

Municipal Development Fund of Georgia

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

Special Purpose Project Financial Statements

For the Year Ended 31 December 2015

Sustainable Urban Transport Investment Program, Tranche 3
Special Purpose Project Financial Statements
For the year ended December 31, 2015

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Independent Auditors' Report

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, Tranche 3 (the "Project"), implemented by Municipal Development Fund of Georgia (the "Fund"), which comprise the statement of financial position as of 31 December 2015, the statement of Project sources and uses of funds, the imprest account statements and the government co-financing account statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The special purpose project financial statements have been prepared by management of the Fund based on the financial reporting provisions of Section 4.03 of the Loan Agreement No. 3063 - GEO dated 19 December 2013 (the "Loan Agreement").

Management's Responsibility for the Special Purpose Project Financial Statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the financial reporting provisions of Section 4.03 of the Loan Agreement, for determining the acceptability of the basis of accounting, and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose project financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the special purpose 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose project financial statements.

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 special purpose project financial statements for the year ended 31 December 2015 are prepared, in all material respects, in accordance with the financial reporting provisions of Section 4.03 of the Loan Agreement.

Other Matters

The special purpose project financial statements of the Project as at and for the year ended 31 December 2014 were audited by other auditors whose report dated 25 June 2015 expressed an unmodified opinion on those statements.

Data included on pages 5 to 15 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements have been prepared for providing information to the Government of Georgia and the Asian Development Bank to assist them in evaluating the Project implementation. As a result, the special purpose project financial statements may not be suitable for another purpose. This report is intended solely for the Fund, the Government of Georgia and the Asian Development Bank and should not be used by, or distributed to, other parties.

KPMG Georgia LLC

KPMG Georgia LLC
30 June 2016

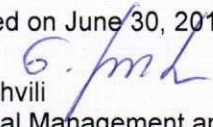


Sustainable Urban Transport Investment Program, Tranche 3
Statement of financial position as of and for the year ended December 31, 2015
(in US Dollars)

	Note	As of December 31, 2015	As of December 31, 2014
Assets			
<i>Non-current assets</i>			
Accumulated Project expenses		9,604,646	54,142
		<u>9,604,646</u>	<u>54,142</u>
<i>Current assets</i>			
Advances and receivables	4	847,932	1,314,985
Bank balances		14,527,823	-
		<u>15,375,755</u>	<u>1,314,985</u>
Total assets		<u>24,980,401</u>	<u>1,369,127</u>
Funds and liabilities			
<i>Funds</i>			
Accumulated Project financing		25,209,480	1,423,185
Foreign exchange rate differences		(335,884)	(54,058)
		<u>24,873,596</u>	<u>1,369,127</u>
<i>Liabilities</i>			
Accounts payable	5	106,805	-
		<u>106,805</u>	<u>-</u>
Total funds and liabilities		<u>24,980,401</u>	<u>1,369,127</u>

The special purpose project financial statements were approved on June 30, 2016 by:


Tornike Toradze
Acting Executive Director


Natalie Godziashvili
Head of Financial Management and
Investment Unit

Sustainable Urban Transport Investment Program, Tranche 3
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>Funds received by sources</i>						
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Asian Development Bank (ADB) funds (note 6)	16,285,534	17,708,719				
Government of Georgia (GoG) co-financing	7,500,761	7,500,761				
Total funds received	23,786,295	25,209,480				
Foreign exchange rate differences	(281,826)	(335,884)				
<i>Less: Project expenditures</i>						
ADB loan No 3063 - GEO (note 7.1)	2,037,941	2,092,083	2,618,331	2,672,473	(580,390)	(580,390)
Government co-financing (note 7.2)	7,512,563	7,512,563	6,450,000	6,450,000	1,062,563	1,062,563
Total Project expenditures	9,550,504	9,604,646	9,068,331	9,122,473	482,173	482,173
Net flows of funds (note 8)	13,953,965	15,268,950				

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 10 to 15.

Sustainable Urban Transport Investment Program, Tranche 3
Imprest account statement (USD) as of and for the year ended December 31, 2015
(in US Dollars)

Opening balance as of January 1, 2015	-
<i>Add:</i>	
ADB loan replenishment during the year	14,600,000
Total inflow	<u>14,600,000</u>
<i>Less:</i>	
Transfer to GEL imprest account	(72,177)
Total outflow	<u>(72,177)</u>
Closing balance as of December 31, 2015	<u>14,527,823</u>

Sustainable Urban Transport Investment Program, Tranche 3
 Imprest account statement (GEL) as of and for the year ended December 31, 2015
 (in US Dollars)

Opening balance as of January 1, 2015	-
<i>Add:</i>	
Transfer from the USD imprest account	72,177
Reimbursement procedure	890,108
Total inflow	<u>962,285</u>
Foreign exchange rate difference	<u>17,913</u>
<i>Less:</i>	
Works	966,285
Consulting services	13,913
Total outflow	<u>980,198</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 special purpose project financial statements set out on pages 10 to 15.

Sustainable Urban Transport Investment Program, Tranche 3
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	7,500,761
Total inflow	<u>7,500,761</u>
<i>Less:</i>	
Works	343,025
Consulting services	22,006
Resettlement expenses	7,147,532
Total outflow	<u>7,512,563</u>
Foreign exchange rate difference	(11,802)
Closing balance as of December 31, 2015	<u><u>-</u></u>

1 Background

In accordance with the Loan Agreement No. 3063-GEO signed between Georgia and the Asian Development Bank (the "ADB") on December 19, 2013 (the "Loan Agreement"), Georgia has received a loan in a total amount of USD 73,000,000 for the Sustainable Urban Transport Investment Program, Tranche 3 (the "Project").

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

The legal address of the Fund 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)	Basis for Withdrawal from the Loan Account
1 Works	62,123,000	100% of total expenditure claimed (*)
2 Consulting services	934,000	100% of total expenditure claimed (*)
3 Interest and commitment charges	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

These special purpose project financial statements have been prepared in accordance with the accrual basis of accounting and the Loan Agreement, to the extent applicable to these special purpose project financial statements and as agreed by the Company, Government of Georgia and Asian Development Bank.

2.2 Presentation currency

The national currency of Georgia is Georgian Lari (GEL). The special purpose project financial statements are presented in US dollar. All financial information presented in USD has been rounded to the nearest USD.

In preparing the special purpose project financial statements, transactions in currencies other than the presentation currency are recorded at the exchange rates 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 accounts of the State Treasury of Georgia.

2.4 Advances and receivables

Advances are stated at nominal value. Advances include amounts paid to the contractor for works.

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 the Project is expected to be completed by June 30, 2018.

4 Advances and receivables

Advances and receivables comprises of advances made to the construction company of USD 809 thousand and receivable from Government of Georgia of USD 39 thousand.

5 Accounts payable

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.

6 Asian Development Bank funds

In US dollars

	<u>For the year ended December 31, 2015</u>	<u>As of December 31, 2015</u>
<i>Loan No. 3063-GEO</i>		
Direct payments	637,342	637,342
Reimbursement procedure	929,861	2,298,904
Imprest account advance	14,600,000	14,600,000
Interest and commitment charge	118,331	172,472
	<u>16,285,534</u>	<u>17,708,718</u>

Sustainable Urban Transport Investment Program, Tranche 3
Notes to the Special Purpose Project Financial Statements
as of and for the year ended December 31, 2015
(in US Dollars)

7 Project expenditures

7.1 From ADB funds

In US dollars

<i>Loan No. 3603-GEO</i>	Actual		Planned		Variance	
	As of		As of		As of	
	For the Year 2015	December 31, 2015	For the Year 2015	December 31, 2015	For the Year 2015	December 31, 2015
			Unaudited	Unaudited	Unaudited	Unaudited
Works	1,905,697	1,905,697	2,500,000	2,500,000	(594,303)	(594,303)
Consulting services	13,913	13,913	-	-	13,913	13,913
Interest and commitment charge	118,331	172,473	118,331	172,473	-	-
Total	2,037,941	2,092,083	2,618,331	2,672,473	(580,390)	(580,390)

7.2 From government co-financing funds

In US dollars

	Actual		Planned		Variance	
	As of		As of		As of	
	For the Year 2015	December 31, 2015	For the Year 2015	December 31, 2015	For the Year 2015	December 31, 2015
			Unaudited	Unaudited	Unaudited	Unaudited
Works	343,025	343,025	450,000	450,000	(106,975)	(106,975)
Consulting Services	22,006	22,006	-	-	22,006	22,006
Resettlement expenses	7,147,532	7,147,532	6,000,000	6,000,000	1,147,532	1,147,532
Total	7,512,563	7,512,563	6,450,000	6,450,000	1,062,563	1,062,563

8 Net flows of funds

In US dollars

	For the year ended December 31, 2015	As of December 31, 2015
Increase in bank balances	14,527,823	14,527,823
Decrease in advances	(467,053)	847,932
Increase in accounts payable	(106,805)	(106,805)
	13,953,965	15,268,950

Sustainable Urban Transport Investment Program, Tranche 3
Notes to the Special Purpose Project Financial Statements
as of and for the year ended December 31, 2015
(in US Dollars)

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

For the year ended December 31, 2015

Loan Agreement No. 3063-GEO

In US dollars

Category	Appl.	The Fund	ADB	Difference
Works	ADB02	396,483	396,483	-
	ADB03	97,052	97,052	-
	ADB04	201,877	201,877	-
	ADB05	143,807	143,807	-
	ADB06	222,502	222,502	-
	ADB07	208,995	208,995	-
	ADB08	166,648	166,648	-
	ADB09	86,097	86,097	-
	ADB11	39,754	39,754	-
			1,563,215	1,563,215
Consulting Services	ADB06	3,988	3,988	-
		3,988	3,988	-
Interest and commitment charge	CAP	61,635	61,635	-
	CAP	56,696	56,696	-
		118,331	118,331	-
Imprest Account	ADB10	14,600,000	14,600,000	-
		14,600,000	14,600,000	-
		16,285,534	16,285,534	-

10 Project implementation

As of December 31, 2015 only 2.87% of the Project has been implemented in the framework of the Loan Agreement. The Project expenses by categories (in percentages) are presented in the table below:

Category	Amounts disbursed in %
Works	3.07%
Consulting Services	1.49%
Interest and commitment charge	7.26%
Total	2.87%

11 Commitments and contingencies

Management is not aware of any commitments and contingencies which would have a material impact on this special purpose project financial statements as of December 31, 2015 for the year then ended.

12 Georgian operating environment

The Fund's operations are located in Georgia. Consequently, the Fund is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The special purpose project financial statements reflect management's assessment of the impact of the Georgian operating environment on the operations of the Fund. The future operating environment may differ from management's assessment.

13 Events subsequent to the balance sheet date

As deep-water port coordinates has been properly provided to the Fund by an official letter of the National Agency of State Property of Georgia, dated 21 March, 2016, it turned out that out of four envisaged underwater breakwaters only construction of №10 breakwater and sand nourishment of the beach area should be remained under the scope of the contract signed with the construction company – Modern Business Group LLC on September 26, 2014. As a result construction works for the №7, №8 and №9 underwater breakwaters were cancelled and contract price was defined as GEL 5,326,545.43, instead of initial contract price of GEL 12,252,937.48, including VAT.