

Audited Project Financial Statements

Project Number: 42414
Loan Number: 2879/2880(SF)
Period covered: 20 August 2012 to 31 December 2013

GEO: Sustainable Urban Transport Investment Program – Tranche 2

Prepared by the Municipal Development Fund of Georgia

For the Asian Development Bank
Date received by ADB: 24 September 2014

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Grant Thornton

Special Purpose Project Financial Statements and
Independent Auditor's Report

Municipal Development Fund of Georgia

Sustainable Urban Transport Investment Program,
Project 2

Loan No. 2879-GEO

Loan No. 2880-GEO(SF)

As of December 31, 2013 and for the period from
August 20, 2012 to December 31, 2013

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Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք. Երևան 0012
Վաղարշյան 8/1

Ք. +374 10 260 964
Ֆ. +374 10 260 961

Grant Thornton CJSC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia
T +374 10 260 964
F +374 10 260 961
www.grantthornton.am

To the management of the Municipal Development Fund of Georgia

We have audited the accompanying special purpose project financial statements of the Sustainable Urban Transport Investment Program, Project 2 (the “Project”), financed by the Asian Development Bank (the “ADB”) Loan No. 2879-GEO and Loan No. 2880-GEO(SF), which comprise the statement of financial position as of December 31, 2013, the statement of Project sources and uses of funds as of December 31, 2013 and for the period from August 20, 2012 to December 31, 2013, and a summary of significant accounting policies and other explanatory notes.

In addition, we have audited the accompanying imprest accounts as of December 31, 2013 and for the period from August 20, 2012 to December 31, 2013.

Management's Responsibility for the Special Purpose Project Financial Statements

The management of the Municipal Development Fund of Georgia (the “MDF”) is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the accounting policies described in the note 2 to the special purpose project financial statements, the ADB guidelines and the relevant points of the Loan Agreement No. 2879-GEO and Loan Agreement No. 2880-GEO(SF). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion,

- the aforementioned special purpose project financial statements and appended notes that were also the subject of the audit, fairly present in all material respects, the financial position of the Sustainable Urban Transport Investment Program, Project 2 as of December 31, 2013 and the results of its operations for the period from August 20, 2012 to December 31, 2013, in conformity with the accrual basis of accounting, as described in the note 2 to the special purpose financial statements;
- the MDF has utilized, in material respects, all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Asian Development Bank and Georgia, in accordance with the loan agreement; and no proceeds of the loan have been utilized for other purposes;
- as of the reporting date the MDF was in compliance with all financial covenants of the Loan Agreement No. 2879-GEO and Loan Agreement No. 2880-GEO(SF).

In addition (a) the Imprest Account statements give a true and fair view of the receipts collected and payments made during the period from August 20, 2012 to December 31, 2013; and (b) these receipts and payments support Imprest Account liquidations/replenishments during the period from August 20, 2012 to December 31, 2013

September 19, 2014

Gagik Gyulbudaghyan
Managing Partner

Emil Vassilyan, FCCA
Engagement Partner



Statement of financial position

| In US dollars | | As of December 31, |
|-------------------------------|------|-----------------------------|
| | Note | 2013 |
| Assets | | |
| <i>Non-current assets</i> | | |
| Accumulated Project expenses | 4 | 125,638 |
| | | <u>125,638</u> |
| <i>Current assets</i> | | |
| Bank balances | 5 | 8,019,266 |
| | | <u>8,019,266</u> |
| | | <u> </u> |
| Total assets | | <u>8,144,904</u> |
| Funds and liabilities | | |
| <i>Funds</i> | | |
| Accumulated Project financing | 6 | 8,144,904 |
| | | <u>8,144,904</u> |
| | | <u> </u> |
| Total funds and liabilities | | <u>8,144,904</u> |

The special purpose project financial statements were approved on September 19, 2014 by:

Ilia Darchiashvili
First Deputy Director



Natalie Godziashvili
Head of Financial Management and
Investments Unit

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 7 to 11.

Statement of Project sources and uses of funds

As of December 31, 2013 and for the period from August 20, 2012 to December 31, 2013
In US dollars

| | Actual | | Planned | | Variance | |
|---|--|-------------------------------|---|-------------------------------|---|-------------------------------|
| | For the period from August 20, 2012 to December 31, 2013 | As of December 31, 2013 | For the period from August 20, 2012 to December 31, 2013 | As of December 31, 2013 | For the period from August 20, 2012 to December 31, 2013 | As of December 31, 2013 |
| <i>Sources of funds</i> | | | | | | |
| ADB funds (note 6) | 8,144,904 | 8,144,904 | | | | |
| | 8,144,904 | 8,144,904 | | | | |
| Foreign exchange differences | - | - | | | | |
| <i>Less: Project expenses (note 4)</i> | | | | | | |
| Loan No. 2879-GEO | 113,971 | 113,971 | - | - | 113,971 | 113,971 |
| Loan No. 2880-GEO(SF) | 11,667 | 11,667 | - | - | 11,667 | 11,667 |
| Total | 125,638 | 125,638 | - | - | 125,638 | 125,638 |
| Net increase in working capital (note 7) | 8,019,266 | 8,019,266 | | | | |

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 7 to 11.

Imprest account statement (USD)

*As of December 31, 2013 and for the period from August 20, 2012 to December 31, 2013
Loan Agreement No. 2879-GEO
In US dollars*

| | |
|--|-----------|
| Opening balance as of August 20, 2012 | - |
| <i>Add:</i> | |
| ADB loan replenishment during the period | 6,400,000 |
| Total inflow | 6,400,000 |
| <i>Less:</i> | |
| Total outflow | - |
| Closing balance as of December 31, 2013 | 6,400,000 |

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 7 to 11.

Imprest account statement (USD)

*As of December 31, 2013 and for the period from August 20, 2012 to December 31, 2013
Loan Agreement No. 2880-GEO(SF)
In US dollars*

| | |
|--|-----------|
| Opening balance as of August 20, 2012 | - |
| <i>Add:</i> | |
| ADB loan replenishment during the period | 1,619,266 |
| Total inflow | 1,619,266 |
| <i>Less:</i> | |
| Total outflow | - |
| Closing balance as of December 31, 2013 | 1,619,266 |

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 7 to 11.

Notes to the special purpose project financial statements

1 Activity

In accordance with the Loan Agreement No. 2879-GEO signed between Georgia and the Asian Development Bank (the “ADB”) on July 24, 2012, Georgia has received a loan in a total amount of USD 48,886,000 for the Sustainable Urban Transport Investment Program, Project 2 (the “Project”).

In accordance with the Loan Agreement No. 2880-GEO(SF) signed between Georgia and the Asian Development Bank (the “ADB”) in July 24, 2012, Georgia has received a loan in a total amount of SDR 10,639,000 for the Sustainable Urban Transport Investment Program, Project 2 (the “Project”).

The Project is implemented by the Municipal Development Fund of Georgia (the “MDF”). The MDF has been established by the Presidential Decree # 294 dated June 7, 1997.

The legal address of MDF is 150, Aghmashenebeli Avenue, 0112, Tbilisi, Georgia.

The objective of the Investment Program is to improve efficiency, reliability and affordability of urban transport and services. As part of the Investment Program, the Project aims to improve urban transport infrastructure and services in selected municipalities.

The Project includes the following main components:

- a. construction of two section of a four-lane road (of an approximate aggregate length of 10.6 kilometers) between the city of Tbilisi and the city of Rustavi;
- b. construction of 151 meters two-lane bridge over the Aragvi River between the city of Mtskheta and the national east-west highway;
- c. provision of project implantation support (this includes assistance in construction supervision, procurement, financial management and environmental and social safeguards, and provision of financial audits) and capacity development on the bridge construction and maintenance.

The financing of Loan Agreement No. 2879-GEO is implemented through the following categories:

| | | Total Amount Allocated for ADB Financing (in USD) | ADB Financing Basis |
|----------|---------------------|---|---|
| Category | | | |
| 1 | Works | 36,674,000 | 74.58% of total expenditure claimed (*) |
| 2 | Consulting Services | 2,761,000 | 70.82% of total expenditure claimed (*) |
| 3 | Interest charge | 1,616,400 | 100% of amounts due |
| 4 | Unallocated | 7,834,600 | |
| TOTAL | | 48,886,000 | |

(*) Exclusive of taxes and duties imposed within the territory of the Borrower.

The financing of Loan Agreement No. 2880-GEO(SF) is implemented through the following categories:

| | | Total Amount Allocated for ADB Financing (in SDR) | ADB Financing Basis |
|----------|---------------------|---|---|
| Category | | | |
| 1 | Works | 8,312,000 | 25.42% of total expenditure claimed (*) |
| 2 | Consulting Services | 758,000 | 29.18% of total expenditure claimed (*) |
| 3 | Interest charge | 223,000 | 100% of amounts due |
| 4 | Unallocated | 1,346,000 | |
| TOTAL | | 10,639,000 | |

(*) Exclusive of taxes and duties imposed within the territory of the Borrower.

2 Significant accounting policies

2.1 Statement of compliance

The MDF's policy is to prepare the accompanying special purpose project financial statements on the accrual basis of accounting and the Asian Development Bank guidelines, as well as the relevant points of the Loan Agreement No. 2879-GEO and Loan Agreement No. 2880-GEO(SF).

2.2 Functional and presentation currency

The national currency of Georgia is Georgian lari (GEL). The special purpose project financial statements are presented in US dollar (presentation currency).

In preparing the special purpose project financial statements, transactions in currencies other than the presentation currency are recorded at the rates of exchange defined by the National Bank of Georgia (the "NBG") prevailing on the dates of transactions. At each reporting date monetary items denominated in currencies other than the presentation currency are retranslated into US dollar at the rate defined by the NBG prevailing as at the reporting date, which is 1.7363 lari for 1 US dollar as of December 31, 2013. Any exchange rate differences are recognized in the statement of Project sources and uses of funds and the accumulated figure of exchange rate difference is disclosed in the statement of financial position under "Funds".

2.3 Bank balances

Bank balances consist of cash amounts in the treasury accounts and in bank accounts.

2.4 Sources of funds

The ADB Loan and Government co-financing are recognized when earned, which is the date when the funds are received or directly paid out to contractors. The accumulated Project financing is disclosed under "Funds" in the statement of financial position. In addition, the current year funds received are disclosed in the statement of Project sources and uses of funds, showing the sources of funds.

2.5 Project expenses

Project expenses are recognized on the accrual basis of accounting. The accumulated Project expenses are disclosed in the statement of financial position under non-current assets.

2.6 The ADB financing

To finance eligible expenses for the Loan Agreement, the ADB disburses proceeds from the Loan amount using one or more of the disbursement methods described below:

- a Direct payment procedure, where ADB, at the borrower's request, pays a designated beneficiary directly;
- b Commitment procedure, where ADB, at the borrower's request, provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a Letter of Credit financed from the loan account;
- c Reimbursement procedure, where ADB pays from the loan account to the borrower's account or to the project account for eligible expenditures, which have been incurred and paid for by the project out of its budget allocation or its own resources; and
- d Imprest fund procedure, where ADB makes an advance disbursement from the loan account for deposit to an imprest account to be used exclusively for ADB's share of eligible expenditures.

3 Closing date of the Project

In accordance with the Schedule 1 of the Loan Agreements, the Loan closing date is December 31, 2018.

4 Project expenses

| In US dollars | For the period from August 20, 2012 to December 31, 2013 | As of December 31, 2013 |
|------------------------------|--|----------------------------|
| <i>Loan No. 2879-GEO</i> | | |
| Interest charge | 113,971 | 113,971 |
| | 113,971 | 113,971 |
| <i>Loan No. 2880-GEO(SF)</i> | | |
| Interest charge | 11,667 | 11,667 |
| | 11,667 | 11,667 |
| | | |
| | 125,638 | 125,638 |

5 Bank balances

| In US dollars | As of December 31, 2013 |
|--|----------------------------|
| Imprest account (USD) of Loan Agreement No. 2879-GEO | 6,400,000 |
| Imprest account (USD) of Loan Agreement No. 2880-GEO(SF) | 1,619,266 |
| | 8,019,266 |

6 ADB funds

| In US dollars | For the period from August 20, 2012 to December 31, 2013 | As of December 31, 2013 |
|------------------------------|--|----------------------------|
| <i>Loan No. 2879-GEO</i> | | |
| Imprest account advance | 6,400,000 | 6,400,000 |
| Interest charge | 113,971 | 113,971 |
| | 6,513,971 | 6,513,971 |
| <i>Loan No. 2880-GEO(SF)</i> | | |
| Imprest account advance | 1,619,266 | 1,619,266 |
| Interest charge | 11,667 | 11,667 |
| | 1,630,933 | 1,630,933 |
| | | |
| | 8,144,904 | 8,144,904 |

7 Net increase in working capital

| In US dollars | For the period from August 20, 2012 to December 31, 2013 | As of December 31, 2013 |
|---------------------------|--|----------------------------|
| Increase in bank balances | 8,019,266 | 8,019,266 |
| | 8,019,266 | 8,019,266 |

8 Government co-financing

During 2012-2013 resettlement expense of thousand lari 15,515 were incurred from the government co-financing sources under Sustainable Urban Transport Investment Program (SUTIP). The main part of these expenses were paid before effectiveness of SUTIP, Transh 2.

9 Reconciliation between the amounts received by the MDF and disbursed by the Asian Development Bank

For the period from August 20, 2012 to December 31, 2013

Loan Agreement No. 2879-GEO
In US dollars

| Category | Appl. | MDF | ADB | Difference |
|-------------------------|-------|-----------|-----------|------------|
| Imprest account advance | ADB01 | 6,400,000 | 6,400,000 | - |
| | | 6,400,000 | 6,400,000 | - |
| Interest charge | CAP | 68,711 | 68,711 | - |
| | CAP | 45,260 | 45,260 | - |
| | | 113,971 | 113,971 | - |
| | | 6,513,971 | 6,513,971 | - |

Loan Agreement No. 2880-GEO(SF)
In US dollars

| Category | Appl. | MDF | ADB | Difference |
|-------------------------|-------|-----------|-----------|------------|
| Imprest account advance | ADB01 | 1,619,266 | 1,619,266 | - |
| | | 1,619,266 | 1,619,266 | - |
| Interest charge | CAP | 7,831 | 68,710 | - |
| | CAP | 3,836 | 45,260 | - |
| | | 11,667 | 11,667 | - |
| | | 1,630,933 | 1,630,933 | - |

