

Audited Project Financial Statements

Project Number: 42414-033
Loan/Grant Number: 2879/2880
Period covered: 1 January 2015 to 31 December 2015

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: 29 June 2016

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, 2015

Contents

	Page
Independent auditor's report	1
Statement of financial position	3
Statement of Project sources and uses of funds	4
SOE withdrawal schedule	5
Imprest account statement (USD).....	6
Imprest account statement (GEL)	7
Imprest account statement (USD).....	8
Imprest account statement (GEL)	9
Government co-financing account (GEL) statement.....	10
Notes to the project financial statements	11

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ

ՀՀ, ք. Երևան 0012
Վաղարշյան 8/1

Հ. +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.granthornton.am

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, 2015, 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, 2015, statement of expenditures (“SOEs”) submitted to the ADB for the year ended December 31, 2015 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

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 financial covenants 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

of expressing an opinion on the effectiveness of the internal control of the entity. 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 project financial statements 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 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, 2015 and the results of its operations for the year then ended, in conformity with the accrual basis of accounting, applied on a basis consistent in all material respects with that of the previous year, as explained in the note 2, the ADB guidelines and the relevant points of the Loan Agreement No. 2879-GEO and Loan Agreement No. 2880-GEO(SF);
- the MDF has utilized all proceeds of the loan withdrawn from the ADB only for purposes of the Project as agreed between the ADB 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

- (i) (a) with respect to the statements of expenditures, adequate supporting documentation has been maintained to support claims to the ADB for reimbursements of expenditures incurred; and (b) expenditures are eligible for financing under Loan Agreement No. 2879-GEO and Loan Agreement No. 2880-GEO(SF).
- (ii) (a) the Imprest accounts and the government co-financing account give a true and fair view of the receipts collected and payments made during the year ended December 31, 2015; and (b) these receipts and payments support Imprest accounts liquidations/replenishments during the year ended December 31, 2015.

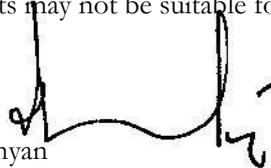
Basis of Accounting

Without modifying our opinion, we draw attention to note 2 to the project financial statements, which describes the basis of accounting. The project financial statements are prepared to assist the management of the MDF of Georgia to meet the requirements of the ADB. As a result, the project financial statements may not be suitable for another purpose.

June 28, 2016

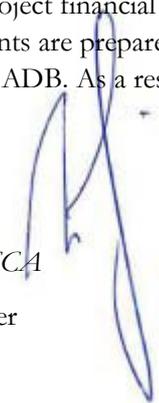
Gagik Gyulbudaghyan

Managing Partner



Emil Vassilyan, FCCA

Engagement Partner



Statement of financial position

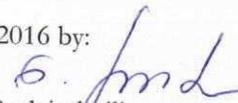
In US dollars	Note	As of December 31, 2015	As of December 31, 2014
Assets			
<i>Non-current assets</i>			
Accumulated Project expenses		<u>49,589,150</u>	<u>24,913,292</u>
		<u>49,589,150</u>	<u>24,913,292</u>
<i>Current assets</i>			
Advances and receivables	4	-	9,595,085
Bank balances	5	<u>7,977,033</u>	<u>7,642,071</u>
		<u>7,977,033</u>	<u>17,237,156</u>
Total assets		<u><u>57,566,183</u></u>	<u><u>42,150,448</u></u>
Funds and liabilities			
<i>Funds</i>			
Accumulated Project financing		60,493,228	41,868,903
Foreign exchange rate differences		<u>(5,027,825)</u>	<u>(671,361)</u>
		<u>55,465,403</u>	<u>41,197,542</u>
<i>Liabilities</i>			
Accounts payable	6	<u>2,100,780</u>	<u>952,906</u>
		<u>2,100,780</u>	<u>952,906</u>
Total funds and liabilities		<u><u>57,566,183</u></u>	<u><u>42,150,448</u></u>

The project financial statements were approved on June 28, 2016 by:

Tornike Toradze
 Acting Executive Director



Natalie Godziaszwili
 Head of Financial Management and
 Investment Unit



Statement of Project sources and uses of funds

As of and for the year ended December 31, 2015
In US dollars

	Actual		Planned		Variance	
	For the year	As of December 31, 2015	For the year	As of December 31, 2015	For the year	As of December 31, 2015
<i>Sources of funds</i>						
ADB funds (note 7)	14,679,895	46,257,141				
Government co-financing	3,944,430	14,236,087				
	<u>18,624,325</u>	<u>60,493,228</u>				
Foreign exchange rate differences	(4,356,464)	(5,027,825)				
<i>Less: Project expenses</i>						
ADB loan No 2879 - GEO(SF) and loan No 2880-GEO (SF) (note 8.1)	20,727,926	35,351,922	10,500,000	25,123,996	10,227,926	10,227,926
Government co-financing (note 8.2)	3,947,932	14,237,228	4,300,000	14,589,296	(352,068)	(352,068)
Total	<u>24,675,858</u>	<u>49,589,150</u>	<u>14,800,000</u>	<u>39,713,292</u>	<u>9,875,858</u>	<u>9,875,858</u>
Net increase/(decrease) in working capital (note 9)	<u>(10,407,997)</u>	<u>5,876,253</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, 2015
 Loan Agreement No. 2879-GEO
 In US dollars*

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB17	Works	1,062,241	74.58%	792,219
	Consulting Services	69,934	70.82%	49,527
				<u>841,746</u>
ADB 24	Works and Goods	3,330,909	74.58%	2,484,192
	Consulting Services	128,260	70.82%	90,834
				<u>2,575,026</u>
ADB 29	Works and Goods	2,859,932	74.58%	2,132,937
	Consulting Services	222,197	70.82%	157,360
				<u>2,290,297</u>
				<u>5,707,069</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
ADB 17	Works and Goods	1,062,242	25.42%	270,022
	Consulting Services	69,935	29.18%	20,407
				<u>290,429</u>
ADB 24	Works and Goods	3,329,469	25.42%	846,351
	Consulting Services	128,259	29.18%	37,426
				<u>883,777</u>
ADB 29	Works and Goods	2,859,933	25.42%	726,995
	Consulting Services	222,197	29.18%	64,837
				<u>791,832</u>
				<u>1,966,038</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, 2015
Loan Agreement No. 2879-GEO
In US dollars*

Opening balance as of January 1, 2015	6,121,317
<i>Add:</i>	
ADB loan replenishment during the year	<u>5,707,069</u>
Total inflow	<u>5,707,069</u>
<i>Less:</i>	
Transfer to GEL imprest account	<u>5,459,766</u>
Total outflow	<u>5,459,766</u>
Closing balance as of December 31, 2015	<u>6,368,620</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, 2015
Loan Agreement No. 2879-GEO
In US dollars*

Opening balance as of January 1, 2015	-
<i>Add:</i>	
Transfer from the USD imprest account	<u>5,459,766</u>
Total inflow	<u>5,459,766</u>
<i>Less:</i>	
Works	5,196,639
Consulting Services	<u>250,406</u>
Total outflow	<u>5,447,045</u>
Foreign exchange rate difference	(12,721)
Closing balance as of December 31, 2015	<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, 2015
Loan Agreement No. 2880-GEO (SF)
In US dollars*

Opening balance as of January 1, 2015	1,520,754
<i>Add:</i>	
ADB loan replenishment during the year	<u>1,966,038</u>
Total inflow	<u>1,966,038</u>
<i>Less:</i>	
Transfer to GEL imprest account	<u>1,878,379</u>
Total outflow	<u>1,878,379</u>
Closing balance as of December 31, 2015	<u>1,608,413</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, 2015
Loan Agreement No. 2880-GEO (SF)
In US dollars*

Opening balance as of January 1, 2015	-
<i>Add:</i>	
Transfer from the USD imprest account	<u>1,878,379</u>
Total inflow	<u>1,878,379</u>
<i>Less:</i>	
Works	1,771,234
Consulting Services	<u>103,175</u>
Total outflow	<u>1,874,409</u>
Foreign exchange rate difference	(3,970)
Closing balance as of December 31, 2015	<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, 2015

In US dollars

Opening balance as of January 1, 2015	-
<i>Add:</i>	
Government co-financing	3,944,430
Total inflow	<u>3,944,430</u>
<i>Less:</i>	
Works	3,613,174
Consulting Services	121,169
Resettlement expenses	<u>210,087</u>
Total outflow	<u>3,944,430</u>
Closing balance as of December 31, 2015	<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 2.3949 lari for 1 US dollar as of December 31, 2015 (1.8636 lari for 1 US dollar as of December 31, 2014). 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, 2015	As of December 31, 2014
Advances to constructors	-	9,428,311
Advances to consultants	-	76,354
Receivables from a contractor	-	90,420
	<u>-</u>	<u>9,595,085</u>

5 Bank balances

In US dollars	As of December 31, 2015	As of December 31, 2014
Imprest account (USD) of Loan Agreement No. 2879-GEO	6,368,620	6,121,317
Imprest account (USD) of Loan Agreement No. 2880-GEO(SF)	1,608,413	1,520,754
	<u>7,977,033</u>	<u>7,642,071</u>

6 Accounts payable

In US dollars	As of December 31, 2015	As of December 31, 2014
Payables to the State Budget	-	90,420
Retentions	2,100,780	862,486
	<u>2,100,780</u>	<u>952,906</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, 2015	As of December 31, 2015
<i>Loan No. 2879-GEO</i>		
SOE procedures	5,707,069	16,196,841
Direct payments	5,034,746	11,922,825
Imprest account advance	-	6,400,000
Interest charge	199,121	429,351
	<u>10,940,936</u>	<u>34,949,017</u>
<i>Loan No. 2880-GEO(SF)</i>		
SOE procedures	1,966,038	5,540,208
Direct payments	1,716,055	4,063,802
Imprest account advance	-	1,619,266
Interest charge	56,866	84,848
	<u>3,738,959</u>	<u>11,308,124</u>
	<u>14,679,895</u>	<u>46,257,141</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, 2015	For the year	As of December 31, 2015	For the year	As of December 31, 2015
Works	20,075,947	34,441,731	10,000,000	24,365,784	10,075,947	10,075,947
Consulting Services	395,992	395,992	500,000	500,000	(104,008)	(104,008)
Interest charge	255,987	514,199	-	258,212	255,987	255,987
Total	20,727,926	35,351,922	10,500,000	25,123,996	10,227,926	10,227,926

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, 2015	For the year	As of December 31, 2015	For the year	As of December 31, 2015
Works	3,613,670	6,199,511	1,800,000	4,385,841	1,813,670	1,813,670
Consulting Services	120,593	120,593	2,500,000	2,500,000	(2,379,407)	(2,379,407)
Resettlement expenses	213,669	7,917,124	-	7,703,455	213,669	213,669
Total	3,947,932	14,237,228	4,300,000	14,589,296	(352,068)	(352,068)

9 Net increase / (decrease) in working capital

In US dollars	For the year ended December 31, 2015	As of December 31, 2015
Increase in bank balances	334,962	7,977,033
Decrease in advances	(9,595,085)	-
Increase in accounts payable	(1,147,874)	(2,100,780)
	(10,407,997)	5,876,253

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

For the year ended December 31, 2015

Loan Agreement No. 2879-GEO
 In US dollars

Category	Appl.	MDF	ADB	Difference
Works	ADB14	172,589	172,589	-
	ADB15	313,241	313,241	-
	ADB16	162,793	162,793	-
	ADB17	792,219	792,219	-
	ADB18	402,039	402,039	-
	ADB19	173,025	173,025	-
	ADB20	138,708	138,708	-
	ADB21	306,463	306,463	-
	ADB22	475,681	475,681	-
	ADB23	798,988	798,988	-
	ADB24	2,484,192	2,484,192	-
	ADB25	1,040,352	1,040,352	-
	ADB26	153,679	153,679	-
	ADB27	251,011	251,011	-
	ADB28	617,873	617,873	-
ADB29	2,132,937	2,132,937	-	
	ADB30	<u>28,304</u>	<u>28,304</u>	-
		<u>10,444,094</u>	<u>10,444,094</u>	-
Consulting Services	ADB17	49,527	49,527	-
	ADB 24	90,834	90,834	-
	ADB29	<u>157,360</u>	<u>157,360</u>	-
		<u>297,721</u>	<u>297,721</u>	-
Interest charge	CAP	79,020	79,020	-
	CAP	<u>120,101</u>	<u>120,101</u>	-
		<u>199,121</u>	<u>199,121</u>	-
		<u>10,940,936</u>	<u>10,940,936</u>	-

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

Category	Appl.	MDF	ADB	Difference
Works	ADB14	58,826	58,826	-
	ADB15	106,766	106,766	-
	ADB16	55,487	55,487	-
	ADB17	270,022	270,022	-
	ADB18	137,032	137,032	-
	ADB19	58,974	58,974	-
	ADB20	47,278	47,278	-
	ADB21	104,456	104,456	-
	ADB22	162,132	162,132	-
	ADB23	272,329	272,329	-
	ADB24	846,351	846,351	-
	ADB25	354,596	354,596	-
	ADB26	52,380	52,380	-
	ADB27	85,555	85,555	-
	ADB28	210,597	210,597	-
ADB29	726,995	726,995	-	
	ADB30	9,647	9,647	-
		<u>3,559,423</u>	<u>3,559,423</u>	-
Consulting Services	ADB17	20,407	20,407	-
	ADB 24	37,426	37,426	-
	ADB29	64,837	64,837	-
		<u>122,670</u>	<u>122,670</u>	-
Interest charge	CAP	18,919	18,919	-
	CAP	37,947	37,947	-
		<u>56,866</u>	<u>56,866</u>	-
		<u>3,738,959</u>	<u>3,738,959</u>	-

11 Project implementation

As of December 31, 2015 only 55% 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	71%
Consulting Services	10%
Interest charge	27%
Total	<u>55%</u>



Grant Thornton

www.grantthornton.am

Private and Confidential