



Project Financial Statements and
Independent Auditor's Report

Municipal Development Fund of Georgia

Sustainable Urban Transport Investment Program,
Project 3
Loan No. 3063-GEO

As of December 31, 2014 and for the period from
September 29, 2014 to December 31, 2014

Contents

	Page
Independent auditor's report	1
Statement of financial position	3
Statement of Project sources and uses of funds.....	4
Government co-financing account (GEL) statement	5
Notes to the project financial statements	6

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 3 (the “Project”), financed by the Asian Development Bank (the “ADB”) Loan No. 3063-GEO, which comprise the statement of financial position as of December 31, 2014, the statement of Project sources and uses of funds and the government co-financing account statement as of December 31, 2014 and for the period from September 29, 2014 to December 31, 2014, 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 relevant points of the Loan Agreement No. 3063-GEO. 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 the 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 3 as of December 31, 2014 and the results of its operations for the period from September 29, 2014 to December 31, 2014, in conformity with the accrual basis of accounting as explained in the note 2, the ADB guidelines and the relevant points of the Loan Agreement No. 3063-GEO;
- the loan proceeds were used for purposes intended;
- As of the reporting date the MDF was in compliance with all financial covenants of the Loan Agreement No. 3063-GEO.

In addition the government co-financing account gives a true and fair view of the receipts collected and payments made during the period from September 29, 2014 to December 31, 2014;

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 Municipal Development Fund of Georgia to meet the requirements of the Asian Development Bank (ADB). As a result, the project financial statements may not be suitable for another purpose.

June 25, 2015

Gagik Gyulbudaghyan
Managing Partner



Emil Vassilyan, FCCA
Engagement Partner



Statement of financial position

In US dollars	Note	As of December 31, 2014
Assets		
<i>Non-current assets</i>		
Accumulated Project expenses		54,142
		<u>54,142</u>
<i>Current assets</i>		
Advances to contractors	4	1,314,985
		<u>1,314,985</u>
		<u>1,314,985</u>
Total assets		<u><u>1,369,127</u></u>
Funds and liabilities		
<i>Funds</i>		
Accumulated Project financing		1,423,185
Foreign exchange rate differences		<u>(54,058)</u>
		<u>1,369,127</u>
		<u>1,369,127</u>
Total funds and liabilities		<u><u>1,369,127</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



6. June 2015

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 6 to 10.

Statement of Project sources and uses of funds

As of December 31, 2014 and for the period from September 29, 2014 to December 31, 2014
 In US dollars

	Actual		Planned		Variance	
	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014
<i>Sources of funds</i>						
ADB funds (note 5)	1,423,185	1,423,185				
	<u>1,423,185</u>	<u>1,423,185</u>				
Foreign exchange rate differences	(54,058)	(54,058)				
<i>Less: Project expenses</i>						
Loan No. 3063-GEO (note 6.1)	54,142	54,142	2,273,711	2,273,711	(2,219,569)	(2,219,569)
Government co-financing (note 6.2)	-	-	409,268	409,268	(409,268)	(409,268)
Total	<u>54,142</u>	<u>54,142</u>	<u>2,682,979</u>	<u>2,682,979</u>	<u>(2,628,837)</u>	<u>(2,628,837)</u>
Net increase in working capital (note 7)	<u>1,314,985</u>	<u>1,314,985</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 6 to 10.

Government co-financing account (GEL) statement

As of December 31, 2014 and for the period from September 29, 2014 to December 31, 2014

In US dollars

Opening balance as of September 29, 2014	-
<i>Add:</i>	
ADB loan reimbursement	1,369,043
Total inflow	<u>1,369,043</u>
<i>Less:</i>	
Works	<u>(1,395,609)</u>
Total outflow	<u>(1,395,609)</u>
Foreign exchange rate differences	26,566
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 6 to 10.

Notes to the project financial statements

1 Activity

In accordance with the Loan Agreement No. 3063-GEO signed between Georgia and the Asian Development Bank (the “ADB”) on December 19, 2013, Georgia has received a loan in a total amount of USD 73,000,000 for the Sustainable Urban Transport Investment Program, Project 3 (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 Project is to improve efficiency, reliability and affordability of urban transport and services. As a part of the Investment Program, the Project aims to improve efficiency, reliability and affordability of urban transport infrastructure and services in the cities of Anaklia, Rustavi and Tbilisi.

The Project includes the following main components:

- a. construction of an approximately 6.8 kilometers 4-lane urban road link between the cities of Rustavi and Tbilisi, including a 2 kilometers urban boulevard and recreational areas;
- b. construction of an approximately 1.2 kilometers coastal protection structure in the city of Anaklia;
- c. project implementation support through financial audit and independent safeguards monitoring.

The financing of Loan Agreement No. 3063-GEO is implemented through the following categories:

Category	Total Amount Allocated for ADB Financing (in USD)	ADB Financing Basis
1 Works	62,123,000	100% of total expenditure claimed (*)
2 Consulting Services	934,000	100% of total expenditure claimed (*)
3 Interest charge	2,377,000	100% of amounts due
4 Unallocated	7,566,000	
TOTAL	73,000,000	

(*) 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. 3063-GEO. The project financial statements cover the period from September 29, 2014 to December 31, 2014.

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. 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. No cash balances are available as of December 31, 2014.

2.4 Advances

Advances 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 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 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.

2.7 The ADB financing

To finance eligible expenses for the Loan Agreement, the ADB disburses proceeds from the Loan account 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 No. 3063-GEO, the Project closing date is June 30, 2018.

4 Advances

As of the date of these project financial statements advances comprise the amount of US dollars 1,314,985 paid to the “Modern business group” Ltd for construction works.

5 ADB funds

In US dollars	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014
Reimbursement procedure	1,369,043	1,369,043
Interest charge	54,142	54,142
	<u>1,423,185</u>	<u>1,423,185</u>

6 Project expenses

6.1 From ADB funds

In US dollars	Actual		Planned		Variance	
	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014
<i>Loan No.3063-GEO</i>						
Works	-	-	2,273,711	2,273,711	(2,273,711)	(2,273,711)
Interest charge	54,142	54,142	-	-	54,142	54,142
Total	<u>54,142</u>	<u>54,142</u>	<u>2,273,711</u>	<u>2,273,711</u>	<u>(2,219,569)</u>	<u>(2,219,569)</u>

The big variances from the planned figures are mostly caused by unfavorable weather conditions for works to be performed and the inability of contractors to supply goods needed for the implementation of works due to limited transportation routes resulting from tense relationship between the Russian Federation and the Ukraine.

6.2 From government co-financing amounts

In US dollars	Actual		Planned		Variance	
	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014
<i>Loan No.3063-GEO</i>						
Works	-	-	409,268	409,268	(409,268)	(409,268)
Total	<u>-</u>	<u>-</u>	<u>409,268</u>	<u>409,268</u>	<u>(409,268)</u>	<u>(409,268)</u>

7 Net increase in working capital

In US dollars	For the period from September 29, 2014 to December 31, 2014	As of December 31, 2014
Advances	<u>1,314,985</u>	<u>1,314,985</u>
	<u>1,314,985</u>	<u>1,314,985</u>

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

For the period from September 29, 2014 to December 31, 2014

Loan Agreement No. 3063-GEO
 In US dollars

Category	Appl.	MDF	ADB	Difference
Works	ADB01	<u>1,369,043</u>	<u>1,369,043</u>	-
		<u>1,369,043</u>	<u>1,369,043</u>	-
Interest charge	CAP	<u>54,142</u>	<u>54,142</u>	-
		<u>54,142</u>	<u>54,142</u>	-
		<u>1,423,185</u>	<u>1,423,185</u>	-

9 Project implementation

As of December 31, 2014 only 0.07% of the Project has been implemented in the framework of the Loan Agreement No. 3063-GEO. The Project expenses by categories (in percentages) are presented in the table below:

Category	Amounts disbursed in %
Works	<u>0%</u>
Consulting Services	<u>0%</u>
Interest charge	<u>2%</u>
Total	<u>0.07%</u>



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