

**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 2019

**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 2019:	
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	9
4. Basis of funding	9
5. Methods of withdrawal	9
6. Prepayments	10
7. Project expenditure by fund	10
8. Commitments and contingencies	10
9. Operating environment	11
10. Subsequent events.....	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 2019

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 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.

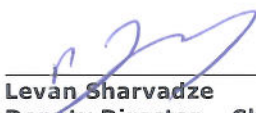
The special purpose project financial statements for the year ended 31 December 2019 were authorised for issue on 29 June 2020 by the Management.

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 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 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 the Loan Agreement No. 3617-GEO dated 19 December 2017, 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 the basis of accounting described in Note 2 and for such

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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.

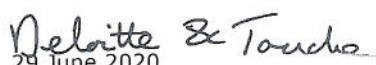
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Requirements

Management is also responsible for compliance with Article III of the Loan Agreement # 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. 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 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


29 June 2020
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 2019
(in Euros)**

	Actual		Cumulative as at 31.12.2019	Planned*		Variance		Project appraisal document
	Year ended 31.12.2019	Year ended 31.12.2019		Year ended 31.12.2019	Year ended 31.12.2019	Year ended 31.12.2019	Cumulative as at 31.12.2019	
OPENING WORKING CAPITAL								
Cash	2,709,079	-	-	-	-	-	-	-
Prepayments	923,962	-	-	-	-	-	-	-
Payables	-	-	-	-	-	-	-	-
3,633,041								
SOURCES OF FUNDS								
Asian Development Bank	6,228,952		9,742,354					12,000,000
Government of Georgia (Including retroactive financing)	1,257,222		1,413,703					2,250,000
7,486,174			11,156,057					14,250,000
EXPENDITURE								
Works, goods and consulting services	9,963,830		9,988,669	10,000,000	10,038,241	36,170	34,572	12,480,000
Interest and commitment charges	-		13,402	-	15,000	-	1,598	240,000
Unallocated	-		-	-	-	-	-	1,530,000
9,963,830			10,002,071	10,000,000	10,038,241	36,170	36,170	14,250,000
Foreign exchange gain, net	438		1,837					
CLOSING WORKING CAPITAL								
Cash	3,421,915		3,421,915					
Prepayments	887,714		887,714					
Payables	(3,153,806)		(3,153,806)					
1,155,823			1,155,823					

*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.

On behalf of Management:


Giorgi Sifengela
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 5
LOAN NO. 3617-GEO**

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

	Note	31 December 2019	31 December 2018
ASSETS			
ADB imprest account	3	3,421,915	2,709,079
Prepayments	6	887,714	923,962
TOTAL ASSETS		4,309,629	3,633,041
LIABILITIES			
Payables		3,153,806	-
TOTAL LIABILITIES		3,153,806	-
NET ASSETS		1,155,823	3,633,041
Funds received:			
ADB Loan 3617-GEO		9,742,354	3,513,402
Government of Georgia		1,413,703	156,481
Total funds received		11,156,057	3,669,883
Expenditures:			
Cumulative project expenditure	7	10,002,071	38,241
Total Expenditures		10,002,071	38,241
Foreign exchange gain, net		1,837	1,399
TOTAL NET ASSETS		1,155,823	3,633,041

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 5
LOAN NO. 3617-GEO**

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

Withdrawal No.	Withdrawal application date	Total SOE	Works and Goods	Consulting services and incremental administration
00003	08 Apr 2019	783,961	763,096	20,865
00005	30 Sep 2019	1,024,979	948,639	76,340
00006	27 Sep 2019	864,636	674,139	190,497
00010	20 Dec 2019	1,152,195	1,036,017	116,178
		3,825,771	3,421,891	403,880

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 5
LOAN NO. 3617-GEO**

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

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

Opening Balance	<u>2,709,079</u>
Funds received from ADB	3,825,770
Present outstanding amount advanced to DA	<u>6,534,849</u>
DA closing balance as at 31 December 2019	3,421,915
Add: Amount of eligible expenditure paid	<u>3,112,934</u>
Total advance accounted for	<u><u>6,534,849</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 5
LOAN NO. 3617-GEO**

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

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. 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").

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 provisions of Loan Agreement No. 3617-GEO dated 19 December 2017 to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia and Asian Development Bank.

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.

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 Euro ("EURO" or "EUR").

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. Translation in EUR is done manually as MDF does not have EUR module of accounting system implemented. It is planned to develop the module especially for SUTIP 5 in the near future.

**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 2019 (CONTINUED)
(in Euros)**

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

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.

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 the 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

**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 2019 (CONTINUED)
(in Euros)**

6. PREPAYMENTS

	<u>31 December 2019</u>	<u>31 December 2018</u>
Advances to contractors	887,714	923,962
Total:	<u>887,714</u>	<u>932,962</u>

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.

7. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	<u>Year to date</u>	<u>Cumulative to date</u>
Works and goods	7,880,925	7,880,925
Consulting services and training	469,217	490,267
Interest and commitment charges	-	13,402
ADB TOTAL	<u>8,350,142</u>	<u>8,384,594</u>
Works and goods	1,524,314	1,524,314
Consulting services and incremental administration	89,374	93,163
GoG TOTAL	<u>1,613,688</u>	<u>1,617,477</u>
TOTAL PROJECT EXPENDITURE	<u>9,963,830</u>	<u>10,002,071</u>

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 2019 and on the funds received and disbursed during the year then ended.

**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 2019 (CONTINUED)
(in Euros)**

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, 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.