

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

CREDIT NO.5178-GE
LOAN NO.8607-GE
(SECOND REGIONAL DEVELOPMENT PROJECT)

Special Purpose Project Financial Statements and
Independent Auditor's Report
For the period from 1 January 2019 to 30 April 2020

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 SECOND REGIONAL DEVELOPMENT PROJECT
 CREDIT NO.5178-GE
 LOAN NO. 8607-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 PERIOD ENDED 30 APRIL 2020

Management of the Second Regional Development Project (the "Project"), financed under the Credit Agreement No. 5178-GE dated 9 November 2012 and Loan Agreement No. 8607-GE dated 7 May 2016, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present the financial position of the Project as at 30 April 2020, and the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE"), statement of designated account in compliance with the basis of accounting described in Note 2 the accompanying special purpose project financial statements.

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; and
- 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;

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;
- 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 period ended 30 April 2020 were authorised for issue on 29 June 2020 by the Management.

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020

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 the Second Regional Development Project (the "Project") financed under the Credit Agreement No. 5178-GE dated 9 November 2012 and Loan Agreement No. 8607-GE dated 7 May 2016 (the "Agreements"), implemented by the Municipal Development Fund of Georgia, which comprise the Project's summary of sources and uses of funds for the period ended 30 April 2020, statement of financial position as at 30 April 2020, summary of expenditure by activity, statement of expenditure ("SOE") and statement of designated account for the period ended 30 April 2020 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 period ended 30 April 2020 are prepared, in all material respects, in accordance with the Credit Agreement No. 5178-GE dated 9 November 2012 and Loan Agreement No. 8607-GE dated 7 May 2016 as further detailed in Note 2.

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.

Other matter

Data included on pages 4 to 13 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

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 Agreements. 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, International Bank for Reconstruction and Development and International Development Association. 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.



Responsibility of Management and Those Charged with Governance for the Special Purpose Project 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 financial reporting provisions of the Agreements 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 skepticism throughout the audit. We also:

- Identify and access the risks of material misstatement of the special purposes 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 Fund'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


29 June 2020
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 APRIL 2020
(in US Dollars)**

	Actual		Planned**		Variance		Project appraisal document
	Period ended 30.04.2020	Cumulative as at 30.04.2020	Period ended 30.04.2020 Unaudited	Cumulative as at 30.04.2020 Unaudited	Period ended 30.04.2020 Unaudited	Cumulative as at 30.04.2020 Unaudited	
OPENING WORKING CAPITAL							
Cash	2,201,487	-					
Prepayments	844,601	-					
Payables	(269,142)	-					
	2,776,946						
SOURCES OF FUNDS							
IDA Credit	-	28,953,468					30,000,000
IBRD Loan	5,853,154	6,875,654					9,000,000
Government of Georgia	603,158	8,734,967					7,500,000
Other Funds*	792	31,400					
TOTAL	6,457,104	44,595,489					46,500,000
EXPENDITURE							
Works and goods	7,914,375	36,793,322	5,830,001	34,708,948	(2,084,374)	(2,084,374)	45,918,712
Consulting services and trainings	1,285,204	7,303,787	2,097,672	8,116,255	812,468	812,468	558,788
Operating costs	52,043	376,659	10,000	334,616	(42,043)	(42,043)	
Resettlement costs	-	75,993	-	75,993	-	-	
Front End Fee	-	22,500	-	22,500	-	-	22,500
TOTAL	9,251,622	44,572,261	7,937,673	43,258,312	(1,313,949)	(1,313,949)	46,500,000
Foreign exchange loss, net		(113,111)					
CLOSING WORKING CAPITAL							
Cash	142,986	142,986					
Prepayments	38,069	38,069					
Payables	(270,938)	(270,938)					
TOTAL	(89,883)	(89,883)					

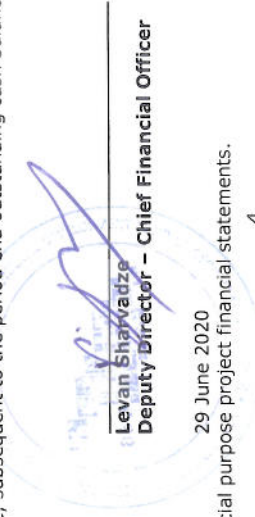
*Other funds for the period ended 30 April 2020 represent penalty amount to the counterparty.

**The initial budgeted figures are updated several times during the year. Planned figures for the period ended 30 April 2020 included in the IFR (interim financial report) represent the final budgeted figures reflected in the State Budget for FY2019 and FY 2020 adjusted to the accrual model, which have not been audited.

*** According to the Prime Minister's decree signed on 25 December 2019, subsequent to the period end outstanding balances of payables should be financed from the state budget for 2020 approved by Parliament of Georgia for MDF. Furthermore, subsequent to the period end outstanding cash balances has been returned to respective donors.

On behalf of Management:


Giorgi Shengelia
Executive Director


Levan Bharvadze
Deputy Director – Chief Financial Officer

29 June 2020

29 June 2020

The notes on pages 9 to 14 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 APRIL 2020
(in US Dollars)**

	Note	30 April 2020	31 December 2018
ASSETS			
IDA designated account	3,9	3,786	1,201,487
IBRD designated account	3,9	139,200	1,000,000
Prepayments	7	38,069	844,601
TOTAL ASSETS		181,055	3,046,088
LIABILITIES			
Payables		270,938	269,142
TOTAL LIABILITIES		270,938	269,142
NET (LIABILITIES)/ASSETS		(89,883)	2,776,946
Funds received:			
IDA credit		28,953,468	28,953,467
IBRD loan		6,875,654	1,022,500
Government of Georgia		8,766,368	8,162,418
Total funds received		44,595,490	38,138,385
Expenditure:			
Project expenditure	8	44,572,262	35,320,639
Total Expenditures		44,572,262	35,320,639
Foreign exchange loss, net		(113,111)	(40,800)
TOTAL NET(LIABILITIES)/ ASSETS		(89,883)	2,776,946

On behalf of Management:


Giorgi Shengelia
Executive Director


Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020

29 June 2020

The notes on pages 9 to 14 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**SUMMARY OF EXPENDITURE BY ACTIVITY
FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 APRIL 2020
(in US Dollars)**

Project activities	Actual		Planned*		Variance	
	Period ended 30.04.2020	Cumulative as at 30.04.2020	Period ended 30.04.2020 <i>Unaudited</i>	Cumulative as at 30.04.2020 <i>Unaudited</i>	Period ended 30.04.2020 <i>Unaudited</i>	Cumulative as at 30.04.2020 <i>Unaudited</i>
Component 1:						
Infrastructure investment	7,914,358	36,869,298	5,830,001	34,708,948	2,084,357	2,160,350
Component 2:						
Institutional development	1,337,264	7,680,463	2,107,672	8,526,864	(770,408)	(846,401)
Front end fee	-	22,500	-	22,500	-	-
TOTAL EXPENDITURES	<u>9,251,622</u>	<u>43,947,061</u>	<u>7,937,673</u>	<u>43,258,312</u>	<u>1,313,949</u>	<u>1,313,949</u>

* The initial budgeted figures are updated several times during the year. Planned figures for the period ended 30 April 2020 included in the IFR (interim financial report) represent the final budgeted figures reflected in the State Budget for FY2019 and FY2020 adjusted to the accrual model.

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020

The notes on pages 9 to 14 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**STATEMENT OF EXPENDITURE ("SOE")
FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 APRIL 2020
(in US Dollars)**

Withdrawal No. Under 5178	Withdrawal application date	Total SOE	Works and goods and consulting services	Operating costs
19	20.12.2019	851,430	824,355	27,075
20	20.12.2019	531,418	495,430	35,988
21	29.04.2020	8,926	8,926	-
		1,391,774	1,328,711	63,063

Withdrawal No. Under 8607	Withdrawal application date	Total SOE	Works and goods and consulting services	Operating costs
04	02.05.2019	618,104	618,104	-
06	15.08.2019	793,819	793,819	-
07	10.09.2019	635,131	635,131	-
08	10.10.2019	532,332	532,128	204
10	11.11.2019	606,804	606,804	-
12	05.12.2019	580,021	579,966	55
20	26.12.2019	274,087	274,070	17
		4,040,298	4,040,022	276

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director – Chief Financial
Officer

29 June 2020

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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**STATEMENT OF EXPENDITURE ("SOE")
FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 APRIL 2020
(in US Dollars)**

Account No.	202250947
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Opening Balance		<u>1,201,487</u>
Funds received from IDA		-
Present outstanding amount advanced to DA		<u>1,201,487</u>
DA closing balance as at 30 April 2020		3,786
Add: Amount of eligible expenditure paid	9	<u>1,197,701</u>
Total advance accounted for		<u>1,201,487</u>

Account No.	202260947
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Opening Balance		<u>1,000,000</u>
Funds Received From IBRD		4,040,298
Present outstanding amount advanced to DA		<u>5,040,298</u>
DA closing balance as at 30 April 2020		139,200
Add: Amount of eligible expenditure paid	9	<u>4,901,097</u>
Total advance accounted for		<u>5,040,298</u>

On behalf of Management:


Giorgi Shengelia
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director - Chief Financial
Officer

29 June 2020

The notes on pages 9 to 14 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2020
(in US Dollars)**

1. BACKGROUND

Municipal Development Fund of Georgia (the "Fund" or "MDF") was established on 7 June 1997 by the Presidential Decree № 294 "On management of funds for the development of municipal sector in Georgia".

The Fund is a legal Fund of public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and services, improving on sustainable basis the primary economic and social services for the local population and the provision of low-interest loans to legal entities and physical persons of Georgia in the framework of the Government Program.

The founder and governing body of the fund is the Government of Georgia. The Fund is cooperating with majority of large investment banks and financial institutions operating in Georgia.

The International Development Association Credit Agreement No. 5178-GE (the "Agreement") in the amount of 19.8 million Special Drawing Rights ("SDR") was signed between the Government of Georgia ("GoG") and International Development Association ("IDA") on 9 November 2012 ("inception"). Loan Agreement No.8607-GE on additional financing in the amount of USD 9 million was signed between the Government of Georgia ("GoG"), International Bank for Reconstruction and Development ("IBRD") and International Development Association ("IDA") on 7 May 2016.

The main objectives of the loan are: to provide financing for investment subprojects for the urban regeneration of Tskaltubo including the rehabilitation of municipal infrastructure and utilities in the central area, upgrading of public spaces and parks, restoration of public buildings, refurbishment of the exterior and interior of the Vani museum; enhance the institutional capacity and performance of the National Tourism Administration of Georgia, the Agency for Culture Heritage Preservation of Georgia, the National Museum, MDF and other local and regional entities. The initial closing date of the loan was 30 December 2018. On 2 April 2018, the closing dates of the credits were prolonged to 30 December 2019.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the provisions of the Credit Agreement No. 5178-GE dated 9 November 2012 and Loan Agreement No. 8607-GE dated 7 May 2016 (the "agreements") to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia, International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA).

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 Agreements, are prepared to report the information to the Government of Georgia, International Bank for Reconstruction and Development and International Development Association (IDA). As a result these special purpose project financial statements may not be suitable for another purpose.

Sources of funds – 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. The accumulated project financing is disclosed under "Funds" in the statement of financial position. In addition current year funds received is disclosed in the Statement of Sources and Uses of Funds, showing under sources funds and expenditures respectively.

Expenditure - is recognised on an accruals basis as a use of project funds when liabilities are incurred. The accumulated project expenditures is disclosed under "Expenditure" in the statement of financial position.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2020
(in US Dollars)**

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.

Prepayments – Prepayments represent the amounts paid to the contractors for work.

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 IDA/IBRD in accordance with the Agreement.

4. BASIS OF FUNDING

According to the terms of the Credit Agreement NO.5178-GE, the expenditure is co-financed by proceeds received from IDA and the Government of Georgia (“GoG”) at a proportional rate of 80% and 20%, respectively. According to the Project Appraisal Document original signed amount of this loan is equivalent USD 30,000,000.

	<u>IDA</u>	<u>GoG</u>	<u>Total</u>
	USD	USD	USD
	Equivalent	Equivalent	Equivalent
Works and goods, consulting services and trainings	29,696,970	7,424,242	37,121,212
Operating costs	303,030	75,758	378,788
Total:	<u>30,000,000</u>	<u>7,500,000</u>	<u>37,500,000</u>

According to the terms of the Loan Agreement NO 8607-GE, the expenditure is fully financed by IBRD.

	<u>IBRD</u>	<u>Total</u>
Works and goods, consulting services and trainings	8,797,500	8,797,500
Operating costs	180,000	180,000
Front end fee	22,500	22,500
Total:	<u>9,000,000</u>	<u>9,000,000</u>

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2020
(in US Dollars)**

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 30 April 2020 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.

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

	30 April 2020	31 December 2018
Prepayments to contractors	38,069	844,601
Total:	38,069	844,601

Payments of advances to contractors are made at the beginning of the contract in amount of 10%-20% of total contract amount. Recovery of advance is done periodically upon submission of works completed certificates by contractors.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2020
(in US Dollars)**

8. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	From 1 January 2019 to 30 April 2020	Cumulative to date
Works and goods, consulting services and trainings	1,682,951	27,540,820
Operating costs	41,343	296,346
IDA TOTAL	1,724,294	27,837,166
Works and goods, consulting services and trainings	6,760,913	6,760,913
Operating costs	347	347
Front end fee	-	22,500
IBRD TOTAL	6,761,260	6,783,760
Works and goods, consulting services and trainings	755,715	8,295,661
Operating costs	10,353	79,966
Resettlement costs	-	75,993
GoG TOTAL	766,068	8,451,620
Works and goods, non-consulting services, consulting services and training	-	1,499,715
OTHER SOURCES TOTAL	-	1,499,715
TOTAL PROJECT EXPENDITURE	9,251,622	44,572,261

The Project consists of the following main components:

Component 1 - Infrastructure investment

- Urban regeneration in Tskaltubo
- Tourism services and infrastructure in six cultural heritage sites
- Vani museum rehabilitation

Component 2 - Institutional development

- Tourism related institutional development activities
- Tskaltubo destination management and development office
- Performance monitoring and evaluation
- Procurement, safeguards, financial management, disbursement and supervision of all project Activities

9. RECONCILIATION OF DESINGATED ACCOUNT

	IDA	IBRD	GoG	Total
Expenditures incurred during the year	1,724,294	6,761,260	766,068	9,251,622
Direct payment	-	(1,871,635)	-	(1,871,635)
Change in prepayments	(676,763)	-	(129,769)	(806,532)
Change in payables	(26,762)	-	24,966	(1,796)
Foreign exchange	177,724	11,472	(116,886)	72,312
Received money from penalties and budget	(792)	-	-	(792)
Amount of eligible expenditure paid	1,197,701	4,901,097	544,380	6,643,178

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2020
(in US Dollars)**

10. COMMITMENTS AND CONTINGENCIES

Legal proceedings – As at 30 April 2020 the Fund had the outstanding claims raised by suppliers where the Fund is acting as a defendant:

"Sani" LLC requested to return the penalty and payments for terminated contracts in the amount of GEL 15,595,978.

"LLC Azertuneli" requested to return the penalty and payments for terminated contracts in the amount of 286 500 USD and 393 667 GEL.

Management believes, that in case of losing legal cases the obligation to cover potential exposure will be on MDF and Government of Georgia. Consequently no provision has been accrued in this special purpose project financial statements.

Management is not aware of any other commitments and contingencies which would have a material impact on the financial position of the Project as at 30 April 2020 and on the funds received and disbursed during the year then ended.

11. 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.

For the last two 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 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Fund may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Fund's operations largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

The economic shock caused by the coronavirus and the expectations of the future development of pandemic and its impact on the Georgian economy have been reflecting on increased volatility of the foreign exchange market and weakening of Georgian Lari against other currencies

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Project. Management believes it is taking all the necessary measures to support the sustainability and development of the Project's operations.

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SECOND REGIONAL DEVELOPEMENT PROJECT
CREDIT NO.5178-GE
LOAN NO 8607-GE**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 APRIL 2020
*(in US Dollars)***

12. SUBSEQUENT EVENTS

According to the Prime Minister's decree signed on 25 December 2019, subsequent to the period end outstanding balances of payables should be financed from the state budget for 2020 approved by Parliament of Georgia for MDF. Furthermore, subsequent to the period end outstanding cash balances has been returned to respective donors.