Public Disclosure Authorized

Public Disclosure Authorized

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 2018

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

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	1
INDEPENDENT AUDITOR'S REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018:	
Summary of sources and uses of funds	4
Statement of financial position	5
Summary of expenditure by activity	6
Statement of expenditure ("SOE")	7
Statement of designated account	8
Notes to the special purpose project financial statements	9-12

1. Background 9
2. Accounting policies 9
3. Designated account 9
4. Basis of funding 10
5. Methods of withdrawal 10
6. Statement of expenditure 10
7. Prepayments 10
8. Project expenditure by funds 11
9. Reconciliation of desingated account 11
10. Commitments and contingencies 12
11. Operating environment 12
12. Prolongation of the project's closing date 12
13. Events subsequent to the balance sheet date 12
14. Approval of special purpose project financial statements 12

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 Sustainable Wastewater Management Project (the "Project") financed under the Grant Agreement No. TF014912 dated 12 July 2013, 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 2018, and its summary of sources and uses of funds, summary of expenditure by activity, statements of expenditure ("SOE") and designated account statement, 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;

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

Deloitte & Touche LLC
King David Business Center
12 Merab Aleksidze Street
Tbilisi, 0171, Georgia

Tel: +995 (32) 224 45 66
Fax: +995 (32) 224 45 69
deloitte.ge

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, 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.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

© 2019 Deloitte & Touche LLC. All rights reserved.

Deloitte.

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 grant is 28 February 2020. 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 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 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 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 Organization'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

Deloitte & Touche

28 June 2019
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 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	633,675	-					
Prepayments	766,446	-					
Payables	(175,208)						
	1,224,913	**-**					
SOURCES OF FUNDS							
SIDA grant	3,276,814	6,876,528					10,052,155
Government of Georgia	382,435	766,255					1,809,388
TOTAL	**3,659,249**	**7,642,783**					**11,861,543**
EXPENDITURE							
Works and goods, consulting services, training	4,399,008	7,149,212	5,000,000	7,750,204	600,922	600,922	11,861,543
TOTAL	**4,399,008**	**7,149,212**	**5,000,000**	**7,750,204**	**600,922**	**600,922**	**11,861,543**
Foreign exchange gain, net	18,619	10,202					
CLOSING WORKING CAPITAL							
Cash	750,000	750,000					
Prepayments	292,188	292,188					
Payables	(538,415)	(538,415)					
TOTAL	**503,773**	**503,773**					

* The initial budgeted 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 budgeted 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

The notes on pages 9 to 12 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 2018
(in US Dollars)

	Note	31 December 2018	31 December 2017
ASSETS			
IBRD designated account	3,9	750,000	633,675
Prepayments	7	292,188	766,446
TOTAL ASSETS		**1,042,188**	**1,400,121**
Payables		(538,415)	(175,208)
TOTAL LIABILITIES		**(538,415)**	**(175,208)**
NET ASSETS		**503,773**	**1,224,913**
Funds received:			
SIDA grant		6,876,528	3,599,714
Government of Georgia		766,255	383,820
Total funds received		**7,642,783**	**3,983,534**
Expenditure:			
Project expenditure	8	7,149,212	2,750,204
Total Expenditures		**7,149,212**	**2,750,204**
Foreign exchange gain/(loss), net		10,202	(8,417)
TOTAL NET ASSETS		**503,773**	**1,224,913**

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 9 to 12 form an integral part of these special purpose project financial statements.

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

SUMMARY OF EXPENDITURE BY ACTIVITY FOR THE YEAR ENDED 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	Cumulative as at 31.12.2018	Year ended 31.12.2018	Cumulative as at 31.12.2018
			Unaudited	*Unaudited*	*Unaudited*	*Unaudited*
Part I:						
Technical assistance	807,579	1,791,182	1,000,000	1,983,603	192,421	192,421
Part II:						
Investment grants	3,591,429	5,358,030	4,000,000	5,766,601	408,571	408,571
TOTAL EXPENDITURES	**4,399,008**	**7,149,212**	**5,000,000**	**7,750,204**	**600,992**	**600,992**

* The initial budgeted 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 budgeted 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

The notes on pages 9 to 12 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 2018
(in US Dollars)

Withdrawal No.	Withdrawal application date	Total SOE	Works and goods, consulting services, training
21	18.05.2018	**116,036**	116,036
24	30.08.2018	**183,494**	183,494
25	29.10.2018	**678,991**	678,991
		978,521	**978,521**

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 9 to 12 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 2018
(in US Dollars)

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

Opening Balance		**633,675**
Funds received from IBRD		978,521
Present outstanding amount advanced to Designated Account (DA)		**1,612,196**
Designated account (DA) closing balance as at 31 December 2018		750,000
Add: Amount of eligible expenditures paid	9	862,196
Total advance accounted for		**1,612,196**

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 9 to 12 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 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 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 28 February 2020.

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

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.

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

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the grant 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 grant 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 valued at less than USD 400,000.

7. PREPAYMENTS

	31 December 2018	31 December 2017
Advances to contractors	292,188	766,446
Total:	**292,188**	**766,446**

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 FUNDS

	Actual	
Project activities	**Year to date**	**Cumulative to date**
Part I: Technical assistance	684,324	1,520,240
Part 2: Investment grants	3,332,454	4,843,248
IBRD TOTAL	**4,016,778**	**6,363,488**
Part I: Technical assistance	123,255	270,942
Part 2: Investment grants	258,975	514,782
GoG TOTAL	**382,230**	**785,724**
TOTAL PROJECT EXPENDITURE	**4,399,008**	**7,149,212**

The Project consists of the following main components:

Part I – 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 II – 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.

9. RECONCILIATION OF DESINGATED ACCOUNT

	IBRD	GoG	Total
Expenditures incurred during the year	4,016,778	382,230	**4,399,008**
Direct payment	(2,298,293)	-	**(2,298,293)**
Change in prepayments	(474,258)	-	**(474,258)**
Change in payables	(352,587)	(10,620)	**(363,207)**
Foreign exchange	(29,444)	10,825	**(18,619)**
Amount of eligible expenditure paid	**862,196**	**382,435**	**1,244,631**

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 2018 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 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.

12. PROLONGATION OF THE PROJECT'S CLOSING DATE

Due to closing date of the grant on 30 June 2018, the Ministry of Finance of Georgia on 16 May 2018, requested from South Caucasus Regional Office of World Bank an extension of the closing date of the Sustainable Wastewater Management Project until 28 February 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 South Caucasus Regional Office of World Bank has been received.

13. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no other significant events subsequent to the balance sheet date that would require adjustment or disclosure in these special purpose project financial statements.

14. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

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