

Audited Project Financial Statements

Project Number: 42414-033
Loan/Grant Number: 2879/2880
Period covered: 1 January 2014 to 31 December 2014

GEO: Sustainable Urban Transport Investment Program – Tranche 2

Prepared by Grant Thornton for the Municipal Development Fund of Georgia

For the Asian Development Bank
Date received by ADB: 30 June 2015

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Municipal Development Fund of Georgia.



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 and for the year ended December 31, 2014

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Independent auditor's report

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To the management of the Municipal Development Fund of Georgia

We have audited the accompanying project financial statements of the Sustainable Urban Transport Investment Program, Project 2 (the “Project”), financed by the Asian Development Bank (the “ADB”) Loan Agreement No. 2879-GEO and Loan Agreement No. 2880-GEO(SF), which comprise the statement of financial position as of December 31, 2014, the statement of Project sources and uses of funds, the imprest account statements and government co-financing account statement as of and for the year ended December 31, 2014, statement of expenditures (“SOEs”) submitted to the ADB for the year ended December 31, 2014 in support of the Loan Agreement No. 2879-GEO and the Loan Agreement No. 2880-GEO (SF) withdrawals, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Project Financial Statements

The management of the Municipal Development Fund of Georgia (the “MDF”) is responsible for the preparation and fair presentation of these project financial statements in accordance with the accounting policies described in the note 2 to the 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 the 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 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 project financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to preparation and fair presentation of the project financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

Statement of financial position

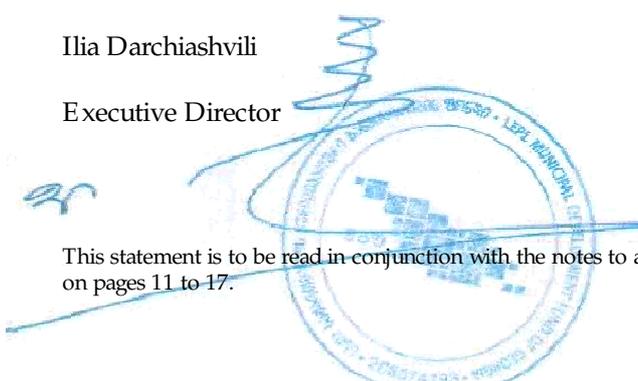
In US dollars	Note	As of December 31, 2014	As of December 31, 2013
Assets			
<i>Non-current assets</i>			
Accumulated Project expenses		24,913,292	125,638
		<u>24,913,292</u>	<u>125,638</u>
<i>Current assets</i>			
Advances and receivables	4	9,595,085	-
Bank balances	5	7,642,071	8,019,266
		<u>17,237,156</u>	<u>8,019,266</u>
Total assets		<u><u>42,150,448</u></u>	<u><u>8,144,904</u></u>
Funds and liabilities			
<i>Funds</i>			
Accumulated Project financing		41,868,903	8,144,904
Foreign exchange rate differences		(671,361)	-
		<u>41,197,542</u>	<u>8,144,904</u>
<i>Liabilities</i>			
Accounts payable	6	952,906	-
		<u>952,906</u>	<u>-</u>
Total funds and liabilities		<u><u>42,150,448</u></u>	<u><u>8,144,904</u></u>

The project financial statements were approved on June 25, 2015 by:

Ilia Darchiashvili
 Executive Director

Natalie Godziashvili
 Head of Financial Management and
 Investment Unit

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.



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Statement of Project sources and uses of funds

As of and for the year ended December 31, 2014
In US dollars

	Actual		Planned		Variance	
	For the year	As of December 31, 2014	For the year	As of December 31, 2014	For the year	As of December 31, 2014
<i>Sources of funds</i>						
ADB funds (note 7)	23,432,342	31,577,246				
Government co-financing	10,291,657	10,291,657				
	<u>33,723,999</u>	<u>41,868,903</u>				
Foreign exchange rate differences	(671,361)	(671,361)				
<i>Less: Project expenses</i>						
ADB loan No 2879 - GEO(SF) and loan No 2880-GEO (SF) (note 8.1)	14,498,358	14,623,996	23,810,506	23,936,144	(9,312,148)	(9,312,148)
Government co-financing (note 8.2)	10,289,296	10,289,296	9,029,159	9,029,159	1,260,137	1,260,137
Total	<u>24,787,654</u>	<u>24,913,292</u>	<u>32,839,665</u>	<u>32,965,303</u>	<u>(8,052,011)</u>	<u>(8,052,011)</u>
Net increase in working capital (note 9)	<u>8,264,984</u>	<u>16,284,250</u>				

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.

SOE withdrawal schedule

*For the year ended December 31, 2014
 Loan Agreement No. 2879-GEO
 In US dollars*

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB14	Works	5,223,803	74.58%	<u>3,895,912</u>
				<u>3,895,912</u>
ADB15	Works	3,039,071	74.58%	<u>2,266,539</u>
				<u>2,266,539</u>
ADB15	Works	1,282,432	74.58%	<u>956,438</u>
				<u>956,438</u>
ADB16	Works	4,519,822	74.58%	<u>3,370,883</u>
				<u>3,370,883</u>
				<u>10,489,772</u>

*For the year ended December 31, 2014
 Loan Agreement No. 2880-GEO (SF)
 In US dollars*

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB14	Works	5,223,804	25.42%	<u>1,327,891</u>
				<u>1,327,891</u>
ADB15	Works	3,034,406	25.42%	<u>771,346</u>
				<u>771,346</u>
ADB15	Works	1,282,431	25.42%	<u>325,994</u>
				<u>325,994</u>
ADB16	Works	4,519,823	25.42%	<u>1,148,939</u>
				<u>1,148,939</u>
				<u>3,574,170</u>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.

Imprest account statement (USD)

*As of and for the year ended December 31, 2014
Loan Agreement No. 2879-GEO
In US dollars*

Opening balance as of January 1, 2014	6,400,000
<i>Add:</i>	
ADB loan replenishment during the year	10,489,773
Transfer to the Loan No. 2880-GEO (SF) USD imprest account	<u>283,130</u>
Total inflow	<u>10,772,903</u>
<i>Less:</i>	
Transfer to GEL imprest account	<u>(11,051,586)</u>
Total outflow	<u>(11,051,586)</u>
Closing balance as of December 31, 2014	<u>6,121,317</u>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.

Imprest account statement (GEL)

*As of and for the year ended December 31, 2014
Loan Agreement No. 2879-GEO
In US dollars*

Opening balance as of January 1, 2014	-
<i>Add:</i>	
Transfer from the USD imprest account	<u>11,051,586</u>
Total inflow	<u>11,051,586</u>
<i>Less:</i>	
Works	(11,001,295)
Consulting Services	<u>(49,529)</u>
Total outflow	<u>(11,050,824)</u>
Foreign exchange rate difference	(762)
Closing balance as of December 31, 2014	<u>-</u>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.

Imprest account statement (USD)

*As of and for the year ended December 31, 2014
Loan Agreement No. 2880-GEO (SF)
In US dollars*

Opening balance as of January 1, 2014	1,619,266
<i>Add:</i>	
ADB loan replenishment during the year	<u>3,574,170</u>
Total inflow	<u>3,574,170</u>
<i>Less:</i>	
Transfer to GEL imprest account	(3,389,552)
Transfer to the Loan No. 2879-GEO USD imprest account	<u>(283,130)</u>
Total outflow	<u>(3,672,682)</u>
Closing balance as of December 31, 2014	<u>1,520,754</u>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.

Imprest account statement (GEL)

*As of and for the year ended December 31, 2014
Loan Agreement No. 2880-GEO (SF)
In US dollars*

Opening balance as of January 1, 2014	-
<i>Add:</i>	
Transfer from the USD imprest account	<u>3,389,552</u>
Total inflow	<u>3,389,552</u>
<i>Less:</i>	
Works	(3,370,195)
Consulting Services	<u>(20,408)</u>
Total outflow	<u>(3,390,603)</u>
Foreign exchange rate difference	1,051
Closing balance as of December 31, 2014	<u>-</u>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.

Government co-financing account (GEL) statement

As of and for the year ended December 31, 2014

In US dollars

Opening balance as of January 1, 2014	-
<i>Add:</i>	
Government co-financing	<u>10,383,408</u>
Total inflow	<u>10,383,408</u>
<i>Less:</i>	
Works	<u>(10,383,408)</u>
Total outflow	<u>(10,383,408)</u>
Closing balance as of December 31, 2014	<u>-</u>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 17.

Notes to the 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 ADB in July 24, 2012, Georgia has received a loan in a total amount of SDR 10,639,000 for 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:

Category	Total Amount Allocated for ADB Financing (in USD)	ADB Financing Basis
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	

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

Category	Total Amount Allocated for ADB Financing (in SDR)	ADB Financing Basis
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 Georgia.

2 Significant accounting policies

2.1 Statement of compliance

The MDF's policy is to prepare the accompanying 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 project financial statements are presented in US dollar (presentation currency).

In preparing the 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 1.8636 lari for 1 US dollar as of December 31, 2014 (1.6567 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 Advances and receivables

Advances and receivables are stated at nominal value. Advances include amounts paid to civil work and consulting service contractors.

2.5 Sources of funds

The ADB Loan and Government co-financing are recognized when earned, which is the date when the funds are received by the MDF or directly paid out by the ADB 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.

2.6 Accounts payable

Accounts payable are stated at cost and include outstanding retentions from progress payments against certificates of executed works, for the purpose of liquidation of post-completion faults and defects.

2.7 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.

2.8 The ADB financing

To finance eligible expenses for the Loan Agreement, the ADB disburses proceeds from the Loan accounts 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 Agreement 2879-GEO and the Loan Agreement 2880-GEO (SF), the Project closing date is December 31, 2018.

4 Advances and receivables

In US dollars	As of December 31, 2014	As of December 31, 2013
Advances to constructors	9,428,311	-
Advances to consultants	76,354	-
Receivables from a contractor	90,420	-
	<u>9,595,085</u>	<u>-</u>

5 Bank balances

In US dollars	As of December 31, 2014	As of December 31, 2013
Imprest account (USD) of Loan Agreement No. 2879-GEO	6,121,317	6,400,000
Imprest account (USD) of Loan Agreement No. 2880-GEO(SF)	1,520,754	1,619,266
	<u>7,642,071</u>	<u>8,019,266</u>

6 Accounts payable

In US dollars	As of December 31, 2014	As of December 31, 2013
Payables to the State Budget	90,420	-
Retentions	862,486	-
	<u>952,906</u>	<u>-</u>

Retentions comprise amounts retained (5% of total contract price) and paid out to the contractor at the expiration of the faults and defects period, as defined in civil works contracts. Amounts are retained from each progress payment made to civil works contractors against presented acceptance acts for executed works.

7 ADB funds

In US dollars	For the year ended December 31, 2014	As of December 31, 2014
<i>Loan No. 2879-GEO</i>		
SOE procedures	10,489,772	10,489,772
Direct payments	6,888,079	6,888,079
Imprest account advance	-	6,400,000
Interest charge	116,259	230,230
	<u>17,494,110</u>	<u>24,008,081</u>
<i>Loan No. 2880-GEO(SF)</i>		
SOE procedures	3,574,170	3,574,170
Direct payments	2,347,747	2,347,747
Imprest account advance	-	1,619,266
Interest charge	16,315	27,982
	<u>5,938,232</u>	<u>7,569,165</u>
	<u>23,432,342</u>	<u>31,577,246</u>

8 Project expenses

8.1 From ADB funds

In US dollars <i>Loan No.2879-GEO and Loan No. 2880-GEO (SF)</i>	Actual		Planned		Variance	
	For the year	As of December 31, 2014	For the year	As of December 31, 2014	For the year	As of December 31, 2014
Works	14,365,784	14,365,784	23,319,384	23,319,384	(8,953,600)	(8,953,600)
Consulting Services	-	-	491,122	491,122	(491,122)	(491,122)
Interest charge	132,574	258,212	-	125,638	132,574	132,574
Total	14,498,358	14,623,996	23,810,506	23,936,144	(9,312,148)	(9,312,148)

8.2 From government co-financing funds

In US dollars <i>Loan number 2655-GEO (SF)</i>	Actual		Planned		Variance	
	For the Year	As of December 31, 2014	For the year	As of December 31, 2014	For the year	As of December 31, 2014
Works	2,585,841	2,585,841	2,437,216	2,437,216	148,625	148,625
Consulting Services	-	-	152,793	152,793	(152,793)	(152,793)
Resettlement expenses	7,703,455	7,703,455	6,439,150	6,439,150	1,264,305	1,264,305
Total	10,289,296	10,289,296	9,029,159	9,029,159	1,260,137	1,260,137

9 Net increase in working capital

In US dollars	For the year ended December 31, 2014	As of December 31, 2014
Increase/decrease in bank balances	(377,195)	7,642,071
Increase in advances	9,595,085	9,595,085
Increase in accounts payable	(952,906)	(952,906)
	8,264,984	16,284,250

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

For the year ended December 31, 2014

Loan Agreement No. 2879-GEO
 In US dollars

Category	Appl.	MDF	ADB	Difference	
Works	ADB03	3,895,912	3,895,912	-	
	ADB04	1,237,749	1,237,749	-	
	ADB05	868,035	868,035	-	
	ADB06	1,605,190	1,605,190	-	
	ADB07	2,266,539	2,266,539	-	
	ADB08	311,605	311,605	-	
	ADB09	366,191	366,191	-	
	ADB10	956,438	956,438	-	
	ADB11	358,309	358,309	-	
	ADB12	2,141,000	2,141,000	-	
	ADB13	3,370,883	3,370,883	-	
			<u>17,377,851</u>	<u>17,377,851</u>	-
	Interest charge	CAP	58,942	58,942	-
CAP		<u>57,317</u>	<u>57,317</u>	-	
		<u>116,259</u>	<u>116,259</u>	-	
		<u>17,494,110</u>	<u>17,494,110</u>	-	

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

Category	Appl.	MDF	ADB	Difference	
Works	ADB03	1,327,891	1,327,891	-	
	ADB04	421,877	421,877	-	
	ADB05	295,863	295,863	-	
	ADB06	547,116	547,116	-	
	ADB07	771,346	771,346	-	
	ADB08	106,208	106,208	-	
	ADB09	124,813	124,813	-	
	ADB10	325,994	325,994	-	
	ADB11	122,127	122,127	-	
	ADB12	729,743	729,743	-	
	ADB13	1,148,939	1,148,939	-	
			<u>5,921,917</u>	<u>5,921,917</u>	-
	Interest charge	CAP	8,104	8,104	-
CAP		<u>8,211</u>	<u>8,211</u>	-	
		<u>16,315</u>	<u>16,315</u>	-	
		<u>5,938,232</u>	<u>5,938,232</u>	-	

11 Project implementation

As of December 31, 2014 only 23% of the Project has been implemented in the framework of the Loan Agreement 2879-GEO and the Loan Agreement 2880-GEO (SF). The Project expenses by categories (in percentages) are presented in the table below:

Category	Amounts disbursed in %
Works	29%
Consulting Services	0%
Interest charge	13%
Total	23%



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