

# **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 2019



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# Independent auditor's report

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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 2019, the statement of Project sources and uses of funds, the imprest account statements in US dollars, the imprest account statements in GEL and government co-financing account statement as of and for the year ended 31 December 2019, statement of expenditures ("SOEs") submitted to the ADB for the year ended 31 December 2019 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 2019 and the funds received and expenses incurred 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- the MDF has utilized all proceeds of the loan withdrawn from the ADB only for purposes of the Project as agreed between the ADB and Georgia, in accordance with the loan agreement; and no proceeds of the loan have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 2018; and (b) these receipts and payments support Imprest accounts liquidations/replenishments during the year ended 31 December 2019.

### *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 a Matter*

- 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 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.
- We draw attention to note 3 to the project financial statements, which states that the closing date of the Project was defined as 18 July 2020. Our opinion is not modified in respect of this matter.
- We draw attention to note 12 to the financial statements, which describes the effect of a new disease COVID-19. The financial statements do not reflect the possible effects of the above. 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 Project 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.

Armen Hovhannisyan  
Chief Executive Officer

Emil Vassilyan, FCCA  
Engagement Partner

29 June 2020



# Statement of financial position

In US dollars

	Note	As of 31 December 2019	As of 31 December 2018
<b>Assets</b>			
<i>Non-current assets</i>			
Accumulated Project expenses		57,871,401	56,590,428
		<u>57,871,401</u>	<u>56,590,428</u>
<i>Current assets</i>			
Advances	4	420,058	20,513
Bank balances	5	3,210,602	5,025,334
		<u>3,630,660</u>	<u>5,045,847</u>
<b>Total assets</b>		<u><u>61,502,061</u></u>	<u><u>61,636,275</u></u>
<b>Funds</b>			
<i>Funds</i>			
Accumulated Project financing		66,735,290	67,175,876
Foreign exchange rate differences		(5,537,615)	(5,542,264)
		<u>61,197,675</u>	<u>61,633,612</u>
<i>Liabilities</i>			
Accounts payable	6	304,386	2,663
		<u>304,386</u>	<u>2,663</u>
<b>Total funds and liabilities</b>		<u><u>61,502,061</u></u>	<u><u>61,636,275</u></u>

The project financial statements were approved on 29 June 2020 by:

George Shengelia  
Executive Director



Levan Sharvadze  
Deputy Director, CFO



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 2019  
In US dollars

	Actual		Planned		Variance	
	For the year	As of 31 December 2019	For the year	As of 31 December 2019	For the year	As of 31 December 2019
<i>Sources of funds</i>						
ADB funds/(redemptions) (note 7)	(643,781)	51,395,231				
Government co-financing	203,195	15,340,059				
	<u>(440,586)</u>	<u>66,735,290</u>				
Foreign exchange rate differences	4,649	(5,537,615)				
<i>Less: Project expenses</i>						
ADB loan No 2879 – GEO (SF) and loan No 2880-GEO (SF) (note 8.1)	1,080,596	42,538,103	1,158,360	42,615,867	(77,764)	(77,764)
Government co-financing (note 8.2)	200,377	15,333,298	208,505	15,341,426	(8,128)	(8,128)
Total	<u>1,280,973</u>	<u>57,871,401</u>	<u>1,366,865</u>	<u>57,957,293</u>	<u>(85,892)</u>	<u>(85,892)</u>
Net increase/(decrease) in working capital (note 9)	<u>(1,716,910)</u>	<u>3,326,274</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.

# SOE withdrawal schedule

For the year ended 31 December 2019  
 Loan Agreement No. 2879-GEO  
 In US dollars

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB43	Works and Goods	46,589	74.58%	34,746
	Consulting services	113,616	70.82%	80,463
				<u>115,209</u>
ADB44	Works and Goods	24,047	74.58%	17,934
	Consulting services	78,081	70.82%	55,297
				<u>73,231</u>
Total				<u><b>188,440</b></u>

For the year ended 31 December 2019  
 Loan Agreement No. 2880-GEO (SF)  
 In US dollars  
**Loan No 2880**

Application No.	Category	Total	ADB percentage of financing	Eligible expense
ADB41	Works and Goods	36,101	25.42%	9,177
	Consulting Services	394,280	29.18%	115,051
				<u>124,228</u>
ADB43	Works and Goods	46,589	25.42%	11,843
	Consulting services	113,588	29.18%	33,145
				<u>44,988</u>
ADB44	Works and Goods	24,048	25.42%	6,113
	Consulting services	78,081	29.18%	22,784
				<u>28,897</u>
Total				<u><b>198,113</b></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 2019*

*Loan Agreement No. 2879-GEO*

*In US dollars*

Opening balance as of 1 January 2019	3,788,805
<i>Less:</i>	
Refund to ADB	(897,054)
Total outflow	<u>(897,054)</u>
<i>Less:</i>	
Transfer to GEL imprest account	(614,001)
Total outflow	<u>(614,001)</u>
Closing balance as of 31 December 2019	<u>2,277,750</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 (GEL)

*As of and for the year ended 31 December 2019*

*Loan Agreement No. 2879-GEO*

*In US dollars*

Opening balance as of 1 January 2019	-
<i>Add:</i>	
Transfer from the USD imprest account	614,001
Total inflow	<u>614,001</u>
Foreign exchange rate difference	18
<i>Less:</i>	
Works and Goods	(352,212)
Consulting Services	<u>(261,807)</u>
Total outflow	<u>(614,019)</u>
Closing balance as of 31 December 2019	<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 2019*

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

*In US dollars*

Opening balance as of 1 January 2019	1,236,530
<i>Add:</i>	
ADB loan replenishment during the year	124,228
Refund to ADB	(200,000)
Total outflow	<u>(75,772)</u>
<i>Less:</i>	
Transfer to GEL imprest account	(227,906)
Total outflow	<u>(227,906)</u>
Closing balance as of 31 December 2019	<u>932,852</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 (GEL)

As of and for the year ended 31 December 2019

Loan Agreement No. 2880-GEO (SF)

In US dollars

Opening balance as of 1 January 2019	-
<i>Add:</i>	
Transfer from the USD imprest account	227,906
Total inflow	<u>227,906</u>
Foreign exchange rate difference	15
<i>Less:</i>	
Works and Goods	(120,049)
Consulting Services	<u>(107,872)</u>
Total outflow	<u>(227,921)</u>
Closing balance as of 31 December 2019	<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.

# Government co-financing account (GEL) statement

*As of and for the year ended 31 December 2019*

*In US dollars*

Opening balance as of 1 January 2019	-
<i>Add:</i>	
Government co-financing	203,195
Total inflow	<u>203,195</u>
<i>Less:</i>	
Works and Goods	(132,362)
Consulting Services	<u>(70,833)</u>
Total outflow	<u>(203,195)</u>
Closing balance as of 31 December 2019	<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 24 July 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 on 24 July 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 162 (2018: 146).

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:

Category	Total Amount Allocated for ADB Financing (in USD)	ADB Financing Basis
1 Works and Goods	34,571,291	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
<b>TOTAL</b>	<b>38,948,691</b>	

The financing of Loan Agreement No. 2880-GEO (SF) is implemented through the following categories:

Category	Total Amount Allocated for ADB Financing (in SDR)	ADB Financing Basis
1 Works and Goods	8,223,270	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
<b>TOTAL</b>	<b>9,204,270</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 2.8677 lari for 1 US dollar as of 31 December 2019 (2.6766 lari for 1 US dollar as of 31 December 2018). 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 18 July 2020.

### 4 Advances

In US dollars	As of 31 December 2019	As of 31 December 2018
Advances to the contractors	419,606	20,029
Other	452	484
	<u>420,058</u>	<u>20,513</u>

### 5 Bank balances

In US dollars	As of 31 December 2019	As of 31 December 2018
Imprest account (USD) of Loan Agreement No. 2879-GEO	2,277,750	3,788,804
Imprest account (USD) of Loan Agreement No. 2880-GEO (SF)	932,852	1,236,530
	<u>3,210,602</u>	<u>5,025,334</u>

### 6 Accounts payable

In US dollars	As of 31 December 2019	As of 31 December 2018
Payables to contractors	300,962	-
Retentions	3,424	2,663
	<u>304,386</u>	<u>2,663</u>

## 7 ADB funds

In US dollars	For the year ended 31 December 2019	As of 31 December 2019
<i>Loan No. 2879-GEO</i>		
SOE procedures	188,440	19,473,245
Direct payments	245,334	14,456,337
Imprest account advance (redemption), net	(188,440)	3,673,596
Refund	(897,054)	(897,054)
Interest charge	-	1,616,401
	<u>(651,720)</u>	<u>38,322,525</u>
<i>Loan No. 2880-GEO (SF)</i>		
SOE procedures	198,113	6,717,933
Direct payments	83,711	4,927,421
Imprest account advance (redemption), net	(73,885)	1,315,769
Refund	(200,000)	(200,000)
Interest charge	-	311,583
	<u>7,939</u>	<u>13,072,706</u>
Total	<u>(643,781)</u>	<u>51,395,231</u>

## 8 Project expenses

### 8.1 From ADB funds

In US dollars	Actual		Planned		Variance	
	For the year	As of 31 December 2019	For the year	As of 31 December 2019	For the year	As of 31 December 2019
<i>Loan No.2879-GEO and Loan No. 2880-GEO (SF)</i>						
Works and Goods	664,566	38,677,053	848,360	38,860,847	(183,794)	(183,794)
Consulting services	416,030	1,933,066	310,000	1,827,036	106,030	106,030
Interest charge	-	1,927,984	-	1,927,984	-	-
Total	<u>1,080,596</u>	<u>42,538,103</u>	<u>1,158,360</u>	<u>42,615,867</u>	<u>(77,764)</u>	<u>(77,764)</u>

### 8.2 From government co-financing funds

In US dollars	Actual		Planned		Variance	
	For the year	As of 31 December 2019	For the year	As of 31 December 2019	For the year	As of 31 December 2019
Works and Goods	120,931	6,963,178	152,705	6,994,952	(31,774)	(31,774)
Consulting services	79,446	451,831	55,800	428,185	23,646	23,646
Resettlement expenses	-	7,918,289	-	7,918,289	-	-
Total	<u>200,377</u>	<u>15,333,298</u>	<u>208,505</u>	<u>15,341,426</u>	<u>(8,128)</u>	<u>(8,128)</u>

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

In US dollars	For the year ended 31 December 2019	As of December 31, 2019
Increase/(decrease) in bank balances	(1,814,732)	3,210,602
Increase in advances	399,545	420,058
(Increase) in accounts payable	(301,723)	(304,386)
	<u>(1,716,910)</u>	<u>3,326,274</u>

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

For the year ended 31 December 2019

Loan Agreement No. 2879-GEO

In US dollars

Category	Appl.	MDF	ADB	Difference
Works and Goods	ADB 43	34,746	34,746	-
	ADB 44	17,934	17,934	-
	ADB 45	71,499	71,499	-
	ADB 46	104,467	104,467	-
	ADB 47	69,368	69,368	-
		<u>298,014</u>	<u>298,014</u>	-
Consulting Services	ADB 43	80,463	80,463	-
	ADB 44	55,297	55,296	-
		<u>135,760</u>	<u>135,760</u>	-
Imprest account advance redemption	ADB 43	(115,209)	(115,209)	-
	ADB 44	(73,231)	(73,231)	-
		<u>(188,440)</u>	<u>(188,440)</u>	-
Refund		(897,054)	(897,054)	-
		<u>(651,720)</u>	<u>(651,720)</u>	-

For the year ended 31 December 2019  
 Loan Agreement No. 2880-GEO (SF)  
 In US dollars

Category	Appl.	MDF	ADB	Difference
Works and Goods	ADB 41	9,177	9,177	-
	ADB 43	11,843	11,843	-
	ADB 44	6,113	6,113	-
	ADB 45	24,370	24,370	-
	ADB 46	35,661	35,661	-
	ADB 47	23,680	23,680	-
		<u>110,844</u>	<u>110,844</u>	<u>-</u>
Consulting Services	ADB 41	115,051	115,051	-
	ADB 43	33,145	33,145	-
	ADB 44	22,784	22,784	-
		<u>170,980</u>	<u>170,980</u>	<u>-</u>
Imprest account advance redemption	ADB 43	(44,988)	(44,988)	-
	ADB 44	(28,897)	((28,897)	-
		<u>(73,885)</u>	<u>(73,885)</u>	<u>-</u>
Refund		(200,000)	(200,000)	-
		<u>7,939</u>	<u>7,939</u>	<u>-</u>

## 11 Project implementation

As of 31 December 2019 only 81% 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 and Goods	83%
Consulting Services	51%
Interest charge	100%
Total	<u>81%</u>

## 12 Subsequent events

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The impact of the coronavirus outbreak is unknown at this time. The developing situation with COVID-19 may have some impact on the continuity or the volume of the operations of the MDF. The Government of Georgia announced a state of emergency in the country. These project financial statements do not reflect the potential effect of the above.