

**MUNICIPAL DEVELOPMENT
FUND OF GEORGIA**

GRANT NO. TF014912
(SUSTAINABLE WASTEWATER MANAGEMENT PROJECT)

Special Purpose Project Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2019

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

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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 2019

Management of the Sustainable Wastewater Management Project (the "Project") financed under the Grant Agreement No. TF014912 dated 12 July 2013 (the "Agreement"), 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 31 December 2019, and its summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and statement 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:

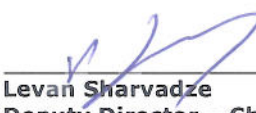
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of 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 year ended 31 December 2019 were authorised for issue on 29 June 2020 by the Management.

On behalf of Management:


George 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 Sustainable Wastewater Management Project (the "Project") financed under the Grant Agreement No. TF014912 dated 12 July 2013 (the "Agreement"), 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 2019, statement of financial position as at 31 December 2019, summary of expenditure by activity, statement of expenditure ("SOE") and statement of designated account for the year ended 31 December 2019 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 2019 are prepared, in all material respects, in accordance with the Grant Agreement No. TF014912 dated 12 July 2013, 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 Agreement. 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.

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 agreement and basis of accounting as further described in Note 2 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 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 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
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**


**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

	Actual		Planned*		Variance		Project appraisal document
	Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019 Unaudited	Cumulative as at 31.12.2019 Unaudited	Year ended 31.12.2019 Unaudited	Cumulative as at 31.12.2019 Unaudited	
OPENING WORKING CAPITAL							
Cash	750,000	-					
Prepayments	292,188	-					
Payables	(538,415)	-					
TOTAL	503,773	-					
SOURCES OF FUNDS							
SIDA grant	2,027,613	8,904,142					10,052,155
Government of Georgia	274,312	1,040,566					1,809,388
TOTAL	2,301,925	9,944,708					11,861,543
EXPENDITURE							
Works and goods, consulting services, training	2,869,318	10,018,530	3,500,000	10,649,212	630,682	630,682	11,861,543
TOTAL	2,869,318	10,018,530	3,500,000	10,649,212	630,682	630,682	11,861,543
Foreign exchange gain, net	9,640	19,842					
CLOSING WORKING CAPITAL							
Cash	745,000	745,000					
Prepayments	107,383	107,383					
Payables	(906,363)	(906,363)					
TOTAL	(53,980)**	(53,980)**					

* The initial budgeted figures are updated several times during the year. Planned figures for the year ended 31 December 2019 included in the IFR (interim financial report) represent the final budgeted figures reflected in the State Budget for FY2019 adjusted to the accrual model, which have not been audited.

**Negative net working capital existing for the year end has been subsequently covered with funds received from donor.

On behalf of Management:


George Shengelia
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020


The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

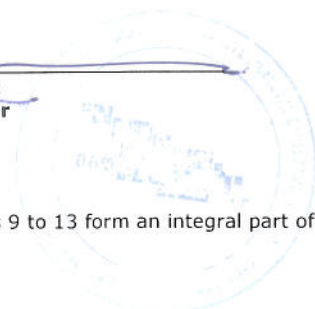
**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

	Note	31 December 2019	31 December 2018
ASSETS			
IBRD Designated Account	3,9	745,000	750,000
Prepayments	7	107,383	292,188
TOTAL ASSETS		852,383	1,042,188
LIABILITIES			
Payables		906,363	538,415
TOTAL LIABILITIES		906,363	538,415
NET (LIABILITIES)/ASSETS		(53,980)	503,773
Funds received:			
SIDA Grant		8,904,142	6,876,528
Government of Georgia		1,040,566	766,255
Total funds received		9,944,708	7,642,783
Expenditure:			
Project expenditure	8	10,018,530	7,149,212
Total Expenditures		10,018,530	7,149,212
Foreign exchange gain, net		19,842	10,202
TOTAL NET ASSETS		(53,980)	503,773

On behalf of Management:


George 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
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

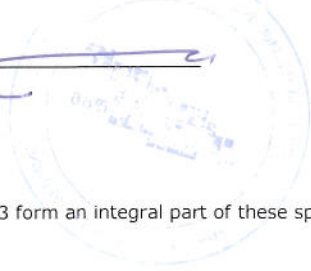
**SUMMARY OF EXPENDITURE BY ACTIVITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

Project activities	Actual		Planned*		Variance	
	Year ended 31.12.2019	Cumulative as at 31.12.2019	Year ended 31.12.2019 <i>Unaudited</i>	Cumulative as at 31.12.2019 <i>Unaudited</i>	Year ended 31.12.2019 <i>Unaudited</i>	Cumulative as at 31.12.2019 <i>Unaudited</i>
	Part I:					
Technical Assistance	1,021,273	2,812,455	1,000,000	2,791,182	(21,273)	(21,273)
Part II:						
Investment Grants	1,848,045	7,206,075	2,500,000	7,858,030	651,955	651,955
TOTAL EXPENDITURES	2,869,318	10,018,530	3,500,000	10,649,212	630,682	630,682

*The initial budgeted figures are updated several times during the year. Planned figures for the year ended 31 December 2019 included in the financial statements represent the final budgeted figures reflected in the State Budget for FY2019 adjusted to the accrual model.

On behalf of Management:


George Shengelia
Executive Director




Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020

29 June 2020


The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**STATEMENT OF EXPENDITURE ("SOE")
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

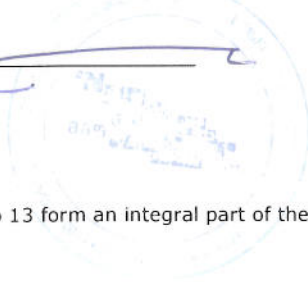
Withdrawal No.	Withdrawal application date	Total SOE	Works and goods, consulting services, training
31	20-Jun-2019	84,481	84,481
		84,481	84,481


On behalf of Management:



George Shengelia
 Executive Director

29 June 2020





Levan Sharvadze
 Deputy Director – Chief Financial
 Officer

29 June 2020

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

Account No.	205236743
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Opening Balance		750,000
Funds received from IBRD		84,481
Present outstanding amount advanced to Designated Account (DA)		834,481
Designated Account (DA) closing balance as at 31 December 2019		745,000
Add: Amount of eligible expenditures paid	9	89,481
Total advance accounted for		834,481

On behalf of Management:


George Shengelia
Executive Director

29 June 2020


Levan Sharvadze
Deputy Director – Chief Financial
Officer

29 June 2020

The notes on pages 9 to 13 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
(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 entity 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 Swedish International Development Cooperation Grant Agreement No.TF014912 (the "Agreement") in the amount of 9,252,155 United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD"), acting as administrator of grant funds, on 12 July 2013 ("inception"). Amendment to the agreement was signed on June 24, 2015 based on which the amount of grant was increased to USD 10,052,155.

The main objectives of the grant are: the provision of technical assistance to support the recipient in developing adequate policy environment documents for improved wastewater treatment infrastructure; carrying out of on the job training in wastewater operation and maintenance; development of a policy for sludge management, carrying out of stakeholder consultations on wastewater management to promote public participation and improvement of the efficiency of the water and wastewater sector. The closing date of the grant is 15 October 2020.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the provisions of Grant Agreement No. TF014912 dated 12 July 2013 to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia and International Bank for Reconstruction and Development.

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.

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 "Expenditures" in the statement of financial position.

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

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 IBRD in accordance with the Agreement.

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). IBRD finances 100% of the expenditures with GoG financing all taxes and duties imposed on the territory of Georgia.

	<u>IBRD</u>	<u>GoG</u>	<u>Total</u>
Works and goods, consultants' services and training	<u>10,052,155</u>	<u>1,809,388</u>	<u>11,861,543</u>
Total:	<u>10,052,155</u>	<u>1,809,388</u>	<u>11,861,543</u>

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the grant to 31 December 2019 were as follows:

(a) Designated Account

Municipal Development Fund withdraws the eligible amounts from the designated account and prepares and sends replenishment requests to International Bank for Reconstruction and Development 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 grant agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by International Bank for Reconstruction and Development directly to third parties. MDF forms withdrawal applications for request of direct payments and sends it to the IBRD, 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
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

6. STATEMENT OF EXPENDITURE

Withdrawals are to be made on the basis of SOEs for expenses on contracts valued at less than USD 400,000.

7. PREPAYMENTS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Advances to contractors	107,383	292,188
Total:	<u>107,383</u>	<u>292,188</u>

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.

8. PROJECT EXPENDITURE BY FUNDS

Project activities	Actual	
	<u>Year to date</u>	<u>Cumulative to date</u>
Part 1: Technical assistance	865,306	2,385,546
Part 2: Investment grants	1,662,359	6,505,607
IBRD TOTAL	<u>2,527,665</u>	<u>8,891,153</u>
Part 1: Technical assistance	155,967	426,909
Part 2: Investment grants	185,686	700,468
GoG TOTAL	<u>341,653</u>	<u>1,127,377</u>
TOTAL PROJECT EXPENDITURE	<u>2,869,318</u>	<u>10,018,530</u>

The Project consists of the following main components:

Part 1 – Technical assistance

- Provision of technical assistance to support the recipient in developing adequate policy environment documents for improved wastewater treatment infrastructure;
- Carrying out of on-the-job training in wastewater operation and maintenance; and
- Developing of a policy for sludge management, including final disposal

Part 2 – Investment grants

- Improvement of the efficiency of the water and wastewater sector through: (a) the rehabilitation of approximately two to three wastewater treatment plants; and (b) the provision of Investment Subproject Grants to support the implementation of Investment Subprojects.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

9. RECONCILIATION OF DESIGNATED ACCOUNT

	<u>IBRD</u>	<u>GoG</u>	<u>Total</u>
Expenditures incurred during the year	2,527,665	341,653	2,869,318
Direct payment	(1,941,227)	-	(1,941,227)
Change in prepayments	(184,805)	-	(184,805)
Change in payables	(295,579)	(72,369)	(367,948)
Foreign exchange	(16,573)	6,933	(9,640)
Amount of eligible expenditure paid	89,481	276,217	365,700

10. 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 purpose project financial statements as at 31 December 2019 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.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE WASTEWATER MANAGEMENT PROJECT
GRANT NO.TF014912**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**
(in US Dollars)

12. PROLONGATION OF THE PROJECT'S CLOSING DATE

Due to closing date of the grant on 15 June 2020, the Ministry of Finance of Georgia on 5 June 2020, requested from World Bank an extension of the closing date of the Sustainable Wastewater Management Project until 15 October 2020 for the completion of ongoing works under this Project. At the date of signing of these special purpose project financial statements, the approval from World Bank has been made.

13. SUBSEQUENT EVENTS

Subsequent to the year end, no events have occurred that require disclosure in the special purpose project financial statements or adjustment to the reported figures.