

# **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 31 December 2017



# Contents

Independent auditor's report	3
Statement of financial position	6
Statement of Project sources and uses of funds	7
SOE withdrawal schedule	8
Imprest account statement (USD)	9
Imprest account statement (GEL)	10
Imprest account statement (USD)	11
Imprest account statement (GEL)	12
Government co-financing account (GEL) statement	13
Notes to the Project financial statements	14

# 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

To the management of the Municipal Development Fund of Georgia

## Opinion

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), and implemented by the Municipal Development Fund of Georgia (the "MDF"), which comprise the statement of financial position as of 31 December 2017, the statement of Project sources and uses of funds, the imprest account statement in US dollars, the imprest account statement in GEL and government co-financing account statement as of and for the year ended 31 December 2017, statement of expenditures ("SOEs") submitted to the ADB for the year ended 31 December 2017 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.

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 31 December 2017 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 31 December 2017; and (b) these receipts and payments support Imprest accounts liquidations/replenishments during the year ended 31 December 2017.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in the Georgia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of Matters*

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 financial reporting of the ADB. As a result, the project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### *Management’s Responsibility for the Project Financial Statements*

Management of 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 financial covenants of Loan Agreement No. 2879-GEO and Loan Agreement No. 2880-GEO (SF), and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor’s Responsibilities for the Audit of the financial statements*

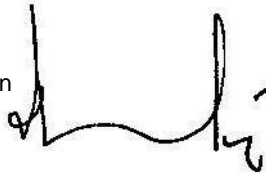
Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company’s internal control.
- Evaluate the appropriateness of accounting policies and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Gagik Gyulbudaghyan  
Managing Partner



Emil Vassilyan, FCCA  
Engagement Partner



27 June 2018



# Statement of financial position

In US dollars

	Note	As of 31 December 2017	As of 31 December 2016
<b>Assets</b>			
<i>Non-current assets</i>			
Accumulated Project expenses		55,825,734	54,574,940
		<u>55,825,734</u>	<u>54,574,940</u>
<i>Current assets</i>			
Advances	4	1,344	2,478
Bank balances	5	4,257,844	4,658,816
		<u>4,259,188</u>	<u>4,661,294</u>
<b>Total assets</b>		<u>60,084,922</u>	<u>59,236,234</u>
<b>Funds</b>			
<i>Funds</i>			
Accumulated Project financing		65,627,968	64,777,982
Foreign exchange rate differences		(5,543,046)	(5,541,748)
		<u>60,084,922</u>	<u>59,236,234</u>
<b>Total funds</b>		<u>60,084,922</u>	<u>59,236,234</u>

The project financial statements were approved on 27 June 2018 by:

Juansher Burchuladze  
Acting 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 14 to 19.



# Statement of Project sources and uses of funds

As of and for the year ended 31 December 2017  
In US dollars

	Actual		Planned		Variance	
	For the year	As of 31 December 2017	For the year	As of 31 December 2017	For the year	As of 31 December 2017
<i>Sources of funds</i>						
ADB funds (note 6)	759,531	50,592,162				
Government co-financing	90,455	15,035,806				
	<b>849,986</b>	<b>65,627,968</b>				
Foreign exchange rate differences	(1,298)	(5,543,046)				
<i>Less: Project expenses</i>						
ADB loan No 2879 - GEO(SF) and loan No 2880-GEO (SF) (note 7.1)	1,159,760	40,790,763	1,500,000	41,131,003	(340,240)	(340,240)
Government co-financing (note 7.2)	91,034	15,034,971	100,000	15,043,937	(8,966)	(8,966)
<b>Total</b>	<b>1,250,794</b>	<b>55,825,734</b>	<b>1,600,000</b>	<b>56,174,940</b>	<b>(349,206)</b>	<b>(349,206)</b>
Net increase/(decrease) in working capital (note 8)	(402,106)	4,259,188				

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 14 to 19.

# SOE withdrawal schedule

*For the year ended 31 December 2017*

*Loan Agreement No. 2879-GEO*

*In US dollars*

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB39	Works	1,108,497	74.58%	826,717
	Consulting Services	3,125	70.82%	2,213
				<u>828,930</u>

*For the year ended 31 December 2017*

*Loan Agreement No. 2880-GEO (SF)*

*In US dollars*

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB39	Works	1,108,497	25.42%	281,780
	Consulting Services	3,125	29.18%	912
				<u>282,692</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 14 to 19.



# Imprest account statement (USD)

*As of and for the year 31 ended December 2017*

*Loan Agreement No. 2879-GEO*

*In US dollars*

Opening balance as of 1 January 2017	3,902,258
<i>Add:</i>	
ADB loan replenishment during the year	-
Total inflow	-
<i>Less:</i>	
Transfer to GEL imprest account	(284,068)
Total outflow	(284,068)
Closing balance as of 31 December 2017	3,618,190

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 14 to 19.

# Imprest account statement (GEL)

*As of and for the year ended 31 December 2017*

*Loan Agreement No. 2879-GEO*

*In US dollars*

Opening balance as of 1 January 2017	-
--------------------------------------	---

*Add:*

Transfer from the USD imprest account	284,068
Total inflow	<u>284,068</u>

Foreign exchange rate difference	(84)
----------------------------------	------

*Less:*

Works	(28,771)
Consulting Services	<u>(255,213)</u>
Total outflow	<u>(283,984)</u>

Closing balance as of 31 December 2017	<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 14 to 19.

# Imprest account statement (USD)

*As of and for the year ended 31 December 2017*

*Loan Agreement No. 2880-GEO (SF)*

*In US dollars*

Opening balance as of 1 January 2017	756,558
<i>Add:</i>	
ADB loan replenishment during the year	-
Total inflow	-
<i>Less:</i>	
Transfer to GEL imprest account	(116,904)
Total outflow	(116,904)
Closing balance as of 31 December 2017	639,654

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 14 to 19.

# Imprest account statement (GEL)

*As of and for the year ended 31 December 2017*

*Loan Agreement No. 2880-GEO (SF)*

*In US dollars*

Opening balance as of 1 January 2017	-
<i>Add:</i>	
Transfer from the USD imprest account	116,904
Total inflow	116,904
Foreign exchange rate difference	(2)
<i>Less:</i>	
Works	(11,854)
Consulting Services	(105,048)
Total outflow	(116,902)
Closing balance as of 31 December 2017	-

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 14 to 19.

# Government co-financing account (GEL) statement

*As of and for the year ended 31 December 2017*

*In US dollars*

Opening balance as of 1 January 2017	-
<i>Add:</i>	
Government co-financing	90,455
Total inflow	<u>90,455</u>
<i>Less:</i>	
Works	(10,156)
Consulting Services	<u>(80,299)</u>
Total outflow	<u>(90,455)</u>
Closing balance as of 31 December 2017	<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 14 to 19.

# Notes to the Project financial statements

## 1 Nature of operations and general information

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 7 June 1997.

The legal address of MDF is 150, Aghmashenebeli Avenue, 0112, Tbilisi, Georgia.

During the reporting period the average number of the MDF staff was 146 (2016: 138).

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:

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

		<b>Total Amount Allocated for ADB Financing (in SDR)</b>	<b>ADB Financing Basis</b>
<b>Category</b>			
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	
<b>TOTAL</b>		<b>10,639,000</b>	

(\*) 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.

For direct payments denominated in the currencies other than the USD to the contractor/consultant from the ADB share, the exchange rate set out for the presentation of the operation in the system LFIS (lfis.adb.org) is used.

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 2.5922 lari for 1 US dollar as of 31 December 2017 (2.6468 lari for 1 US dollar as of 31 December 2016). 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.

### 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 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 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.

## 2.7 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 31 December 2018. However, on 23 February 2018 the Ministry of Finance of Georgia applied to the Asian Development Bank for extending the Project closing date until 18 July 2020.

## 4 Advances

In US dollars	As of 31 December 2017	As of 31 December 2016
Advance to a contractor	500	1,652
Advance to the Revenue Service	844	826
	<u>1,344</u>	<u>2,478</u>

## 5 Bank balances

In US dollars	As of 31 December 2017	As of 31 December 2016
Imprest account (USD) of Loan Agreement No. 2879-GEO	3,618,190	3,902,258
Imprest account (USD) of Loan Agreement No. 2880-GEO(SF)	639,654	756,558
	<u>4,257,844</u>	<u>4,658,816</u>

## 6 ADB funds

In US dollars	For the year ended 31 December 2017	As of 31 December 2017
<i>Loan No. 2879-GEO</i>		
SOE procedures	828,930	18,694,583
Direct payments	-	14,211,003
Imprest account advance (redemption), net	(828,930)	3,902,258
Interest charge	646,457	1,482,299
	<u>646,457</u>	<u>38,290,143</u>
<i>Loan No. 2880-GEO(SF)</i>		
SOE procedures	282,692	6,402,916
Direct payments	-	4,843,710
Imprest account advance (redemption), net	(282,692)	756,558
Interest charge	113,074	298,835
	<u>113,074</u>	<u>12,302,019</u>
	<u>759,531</u>	<u>50,592,162</u>

## 7 Project expenses

### 7.1 From ADB funds

In US dollars	Actual		Planned		Variance	
	For the year	As of 31 December 2017	For the year	As of 31 December 2017	For the year	As of 31 December 2017
<i>Loan No.2879-GEO and Loan No. 2880-GEO (SF)</i>						
Works	-	37,966,894	-	37,966,894	-	-
Consulting Services	400,229	1,042,735	1,500,000	2,142,506	(1,099,771)	(1,099,771)
Interest charge	759,531	1,781,134	-	1,021,603	759,531	759,531
Total	<u>1,159,760</u>	<u>40,790,763</u>	<u>1,500,000</u>	<u>41,131,003</u>	<u>(340,240)</u>	<u>(340,240)</u>

### 7.2 From government co-financing funds

In US dollars	Actual		Planned		Variance	
	For the year	As of 31 December 2017	For the year	As of 31 December 2017	For the year	As of 31 December 2017
Works	-	6,834,040	-	6,834,040	-	-
Consulting Services	89,869	282,642	100,000	292,773	(10,131)	(10,131)
Resettlement expenses	1,165	7,918,289		7,917,124	1,165	1,165
Total	<u>91,034</u>	<u>15,034,971</u>	<u>100,000</u>	<u>15,043,937</u>	<u>(8,966)</u>	<u>(8,966)</u>

## 8 Net increase/(decrease) in working capital

In US dollars	For the year ended 31 December 2017	As of December 31, 2017
Increase/(decrease) in bank balances	(400,972)	4,257,844
Increase/(decrease) in advances	(1,134)	1,344
	<u>(402,106)</u>	<u>4,259,188</u>

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

For the year ended 31 December 2017  
Loan Agreement No. 2879-GEO  
In US dollars

Category	Appl.	MDF	ADB	Difference
Works	ADB 39	826,717	826,717	-
		<u>826,717</u>	<u>826,717</u>	-
Consulting Services	ADB 39	2,213	2,213	-
		<u>2,213</u>	<u>2,213</u>	-
Interest charge	CAP	361,461	361,461	-
	CAP	284,996	284,996	-
		<u>646,457</u>	<u>646,457</u>	-
Imprest account advance redemption	ADB 39	(828,930)	(828,930)	-
		<u>(828,930)</u>	<u>(828,930)</u>	-
		<u>646,457</u>	<u>646,457</u>	-

For the year ended 31 December 2017  
Loan Agreement No. 2880-GEO(SF)  
In US dollars

Category	Appl.	MDF	ADB	Difference
Works	ADB 39	281,780	281,780	-
		281,780	281,780	-
Consulting Services	ADB 39	912	912	-
		912	912	-
Interest charge	CAP	58,511	58,511	-
	CAP	54,563	54,563	-
		113,074	113,074	-
Imprest account advance redemption	ADB 39	(282,692)	(282,692)	-
		(282,692)	(282,692)	-
		113,074	113,074	-

## 10 Project implementation

As of 31 December 2017 only 64 % 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	78%
Consulting Services	27%
Interest charge	92%
Total	64%