

**MUNICIPAL DEVELOPMENT
FUND OF GEORGIA**

LOAN NO.3273-GEO
(SUSTAINABLE URBAN TRANSPORT INVESTMENT
PROGRAM – PROJECT 4)

Special Purpose Project Financial Statements
and Independent Auditor's Report
For the Year Ended 31 December 2019

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 4
LOAN NO.3273-GEO**

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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 2019

Management of the Sustainable Urban Transport Investment Program - Project 4 (the "Project") financed under the Loan Agreement No. 3273-GEO dated 26 October 2015 (the "Agreement"), 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 2019, the summary of sources and uses of funds, statement of expenditure ("SOE") and statement of imprest account, in compliance with the basis of accounting described in Note 2 the accompanying 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; and
- 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 2019 were authorised for issue on 29 June 2020 by the Management.

On behalf of Management:


Giorgi Shengelia
Executive Director



29 June 2020


Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020

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 4 (the "Project") financed under the Loan Agreement No. 3273-GEO dated 26 October 2015 (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 2019, statement of financial position as at 31 December 2019, statement of expenditure ("SOE") and statement of imprest account for the year ended 31 December 2019 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 2019 are prepared, in all material respects, in accordance with Loan Agreement No. 3273-GEO dated 26 October 2015, 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.

Other matter

Data included on pages 4 to 11 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

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. 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.

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

Management is responsible for the preparation of these special purpose project financial statements in accordance with Loan Agreement No. 3273-GEO dated 26 October 2015, 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 Special Purpose Project 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 special purpose project financial statements.

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

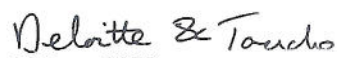
- Identify and access the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 Fund'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 # 3273-GEO between Georgia and Asian Development Bank dated 26 October 2015 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. In the course of our audit of the Project's special purpose financial statements for 2019 we performed additional procedures to check whether for the period from 1 January 2019 to 31 December 2019 for Loan 3273-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 26 October 2015 (Loan Number 3273-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


29 June 2020
Tbilisi, Georgia

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 4
LOAN NO. 3273-GEO**

**SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER
2019**

(in US Dollars)

	Actual		Planned*	Variance		Project appraisal document
	Year ended 31.12.2019	Cumulative as at 31.12.2019		Year ended 31.12.2019	Cumulative as at 31.12.2019	
OPENING WORKING CAPITAL						
Cash	1,890,686	-				
Prepayments	1,573,707	-				
Payables	(1,093,718)	-				
	2,370,675					
SOURCES OF FUNDS		18,706,542				
Asian Development Bank	1,934,185	8,785,416				20,000,000
Replenishment of imprest fund	-	257,564				-
Reimbursement	3,298,976	9,199,561				-
Direct payment	123,648	464,001				-
Interest and commitment charge	1,029,910	3,219,290				4,000,000
Government of Georgia	6,386,719	21,925,832				24,000,000
TOTAL						
	8,137,673	19,718,390	7,552,000	(585,673)	(106,149)	14,597,000
EXPENDITURE	30,820	954,635	-	(30,820)	332,625	6,600,000
Works and goods	123,648	464,001	126,819	3,711	(11,202)	464,000
Consulting services and administration	-	-	-	-	-	2,339,000
Interest and commitment charges	-	-	-	-	-	-
Unallocated						
	8,292,141	21,137,026	7,678,819	(613,322)	215,274	24,000,000
TOTAL						
Foreign exchange loss, net	(488,716)	(812,269)				
CLOSING WORKING CAPITAL						
Cash	2,000,000	2,000,000				
Payables	(2,023,463)	(2,023,463)				
	(23,463)**	(23,463)**				
TOTAL						

* The initial budgeted figures are updated several times during the year. Planned figures for the year ended 31 December 2019 included in the IFR (interim financial report) represent the final budgeted figures reflected in the State Budget for FY2019 adjusted to the accrual model, which have not been audited.

**Negative net working capital existing for the year end has been subsequently covered with funds received from donor.

On behalf of Management:


Giorgi Shengelia
Executive Director


Levan Sharvadze
Deputy Director – Chief Financial Officer

29 June 2020


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 4
LOAN NO. 3273-GEO**

**STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

	Note	31 December 2019	31 December 2018
ASSETS			
ADB imprest account	3	2,000,000	1,890,686
Prepayments	6	-	1,573,707
TOTAL ASSETS		2,000,000	3,464,393
LIABILITIES			
Payables		2,023,463	1,093,718
TOTAL LIABILITIES		2,023,463	1,093,718
NET (LIABILITIES)/ASSETS		(23,463)	2,370,675
Funds received:			
ADB Loan 3273-GEO		18,706,542	13,349,733
Government of Georgia		3,219,290	2,189,380
Total funds received		21,925,832	15,539,113
Expenditures:			
Cumulative project expenditure	7	21,137,026	12,844,885
Total expenditures		21,137,026	12,844,885
Foreign exchange loss, net		(812,269)	(323,553)
TOTAL NET ASSETS		(23,463)	2,370,675

On behalf of Management:


 Giorgi Shengelia
 Executive Director

29 June 2020


 Levan Sharvadze
 Deputy Director – Chief Financial
 Officer

29 June 2020


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 4
LOAN NO. 3273-GEO**

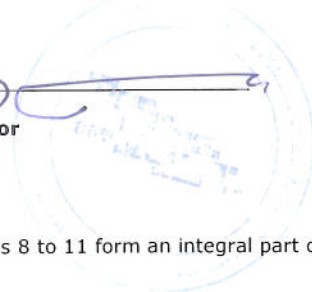
**STATEMENT OF EXPENDITURE ("SOE")
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE	Works and Goods	Consulting services and incremental administration
00039	19/06/2019	1,128,051	1,003,060	124,991
00044	10/12/2019	806,134	797,249	8,885
		1,934,185	1,800,309	133,876

On behalf of Management:



Giorgi Shengelia
 Executive Director



29 June 2020



Levan Sharvadze
 Deputy Director – Chief Financial Officer

29 June 2020

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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 4
LOAN NO. 3273-GEO**


**STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2019
(in US Dollars)**

Account No.	210240542
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

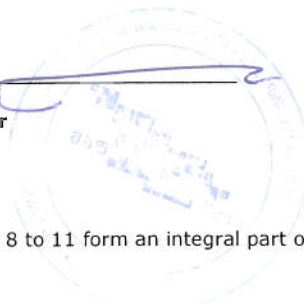
Opening Balance	<u>1,890,686</u>
Funds received from ADB	1,934,185
Present outstanding amount advanced to DA	<u>3,824,871</u>
DA closing balance as at 31 December 2019	2,000,000
Add: Amount of eligible expenditure paid	<u>1,824,871</u>
Total advance accounted for	<u><u>3,824,871</u></u>

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

On behalf of Management:


Giorgi Shengelia
 Executive Director

29 June 2020




Levan Sharvadze
 Deputy Director – Chief Financial Officer

29 June 2020

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 4
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

1. BACKGROUND

Municipal Development Fund of Georgia (the "Fund" or "MDF") was established on 7 June 1997 by the Presidential Decree N° 294 "On management of funds for the development of municipal sector in Georgia".

The Fund is a legal Fund of public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and services, improving on sustainable basis the primary economic and social services for the local population and the provision of low-interest loans to legal entities and physical persons of Georgia in the framework of the Government Program.

The founder and governing body of the fund is the Government of Georgia. The Fund is cooperating with majority of large investment banks and financial institutions operating in Georgia.

The Asian Development Bank Loan Agreement No. 3273-GEO (the "Agreement") in the amount of 20 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and Asian Development Bank ("ADB") on 26 October 2015 ("inception").

The main objectives of the loan are: construction of a coastal protection structure to provide sustainable shoreline protection for the city of Batumi and strengthening the institutional and monitoring management capacity of MDF. The closing date of the loan is 30 June 2020.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the provisions of Loan Agreement No. 3273-GEO dated 26 October 2015 to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia and Asian Development Bank.

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.

Sources of funds – 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. The accumulated project financing is disclosed under "Funds" in the statement of financial position. In addition current year funds received is disclosed in the Statement of Sources and Uses of Funds, showing under sources funds and expenditures respectively.

Expenditure - is recognised on an accruals basis as a use of project funds when liabilities are incurred. The accumulated project expenditures is disclosed under "Expenditure" in the statement of financial position.

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 US Dollars at the exchange rate prevailing at the date of the transaction. Monetary items are translated into US Dollars at the National Bank of Georgia ("NBG") official exchange rate at the reporting date.

Prepayments – prepayments represent the amounts paid to the contractors for work.

Cash – Cash comprises balances with State Treasury.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 4
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

3. IMPREST ACCOUNT

Imprest account is a special disbursement account of the Project maintained in US Dollars 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.

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 100% of the expenditures with GoG financing all taxes and duties imposed on the territory of Georgia.

	ADB financing	GoG financing	Total
Works and goods	12,007,000	2,590,000	14,597,000
Consulting services and incremental administration	5,190,000	1,410,000	6,600,000
Interest and commitment charges	464,000	-	464,000
Unallocated	2,339,000	-	2,339,000
Total:	20,000,000	4,000,000	24,000,000

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

	31 December 2019	31 December 2018
Advances to contractors	-	1,573,707
Total:	-	1,573,707

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

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 4
LOAN NO. 3273-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

7. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Works and goods	6,896,333	16,701,964
Consulting services and incremental administration	24,596	767,829
Interest and commitment charges	123,648	464,001
ADB TOTAL	7,044,577	17,933,794
Works and goods	1,241,340	3,016,426
Consulting services and incremental administration	6,224	186,806
GoG TOTAL	1,247,564	3,203,232
TOTAL PROJECT EXPENDITURE	8,292,141	21,137,026

The Project consists of the following main components:

- (a) Construction of a coastal protection structure, designed according to international best practices, which will provide sustainable shoreline protection for the city of Batumi;
- (b) Strengthening the institutional and monitoring management capacity of MDF through a management information system for MDF, project preparatory activities, detailed engineering design and bidding documents for the Kobuleti coastal protection project and related recreational area and bicycle lanes, project preparatory activities, detailed engineering design and bidding documents for other projects under the investment program, and implementation support through financial audit and independent 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 2019 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 two 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 and 2017 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020. Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including,

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
SUSTAINABLE URBAN TRANSPORT INVESTMENT PROGRAM – PROJECT 4
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in US Dollars)**

but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Fund may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Fund's operations largely depends on the duration and the incidence of the pandemic effects on the world and Georgian economy.

The economic shock caused by the coronavirus and the expectations of the future development of pandemic and its impact on the Georgian economy have been reflecting on increased volatility of the foreign exchange market and weakening of Georgian Lari against other currencies

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Project. Management believes it is taking all the necessary measures to support the sustainability and development of the Project's operations.

10. SUBSEQUENT EVENTS

Subsequent to the year end, no events have occurred that requires disclosure in the special purpose project financial statements or adjustments to the reported figures.