</u>	<u>MDF</u>	<u>Municipalities</u>	<u>Total</u>
Goods and Works under part A.1 (a)	12,925,000	-	-	12,925,000	6,465,000	32,315,000
Goods and Works under part A.1 (b)	13,000,000	-	-	-	2,295,000	15,295,000
Consultants' services, training under Part A.2 of the Project and Incremental Operating Costs	2,000,000	-	500,000	-	-	2,500,000
Goods, consultants' services and training under Part B of the Project	2,000,000	5,000,000	1,750,000	-	-	8,750,000
Front-end fee	75,000	-	-	-	-	75,000
Total:	<u>30,000,000</u>	<u>5,000,000</u>	<u>2,250,000</u>	<u>12,925,000</u>	<u>8,760,000</u>	<u>58,935,000</u>

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2018 were as follows:

(a) Designated Account

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

(b) Direct Payment

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

(c) GoG Current Account

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
 LOAN NO.8380-GE
 GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
 (in US Dollars)**

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; and
- (iv) All expenditures for goods and non-consulting services valued at less than USD 300,000;

7. PREPAYMENTS

	<u>31 December 2018</u>	<u>31 December 2017</u>
Advances to contractors	926,104	1,664,526
Total:	<u>926,104</u>	<u>1,664,526</u>

Payments of advances to contractors are made at the beginning of the contract in amount of 10%-30% of total contract amount. Retention of advance is done periodically upon submission of works completed certificates by contractors.

8. CASH

	<u>31 December 2018</u>	<u>31 December 2017</u>
Balance on designated account (Loan)	192,124	704,896
Balance on designated account (Grant)	322,556	254,751
Local account	514,198	250,902
Total:	<u>1,028,878</u>	<u>1,210,549</u>

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL AND MUNICIPAL INFRASTRUCTURE DEVELOPMENT PROJECT
LOAN NO.8380-GE
GRANT NO.TF018090**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in US Dollars)**

9. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Works and Goods under Part A.1 (a)	1,404,096	6,804,073
Works and Goods under Part A.1 (b)	642,195	7,392,899
Consulting services, training and incremental operating costs under Part A.2	478,376	2,247,167
Goods, consultants and training under Part B	591,714	1,093,112
Front-end fee	-	75,000
IBRD TOTAL	3,116,381	17,612,251
Works and Goods under Part A.1 (a)	-	-
Works and Goods under Part A.1 (b)	-	-
Consulting services, training and incremental operating costs under Part A.2	-	24,522
Goods, consultants and training under Part B	1,212,885	2,467,857
GRANT TOTAL	1,212,885	2,492,379
Works and Goods under Part A.1 (a)	1,124	569,312
Works and Goods under Part A.1 (b)	-	70,283
Consulting services, training and incremental operating costs under Part A.2	119,672	560,859
Goods, consultants and training under Part B	430,954	868,661
GoG TOTAL	551,750	2,069,115
Works and Goods under Part A.1 (a)	1,404,096	6,655,498
Works and Goods under Part A.1 (b)	-	-
Consulting services, training and incremental operating costs under Part A.2	-	-
Goods, consultants and training under Part B	-	-
MDF TOTAL	1,404,096	6,655,498
Works and Goods under Part A.1 (a)	702,048	2,771,361
Works and Goods under Part A.1 (b)	113,328	1,234,645
Consulting services, training and incremental operating costs under Part A.2	-	1
Goods, consultants and training under Part B	14,256	14,256
MUNICIPALITIES TOTAL	829,632	4,020,263
TOTAL PROJECT EXPENDITURES	7,114,744	32,849,506

The Project consists of the following main components:

Component 1 – Infrastructure investment

- Provision of financial resources to local self-governments to carry out investment sub-projects for Urban regeneration: an integrated approach for renewal of Telavi Kwareli and the heritage village of Dartlo;

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- 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; and
- 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

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; and
- Performance monitoring and evaluation activities.

10. RECONCILIATION OF DESIGNATED ACCOUNT

	IBRD (Loan)	IBRD (Grant)	Other (GoG, MDF, Municipalities)	Total
Expenditures incurred during the year	3,116,381	1,212,885	2,785,478	7,114,744
Direct payment	-	(783,640)	-	(783,640)
Change in prepayments	(373,983)	23,739	(388,178)	(738,422)
Change in payables	(38,917)	301,997	115,833	378,913
Change in receivables	-	-	(1,424,222)	(1,424,222)
Foreign exchange	(29,849)	(16,111)	(20,247)	(66,207)
Penalties	(63,189)	-	(94,783)	(157,972)
Amount of eligible expenditure paid	2,610,443	738,870	973,881	4,323,194

11. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on the special purpose project financial statements as at 31 December 2018 and on the funds received and disbursed during the year then ended.

12. 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.

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For the last three years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2016, 2017 and 2018 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

13. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

In May 2019, the closing dates of the loan and grant have been prolonged to 30 April 2021. There were no other significant events subsequent to the balance sheet date that require adjustment or disclosure in these special purpose project financial statements.

14. APPROVAL OF FINANCIAL STATEMENTS

These special purpose projects financial statements were authorised for issue by the Management of MDF on 28 June 2019.