

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

LOAN NO.3617-GEO
(SUSTAINABLE URBAN TRANSPORT INVESTMENT
PROGRAM - PROJECT 5)

Special Purpose Project Financial Statements
and Independent Auditor's Report
For the Year Ended 31 December 2018

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO.3617-GEO**

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	1
INDEPENDENT AUDITOR’S REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018:	
Summary of sources and uses of funds	4
Statement of financial position	5
Statement of expenditure (“SOE”)	6
Statement of imprest account	7
Notes to the special purpose project financial statements	8-11
1. Background	8
2. Accounting policies	8
3. Imprest account	8
4. Basis of funding	9
5. Methods of withdrawal	9
6. Prepayments	9
7. Project expenditure by fund	10
8. Commitments and contingencies	10
9. Operating environment	10
10. Events subsequent to the balance sheet date	11
11. Approval of special purpose project financial statements	11

MUNICIPAL DEVELOPMENT FUND OF GEORGIA

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management of the Sustainable Urban Transport Investment Program - Project 5 (the "Project") financed under the Loan Agreement No. 3617-GEO dated 19 December 2017, implemented by the Municipal Development Fund of Georgia ("MDF") is responsible for the preparation of the special purpose project financial statements that present fairly the project's statement of financial position as at 31 December 2018, the summary of sources and uses of funds, statement of expenditure ("SOE") and imprest account statements, in compliance with the basis of accounting described in Note 2 of accompanying these special purpose project financial statements.

In preparing the special purpose project financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures that enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in imprest accounts;

Management is also responsible for:

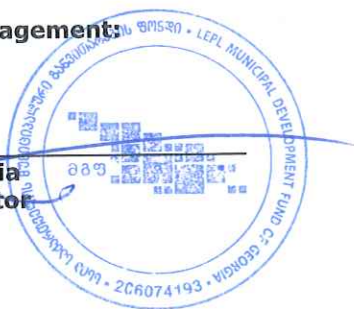
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.


The special purpose project financial statements for the year ended 31 December 2018 were authorised for issue on 28 June 2019 by the Management.

On behalf of Management:


George Shengelia
Executive Director

28 June 2019




Levan Sharvadze
Deputy Director – Chief Financial Officer

28 June 2019

INDEPENDENT AUDITOR'S REPORT

To the management of the Municipal Development Fund of Georgia:

Opinion

We have audited the accompanying special purpose project financial statements of the Sustainable Urban Transport Investment Program - Project 5 (the "Project") financed under the Loan Agreement No. 3617-GEO dated 19 December 2017 (the "Agreement"), implemented by the Municipal Development Fund of Georgia, which comprise the Project's summary of sources and uses of funds for the year ended 31 December 2018, statement of financial position as at 31 December 2018, statement of expenditure ("SOE") and imprest account statements for the year ended 31 December 2018 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank as further detailed in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards of 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 Fund 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 Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Basis of Accounting and Restriction on Distribution and Use

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 are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreement, which requires the special purpose project financial statements to comply with the Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the Project's management in reporting the information to the Government of Georgia and Asian Development Bank. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than the Project's management in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Project Completion Date

We draw your attention to note 1 of these special purpose project financial statements, which disclose that the closing date of the loan is 18 July 2020. Our opinion is not modified in respect of this matter.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank as further detailed in Note 2 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.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose 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 financial statements.

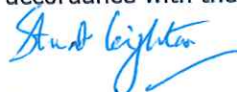
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and access the risks of material misstatement of the 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance 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.

Report on Other Requirements

Management is also responsible for compliance with Article III of the Loan Agreement # 3617-GEO between Georgia and Asian Development Bank dated 19 December 2017 in terms of using the ADB funds. Our audit was conducted for the purpose of forming an opinion on the special purpose project financial statements. According to ISAE 3000 applicable to assurance engagements, in the course of our audit of the Project's special purpose financial statements for 2018 we performed additional procedures to check whether for the period from 1 January 2018 to 31 December 2018 for Loan 3617-GEO, ADB funds have been used only for the purposes for which the funds were provided as defined in the Article III of the Loan Agreement dated 19 December 2017 (Loan Number 3617-GEO). In our opinion, in all material respect, the Project utilized all proceeds of the loan withdrawn from ADB only for the purposes of the Project as agreed between ADB and Government of Georgia in accordance with the Loan Agreement.



Stuart Leighton
On behalf of Deloitte and Touche LLC



28 June 2019
Tbilisi, Georgia


**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER
2018**

	Actual		Planned*		Variance		Project appraisal document Life of the project
	Year ended 31.12.2018	Cumulative as at 31.12.2018	Year ended 31.12.2018 Unaudited	Cumulative as at 31.12.2018 Unaudited	Year ended 31.12.2018 Unaudited	Cumulative as at 31.12.2018 Unaudited	
OPENING WORKING CAPITAL							
Cash	-	-	-	-	-	-	
Prepayments	-	-	-	-	-	-	
Payables	-	-	-	-	-	-	
SOURCES OF FUNDS							
Asian Development Bank	3,513,402	3,513,402					12,000,000
Government of Georgia	156,481	156,481					2,250,000
TOTAL	3,669,883	3,669,883					14,250,000
EXPENDITURE							
Works, goods and consulting services	24,839	24,839	50,000	50,000	25,161	25,161	12,480,000
Interest and commitment charges	13,402	13,402	15,000	15,000	1,598	1,598	240,000
Unallocated	-	-	-	-	-	-	1,530,000
TOTAL	38,241	38,241	65,000	65,000	26,759	26,759	14,250,000
Foreign exchange gain, net	1,399	1,399					
CLOSING WORKING CAPITAL							
Cash	2,709,079	2,709,079					
Prepayments	923,962	923,962					
Payables	-	-					
TOTAL	3,633,041	3,633,041					

*The initial budgeted figures are updated several times during the year. Planned figures for the year ended 31 December 2018 included in the financial statements represent the final budgeted figures reflected in the State Budget for FY2018 adjusted to the accrual model.

On behalf of Management:


George Shengelia
Executive Director

28 June 2019


Levan Sharvazde
Deputy Director – Chief Financial Officer

28 June 2019

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**


**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2018
(in Euros)**

	Note	31 December 2018
ASSETS		
ADB imprest account	3	2,709,079
Prepayments	6	923,962
Other assets		-
TOTAL ASSETS		<u>3,633,041</u>
LIABILITIES		
Payables		-
TOTAL LIABILITIES		<u>-</u>
NET ASSETS		<u>3,633,041</u>
Cumulative Funds received:		
ADB loan 3273-GEO		3,513,402
Government of Georgia		156,481
Total funds received		<u>3,669,883</u>
Cumulative expenditure:		
Cumulative project expenditure	7	38,241
Total Expenditures		<u>38,241</u>
Foreign exchange gain, net		1,399
TOTAL NET ASSETS		<u>3,633,041</u>

On behalf of Management:


George Shengelia
Executive Director

28 June 2019


Levan Sharvadze
Deputy Director – Chief Financial
Officer

28 June 2019

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**

**STATEMENT OF EXPENDITURE (“SOE”)
FOR THE YEAR ENDED 31 DECEMBER 2018
(in EUROS)**

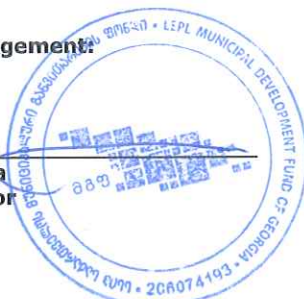
Withdrawal No.	Withdrawal application date	Total SOE	Works and Goods	Consulting services and incremental administration	Interest and commitment charges
N/A	N/A	-	-	-	-
		-	-	-	-


There were no expenses submitted for replenishment under “SOE” procedure in 2018.
Only one withdrawal application – “advance” was submitted to ADB for processing.

On behalf of Management:


George Shengelia
Executive Director

28 June 2019




Levan Sharvazze
Deputy Director – Chief Financial Officer

28 June 2019

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**

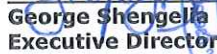
**STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in Euros)**

Account No.	210250542
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia


Opening balance	-
Funds received from ADB	3,500,000
Present outstanding amount advanced to DA	<u>3,500,000</u>
DA closing balance as at 31 December 2018	2,709,079
Add: Amount of eligible expenditure paid	<u>790,921</u>
Total advance accounted for	<u><u>3,500,000</u></u>

"Funds received from ADB" line includes only replenishments received during the reported period. Direct payments are not included in the statement of imprest account.

On behalf of Management:


George Shengelia
Executive Director

28 June 2019


Levan Sharvadze
Deputy Director – Chief Financial Officer

28 June 2019

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in Euros)**

1. BACKGROUND

Municipal Development Fund ("MDF") was established by the Government of Georgia by Presidential Decree # 294 of June 7, 1997 to manage allocated credits/loans received from the Asian Development Bank ("ADB"), the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), and the European Investment Bank (EIB) and monitor the implementation of infrastructure sector projects.

The Asian Development Bank Loan Agreement No. 3617-GEO (the "Agreement") in the amount of 12 million Euros ("EUR") was signed between the Government of Georgia ("GoG") and Asian Development Bank ("ADB") on 19 December 2017 ("inception"). First payment from the ABD was received on 7th December 2018.

The main objectives of the loan are: To improve efficiency, reliability and affordability of urban transport infrastructure and services. The closing date of the loan is 18 July 2020.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank and the accounting policies set out below. The special purpose project financial statements have been prepared on the accrual basis of accounting.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the information to the Government of Georgia and Asian Development Bank. As a result these special purpose project financial statements may not be suitable for another purpose.

Funds received – Project financing is recognised as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable.

Expenditure - Expenditure is recognised on an accruals basis as a use of project funds when liabilities are incurred.

Functional currency – The functional currency of the project and its presentational currency is United States Dollars ("US Dollar" or "USD").

Transactions in other currencies – Transactions in currencies other than the reporting currency are converted to EUR at the exchange rate prevailing at the date of the transaction. Monetary items are translated into EUR at the National Bank of Georgia ("NBG") official exchange rate at the reporting date.

Cash – Cash comprises balances with State Treasury.

3. IMPREST ACCOUNT

Imprest account is a special disbursement account of the Project maintained in Euros at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorisation from ADB in accordance with the Agreement.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in Euros)**

4. BASIS OF FUNDING

According to the terms of the Agreement, the expenditure is co-financed by proceeds received from ADB and the Government of Georgia ("GoG"). ADB finances 84% of total expenditures claimed. The Government of Georgia finances the remaining 16%.

	<u>ADB financing</u>	<u>GoG financing</u>	<u>Total</u>
Works, goods and consulting services	10,500,000	1,980,000	12,480,000
Interest and commitment charges	240,000	-	240,000
Unallocated	1,260,000	270,000	1,530,000
Total:	<u>12,000,000</u>	<u>2,250,000</u>	<u>14,250,000</u>

5. METHODS OF WITHDRAWAL

The methods for the withdrawal of loan proceeds are as follows:

- (a) Direct payment procedure**, where the Asian Development Bank (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 (LC) financed from the loan account.
- (c) Reimbursement procedure**, where ADB pays from the loan account to the borrower's account for eligible expenditures which have been incurred and paid for by the project out of its budget allocation or its own resources.
- (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

6. PREPAYMENTS

	<u>31 December 2018</u>
Advances to contractors	<u>923,962</u>
Total:	<u>923,962</u>

Payments of advances to contractors are made at the beginning of the contract in amount of 10%-20% of total contract amount. Retention of advance is done periodically upon submission of works completed certificates by contractors.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in Euros)**

7. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Works and goods	-	-
Consulting services and training	21,050	21,050
Interest and commitment charges	13,402	13,402
ADB TOTAL	34,452	34,452
Works and goods	-	-
Consulting services and incremental administration	3,789	3,789
Interest and commitment charges	-	-
GoG TOTAL	3,789	3,789
TOTAL PROJECT EXPENDITURE	38,241	38,241

The Project consists of the following main components:

- (a) Rehabilitation and Improvement of the Tbilisi Metro including replacement of low and medium voltage power transmission cabling, rehabilitation of the ventilation system including the installation and repair of ventilation fans;
- (b) Strengthening the institutional capacity of Tbilisi Transport Company (TTC) in operations and maintenance of the Tbilisi Metro including the development of waste management plan; and
- (c) Providing Project management and implementation support for supervision of Works, financial audit and safeguards monitoring.

8. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2018 and on the funds received and disbursed during the year then ended.

9. OPERATING ENVIRONMENT

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to change rapidly and tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last three years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2016, 2017 and 2018 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 5
LOAN NO. 3617-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in Euros)**

10. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events subsequent to the balance sheet date.

11. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose financial statements were authorised for issue by the Management on 28 June 2019.