



**Project Financial Statements and  
Independent Auditor's Report**

**Municipal Development Fund of Georgia**

**Sustainable Urban Transport Investment Program,  
Project 1  
Loan No. 2655-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 1 (the “Project”), financed by the Asian Development Bank (the “ADB”) Loan No. 2655-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 the government co-financing account statement as of and for the year ended December 31, 2014, the statement of expenditures (“SOEs”) submitted to the ADB for the year ended December 31, 2014 in support of the Loan Agreement 2655-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 these project financial statements, the ADB guidelines and the relevant points of the Loan Agreement No. 2655-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, present fairly, in all material respects, the financial position of the Sustainable Urban Transport Investment Program, Project 1 as of December 31, 2014 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. 2655-GEO(SF);
- the MDF has utilized 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 dates the MDF was in compliance with all financial covenants of the Loan Agreement No. 2655-GEO (SF).

In addition:

- (i) (a) with respect to the statements of expenditures, adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursements of expenditures incurred; and (b) expenditures are eligible for financing under Loan Agreement No. 2655-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, 2014; and (b) these receipts and payments support Imprest accounts liquidations/replenishments during the year ended 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. 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	As of December 31, 2013
<b>Assets</b>			
<i>Non-current assets</i>			
Accumulated Project expenses		43,402,822	36,944,420
		<u>43,402,822</u>	<u>36,944,420</u>
<i>Current assets</i>			
Advances to contractors	4	679,052	1,320,447
Bank balances	5	4,415,560	4,833,001
		<u>5,094,612</u>	<u>6,153,448</u>
<b>Total assets</b>		<u><u>48,497,434</u></u>	<u><u>43,097,868</u></u>
<b>Funds and liabilities</b>			
<i>Funds</i>			
Accumulated Project financing		48,254,687	42,980,636
Foreign exchange rate differences		(4,147)	47,800
		<u>48,250,540</u>	<u>43,028,436</u>
<i>Liabilities</i>			
Accounts payable	6	246,894	69,432
		<u>246,894</u>	<u>69,432</u>
<b>Total funds and liabilities</b>		<u><u>48,497,434</u></u>	<u><u>43,097,868</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 9 to 14.

## 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)	4,350,446	33,241,103				
Government co-financing	923,605	15,013,584				
	<u>5,274,051</u>	<u>48,254,687</u>				
Foreign exchange rate differences	(51,947)	(4,147)				
<i>Less: Project expenses</i>						
ADB loan number 2655 - GEO(SF) (note 8.1)	5,418,241	28,632,947	8,310,503	31,525,209	(2,892,262)	(2,892,262)
Government co-financing (note 8.2)	1,040,161	14,769,875	1,480,761	15,210,475	(440,600)	(440,600)
Total	<u>6,458,402</u>	<u>43,402,822</u>	<u>9,791,264</u>	<u>46,735,684</u>	<u>(3,332,862)</u>	<u>(3,332,862)</u>
Net increase/(decrease) in working capital (note 9)	<u>(1,236,298)</u>	<u>4,847,718</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 9 to 14.

## SOE withdrawal schedule

*For the year ended December 31, 2014  
In US dollars*

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB14	Works and Goods	689,719	100%	689,719
	Consulting Services and Incremental Administration	706,170	100%	<u>706,170</u>
				<b><u>1,395,889</u></b>
ADB15	Works and Goods	2,286,586	100%	2,286,586
	Consulting Services and Incremental Administration	738,047	100%	<u>738,047</u>
				<b><u>3,024,633</u></b>
ADB16	Works and Goods	92,711	100%	92,711
	Consulting Services and Incremental Administration	956,306	100%	<u>956,306</u>
				<b><u>1,049,017</u></b>
				<b><u>5,469,539</u></b>

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 9 to 14.

## Imprest account statement (USD)

*As of and for the year ended December 31, 2014  
Loan No. 2655-GEO (SF)  
In US dollars*

Opening balance as of January 1, 2014	4,833,001
<i>Add:</i>	
ADB loan replenishment during the year	<u>4,073,650</u>
Total inflow	<u>4,073,650</u>
<i>Less:</i>	
Transfer to GEL imprest account	<u>(4,491,091)</u>
Total outflow	<u>(4,491,091)</u>
Closing balance as of December 31, 2014	<u>4,415,560</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 9 to 14.



## Imprest account statement (GEL)

*As of and for the year ended December 31, 2014*  
*Loan No. 2655-GEO (SF)*  
*In US dollars*

Opening balance as of January 1, 2014	-
 <i>Add:</i>	
Transfer from the USD imprest account	<u>4,491,091</u>
Total inflow	<u>4,491,091</u>
 <i>Less:</i>	
Works and Goods	(2,379,873)
Consulting Services and Incremental Administration	<u>(2,111,565)</u>
Total outflow	<u>(4,491,438)</u>
 Foreign exchange rate differences	 347
 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 9 to 14.

## Government co-financing account (GEL) statement

*As of and for the year ended December 31, 2014*  
*Loan No. 2655-GEO (SF)*  
*In US dollars*

Opening balance as of January 1, 2014	-
<i>Add:</i>	
Government co-financing	<u>923,605</u>
Total inflow	<u>923,605</u>
<i>Less:</i>	
Works and Goods	(441,715)
Consulting Services and Incremental Administration	<u>(481,890)</u>
Total outflow	<u>(923,605)</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 9 to 14.

# Notes to the project financial statements

## 1 Activity

In accordance with the Loan Agreement No. 2655-GEO(SF) signed between Georgia and the Asian Development Bank (the “ADB”) on August 5, 2010, Georgia has received a loan in a total amount of SDR 57,986,000 for the Sustainable Urban Transport Investment Program, Project 1 (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 expected overall impact of the Project is to provide efficient, reliable and affordable urban transport infrastructure and services, thereby increasing economic growth potential and competitiveness of urban communities, improving livelihoods of over 1.5 million people. The Project also aims to: i) improve urban, environment and communities’ access to economic opportunities and to public and social services; ii) promote efficient and sustainable urban transportation; and iii) generate income and employment opportunities.

The Project includes the following main components:

- a Urban Transport Infrastructure Improvement, including the following subprojects:
  - i Tbilisi urban environment improvement and Gorgasali road reconstruction;
  - ii Tbilisi metro extension (Vazha Pshavela avenue);
  - iii Kutaisi urban renewal and non-motorize transport facilities development; and
  - iv Road improvement in Mestia.
- b Institutional Capacity Development to strengthen organization, increase coordination, monitoring and financing of urban transport subsector; and
- c Project Management Facility and consulting services for subproject preparation, construction supervision, audit, social and environmental assessments, and institutional capacity development in the urban transport subsector.

The Project financing is implemented through the following categories:

Category	Total Amount Allocated for ADB Financing (in SDR)	ADB Financing Basis
1 Works and Goods	42,920,533	100% of total expenditure claimed (*)
2 Consulting Services and Incremental Administration	9,546,051	100% of total expenditure claimed (*)
3 Interest charge	1,228,000	100% of amounts due
4 Unallocated	4,291,416	
TOTAL	57,986,000	

(\*) Exclusive of taxes and duties imposed within 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. 2655-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

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 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. In addition, current year expenses are disclosed in the Statement of Project sources and uses of funds by category.

#### 2.8 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 Agreement No. 2655-GEO(SF), the Project closing date is September 30, 2018.

### 4 Advances

As of December 31, 2014 advances comprise at the amount of US dollars 679,052 (US dollars 1,320,447 as of December 31, 2013) paid to the "Modern business group" Ltd for construction works.

## 5 Bank balances

In US dollars	As of December 31, 2014	As of December 31, 2013
Imprest account (USD)	4,415,560	4,833,001
Imprest account (GEL)	-	-
	<u>4,415,560</u>	<u>4,833,001</u>

## 6 Accounts payable

In US dollars	As of December 31, 2014	As of December 31, 2013
Payables to consultants	-	2,965
Retentions	246,894	66,467
	<u>246,894</u>	<u>69,432</u>

Retentions comprise amounts retained (5% of total contract price) and to be 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
SOE procedures	5,469,539	27,447,677
Direct payments	-	112,752
Interest charge	276,796	845,152
Imprest account advance/(redemption)	(1,395,889)	4,835,522
	<u>4,350,446</u>	<u>33,241,103</u>

The MDF reports regularly on the use of loan proceeds advanced to an imprest account. This is disclosed as a redemption of the imprest account advance.

## 8 Project expenses

### 8.1 From ADB funds

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>Loan number 2655-GEO (SF)</i>						
Works and Goods	3,030,587	20,464,670	5,456,907	22,890,990	(2,426,320)	(2,426,320)
Consulting Services and Incremental Administration	2,110,857	7,323,124	2,853,596	8,065,863	(742,739)	(742,739)
Interest charge	276,797	845,153	-	568,356	276,797	276,797
Total	<u>5,418,241</u>	<u>28,632,947</u>	<u>8,310,503</u>	<u>31,525,209</u>	<u>(2,892,262)</u>	<u>(2,892,262)</u>

## 8.2 From government co-financing amounts

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 and Goods	558,604	3,754,104	982,243	4,177,743	(423,639)	(423,639)
Consulting Services and Incremental Administration	463,570	1,599,110	498,518	1,634,058	(34,948)	(34,948)
Resettlement expenses	17,987	9,416,661	-	9,398,674	17,987	17,987
<b>Total</b>	<b>1,040,161</b>	<b>14,769,875</b>	<b>1,480,761</b>	<b>15,210,475</b>	<b>(440,600)</b>	<b>(440,600)</b>

## 9 Net increase in working capital

In US dollars	For the year ended December 31, 2014	As of December 31, 2014
Decrease/increase in bank balances	(417,441)	4,415,560
Decrease/increase in advances	(641,395)	679,052
Increase in accounts payable	(177,462)	(246,894)
	<b>(1,236,298)</b>	<b>4,847,718</b>

## 10 Fixed assets

Fixed assets of the Project include purchases for the needs of Project implementation. The cost of fixed assets includes purchase price and other related acquisition costs.

The fixed assets are stated at the purchase price and are recognized in the project financial statements as expense. The accounting of fixed assets is made in the inventory registers. Taking into consideration the non-commercial status of the Project, depreciation is not charged.

The following table presents breakdown of fixed assets acquired with ADB financing as of and for the year ended December 31, 2014.

In US dollars	For the year ended December 31, 2014	As of December 31, 2014
Office equipment	-	9,331
Furniture and other equipment	763	1,873
	<b>763</b>	<b>11,204</b>

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

For the year ended December 31, 2014  
 In US dollars

Category	Appl.	MDF	ADB	Difference
Work and Goods	ADB14	689,719	689,719	-
	ADB15	2,286,586	2,286,586	-
	ADB16	92,711	92,711	-
		<u>3,069,016</u>	<u>3,069,016</u>	-
Consulting Services and Incremental Administration	ADB14	706,170	706,170	-
	ADB15	738,047	738,047	-
	ADB16	956,306	956,306	-
		<u>2,400,523</u>	<u>2,400,523</u>	-
Imprest account advance redemption	ADB14	<u>(1,395,889)</u>	<u>(1,395,889)</u>	-
		<u>(1,395,889)</u>	<u>(1,395,889)</u>	-
Interest charge	CAP	139,063	139,063	-
	CAP	137,733	137,733	-
		<u>276,796</u>	<u>276,796</u>	-
		<u>4,350,446</u>	<u>4,350,446</u>	-

## 12 Project implementation

As of December 31, 2014 only 33% of the Project has been implemented in the framework of the Loan Agreement No. 2655-GEO (SF). The Project expenses by categories (in percentages) are presented in the table below:

Category	Amounts disbursed in %
Works and Goods	32%
Consulting Services and Incremental Administration	51%
Interest charge	47%
Total	<u>33%</u>





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