

**TRANSPORT REFORM AND
REHABILITATION CENTER**

LOAN NO.8599-GE

(SECONDARY ROAD ASSET MANAGEMENT PROJECT)

Special Purpose Project Financial Statements

For the Period from 6 July 2016 to 31 December 2017

TRANSPORT REFORM AND REHABILITATION CENTER SECONDARY ROAD ASSET MANAGEMENT PROJECT LOAN NO.8599-GE

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**TRANSPORT REFORM AND REHABILITATION CENTER
SECONDARY ROAD ASSET MANAGEMENT PROJECT
LOAN NO.8599-GE**

**STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017**

Management of the Secondary Road Asset Management Project (the “Project”) implemented by the Transport Reform and Rehabilitation Center (“TRRC”) is responsible for the preparation of the special purpose project financial statements that present fairly the financial position of the Project as at 31 December 2017, and its sources and uses of funds and movement in designated account for the period from 6 July 2016 to 31 December 2017, in compliance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* (“IPSAS – Cash Basis”), and in conformity with the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “World Bank Guidelines”).

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

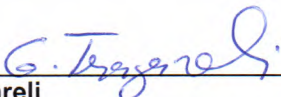
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis are insufficient to 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 designated accounts;
- Making an assessment of the Projects ability to continue as a going concern.

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, and which enable them to ensure that the special purpose project financial statements of the Project comply with the Guidelines on Annual Financial Reporting and Auditing for World Bank – Financed Activities issued by the World Bank’s Financial Management Sector Board;
- 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 period from 6 July 2016 to 31 December 2017 were authorized for issue on 29 June 2018 by the Management.

On behalf of Management:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

29 June 2018

29 June 2018



KPMG Georgia LLC
5th floor, GMT Plaza,
4 Liberty Square
0105 Tbilisi, Georgia
Telephone +995 322 93 57 13
Internet www.kpmg.ge

Independent Auditors' Report on Special Purpose Project Financial Statements

To the management of Transport Reform and Rehabilitation Center

Opinion

We have audited the special purpose project financial statements of the Secondary Road Asset Management Project (the "Project"), financed under the International Bank for Reconstruction and Development (the "IBRD"), Loan Agreement No. 8599-GE, dated 28 March 2016, implemented by the Transport Reform and Rehabilitation Center (the "Center"), which comprise the Statement of Balance Sheet as at 31 December 2017 and the Statements of Sources and Uses of Funds, and Designated Account for the period from 6 July 2016 to 31 December 2017, and notes, comprising a summary of significant accounting policies and other explanatory information. The special purpose project financial statements have been prepared by management in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines") as described in Note 2 to the special purpose project financial statements.

In our opinion, the accompanying special purpose project financial statements present fairly, in all material respects, the financial position of the Project as at 31 December 2017, and its sources and uses of funds for the period from 6 July 2016 to 31 December 2017 in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and the World Bank Guidelines.

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 *Auditors' Responsibilities for the Audit of the Special Purpose Project Financial Statements* section of our report. We are independent of the Center in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit for the special purpose project financial statements in Georgia and we have fulfilled our other ethical responsibilities in accordance with 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 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 Center to comply with the requirements of IBRD and for providing information to the Government of Georgia and IBRD to assist them in evaluating the Project implementation. As a result, the special purpose project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



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

Management is responsible for the preparation and fair presentation of these special purpose project financial statements in accordance with the International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting and the World Bank Guidelines, for determining the acceptability of the basis of accounting 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 Center's financial reporting process.

Auditors' 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 auditors' 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.

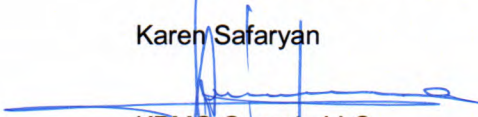
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess 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 Center's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the special purpose project financial statements, including the disclosures, and whether the special purpose project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

The engagement partner on the audit resulting in this independent auditors' report is:

Karen Safaryan


KPMG Georgia LLC
Tbilisi, Georgia
29 June 2018

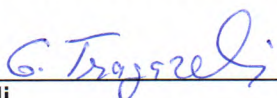
**TRANSPORT REFORM AND REHABILITATION CENTER
SECONDARY ROAD ASSET MANAGEMENT
LOAN NO. 8599-GE**

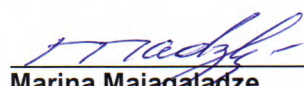
**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017**

(in US Dollars)

	Actual as at 31 December 2017		Planned as at 31 December 2017		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
International Bank for Reconstruction and Development ("IBRD") Funds	6,503,471	6,503,471				
Government of Georgia ("GoG") co-financing	-	-				
TOTAL FUNDS RECEIVED	6,503,471	6,503,471				
LESS: EXPENDITURES						
Component 1 – Road Asset Improvement and Preservation (IBRD Share)	1,813,747	1,813,747	1,813,747	1,813,747	-	-
IBRD TOTAL	1,813,747	1,813,747	1,813,747	1,813,747	-	-
Component 1 – Road Asset Improvement and Preservation (GOG Share)	-	-	-	-	-	-
GoG TOTAL	-	-	-	-	-	-
TOTAL EXPENDITURES BY COMPONENTS	1,813,747	1,813,747	1,813,747	1,813,747	-	-
UNALLOCATED						
Front end fees	100,000	100,000	100,000	100,000	-	-
TOTAL UNALLOCATED EXPENDITURES	100,000	100,000	100,000	100,000	-	-
TOTAL PROJECT EXPENDITURES	1,913,747	1,913,747	1,913,747	1,913,747	-	-
NET FLOWS OF FUNDS	4,589,724	4,589,724				

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 29 June 2018 and were signed on its behalf by:


Giorgi Tsagareli
Director


Marina Majagafadze
Financial Manager

29 June 2018

29 June 2018

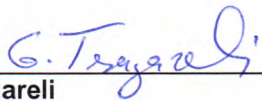
The notes on pages 7 to 11 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
SECONDARY ROAD ASSET MANAGEMENT
LOAN NO. 8599-GE**

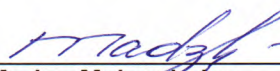
**STATEMENT OF BALANCE SHEET
AS OF 31 DECEMBER 2017
(in US Dollars)**

	<u>31 December 2017</u>
ASSETS	
IBRD Designated Account	<u>4,589,724</u>
TOTAL ASSETS	<u>4,589,724</u>
Funds received:	
Funds received from IBRD for the period from 6 July 2016 to 31 December 2017	6,503,471
Funds received from GoG for the period from 6 July 2016 to 31 December 2017	<u>-</u>
Total funds received	<u>6,503,471</u>
Project expenditures:	
Financed by IBRD for the period from 6 July 2016 to 31 December 2017	1,813,747
Financed by GoG for the period from 6 July 2016 to 31 December 2017	-
Unallocated	<u>100,000</u>
Total project expenditures for the period from 6 July 2016 to 31 December 2017	<u>1,913,747</u>
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS FOR THE PERIOD	<u><u>4,589,724</u></u>

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 29 June 2018 and were signed on its behalf by:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

29 June 2018

29 June 2018

The notes on pages 7 to 11 form an integral part of these special purpose project financial statements

**TRANSPORT REFORM AND REHABILITATION CENTER
SECONDARY ROAD ASSET MANAGEMENT
LOAN NO. 8599-GE**

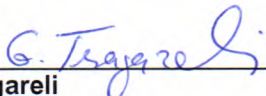
**STATEMENT OF DESIGNATED ACCOUNT
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017
(in US Dollars)**

Account No.	202258247
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 6 July 2016	_____ -
ADD	
Funds received from IBRD from 6 July 2016 to 31 December 2017*	_____ 6,403,471
DEDUCT	
Funds used for the Project expenditures from 6 July 2016 to 31 December 2017	_____ (1,813,747)
Balance as at 31 December 2016	<u>_____ 4,589,724</u>

*Excluding Front end fee

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 29 June 2018 and were signed on its behalf by:



Giorgi Tsagareli
Director

29 June 2018



Marina Majagaladze
Financial Manager

29 June 2018

The notes on pages 7 to 11 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
SECONDARY ROAD ASSET MANAGEMENT
LOAN NO. 8599-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017
(in US Dollars)**

1. BACKGROUND

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity under the laws of Georgia in accordance with the Georgian Presidential Decree. The founder of the Investment Center for Euro-Asian Transport Corridor is the Georgian Government. N119 dated 16 April 1995. The founder of the investment center for Euro-Asian Transport Corridor is the Georgian Government.

A project unit named "Transport Reform and Rehabilitation Center" (the "Center") was formed within the Investment Center for Euro-Asian Transport Corridor. The Center's principal activity is to manage allocated credits/loans received from the International Development Association ("IDA"), the International Bank for Reconstruction and Development ("IBRD"), the Asian Development Bank (ADB) and the European Investment Bank (EIB) and monitor the implementation of transport sector projects.

The Center implements the Secondary Road Asset Management Project (the "Project"), financed under the International Bank for Reconstruction and Development (the "IBRD"). Loan Agreement No.8599-GE (the "Agreement") in the amount of US Dollars ("USD") 40 million was signed between the Government of Georgia ("GoG") and IBRD on 6 July 2016 ("inception"). The main objectives of the loan are: Rehabilitation and maintenance of secondary road sections in Guria region, rehabilitation of secondary road sections in Mtsketa-Mtianeti, Racha-Lechkhumi and Shida Kartli regions. Capacity strengthening of Road Department of the Ministry of Regional Development and Infrastructure of Georgia (RD) to enhance bridge management unit to improve data collection practices and quality, collection and maintenance of inventory and condition data on bridges on secondary roads. Scaling up the use of Georgian Road Safety Assessment Program (GeoRAP) to secondary roads in Mtskheta-Mtianeti, Racha-Lechkhumi and Shida Kartli regions, as well as, carrying out road safety awareness and education campaign in Guria Region.

The project will also strengthen the capacity of RD to integrate climate resilience practices into road asset management through provision of technical assistance to support assessment of vulnerability of secondary roads in Racha region to climate change and development and implementation of priority climate resilient measures.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – These special purpose project financial statements have been prepared in accordance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under a Cash Basis of Accounting* and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" (the "World Bank Guidelines").

The purpose of these special purpose project financial statements is to provide information to the Government of Georgia and International Bank for Reconstruction and Development (IBRD) to assist them in evaluating the Project implementation.

Cash basis of accounting - Project financing is recognized as a source of project funds when the cash is received. Project expenditures are recognized as a use of project funds when the payments are made.

Presentation currency – The national currency of Georgia is the Georgian Lari ("GEL"). These special purpose project financial statements are presented in United States Dollars ("US Dollar" or "USD"), in conformity with World Bank Guidelines. All financial information presented in USD has been rounded to the nearest USD unless otherwise stated.

**TRANSPORT REFORM AND REHABILITATION CENTER
SECONDARY ROAD ASSET MANAGEMENT
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017
(in US Dollars)**

Transactions in other currencies – Transactions in currencies other than reporting currencies are converted to US Dollars at the exchange rate prevailing at the date of the transaction.

Cash – Cash represents balances with State Treasury.

3. DESIGNATED ACCOUNT

Designated account is a designated disbursement account of the Project that will be maintained in US Dollars at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorization from IBRD in accordance with the Agreement.

4. BASIS OF FUNDING

The total cost of the Project is estimated at USD 48 million. The expenditures of all works, goods and consultant service contracts, including all applicable taxes amounted to USD 40 million is co-financed by proceeds received from IBRD. The balance of USD 8 million, of total Project cost is co-financed by proceeds received from the GoG.

The land acquisition and associated resettlement costs are funded entirely by the GoG.

5. METHODS OF WITHDRAWAL

The Project is designed as a results-based Investment Project Financing, and particular Disbursement Linked Indicators (DLIs) are determined by the Loan Agreement.

The methods of withdrawal used from the inception of the loan to 31 December 2017 were as follows:

(a) Designated Account

The Center withdraws the eligible amounts from the designated account. Eligible expenditures are documented through Interim un-audited Financial Reports (IFRs). After the review of IFRs by World Bank, Withdrawal Application is prepared with attached approved IFRs as supporting document. Based on Application appropriate amount is transferred to the designated account.

(b) Direct Payment

Available amounts are drawn from time to time within limits determined under the loan agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by the World Bank directly to third parties. The Center forms withdrawal applications for request of direct payments and sends it to the World Bank, for settlement.

(c) GoG Current Account

The Project maintains a separate account where funds from the GOG are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred. The project has common GEL account and special organization code for their funds in Treasury.

**TRANSPORT REFORM AND REHABILITATION CENTER
SECONDARY ROAD ASSET MANAGEMENT
LOAN NO. 8599-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017
(in US Dollars)**

**6. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE IBRD TO ACTUAL
EXPENDITURES OF THE PROJECT**

	<u>31 December 2017</u>
Application of Withdrawals Schedule	
Expenses incurred from 6 July 2016 to 31 December 2017 as per the Applications of Withdrawals Schedule	-
Expenses incurred from 6 July 2016 to 31 December 2017 without Applications of Withdrawals Schedule	-
Expenses incurred from 6 July 2016 to 31 December 2017 as per Interim Financial Reports*	<u>1,813,747</u>
	<u>1,813,747</u>
IBRD funds received in from 6 July 2016 to 31 December 2017	6,503,471
Front and Fees	(100,000)
Add:	
Opening Balance	
Designated Account	-
	-
Less:	
Closing Balance	
Designated Account	(4,589,724)
	<u>(4,589,724)</u>
TOTAL EXPENDITURES INCURRED IN 2017	<u>1,813,747</u>

* Eligibility of expenditures are documented through Interim un-audited Financial Reports (IFRs)

**TRANSPORT REFORM AND REHABILITATION CENTER
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017
(in US Dollars)**

7. PROJECT EXPENDITURES BY COMPONENTS

Project activities	Actual as at 31 December 2017		Planned as at 31 December 2017		Variance	
	Period to date	Cumulative to date	Period to date	Cumulative to date	Period to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Component 1 – Road Asset Improvement and Preservation						
Civil Works	1,449,783	1,449,783	1,449,783	1,449,783	-	-
Consultancy services	363,964	363,964	363,964	363,964	-	-
					-	-
TOTAL COMPONENT 1	1,813,747	1,813,747	1,813,747	1,813,747		
TOTAL EXPENDITURES BY COMPONENTS	1,813,747	1,813,747	1,813,747	1,813,747	-	-
UNALLOCATED						
Front end fees	100,000	100,000	100,000	100,000	-	-
TOTAL UNALLOCATED EXPENDITURE	100,000	100,000	100,000	100,000	-	-
TOTAL PROJECT EXPENDITURES	1,913,747	1,913,747	1,913,747	1,913,747	-	-

The Project consists of two components:

- Support improvement and preservation of secondary road assets and improve access of Georgian to social services and economic activities in less connected and poor regions through innovative performance based contracting methods: output and performance-based road contract (OPRC) and design-build contracts;
- Support institutional reforms aimed at integrating and enhancing Road Department's (RD) capacity in multi-year programming and annual planning for secondary road assets on a country level by enhancing road asset management system (RAMS) and by supporting climate resilience.

The categories of expenditures incurred are presented in line with the categories specified in the Agreement.

8. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on this special purpose project financial statements as at 31 December 2017 for the period then ended.

**TRANSPORT REFORM AND REHABILITATION CENTER
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM 6 JULY 2016 TO 31 DECEMBER 2017
(in US Dollars)**

9. GEORGIAN OPERATING ENVIRONMENT

The Center's operations are located in Georgia. Consequently, the Center is exposed to the economic and financial markets of Georgia, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Georgia. The special purpose project financial statements reflect management's assessment of the impact of the Georgian operating environment on the operations of the Center. The future operating environment may differ from management's assessment.

10. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

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

11. APPROVAL OF FINANCIAL STATEMENTS

These special purpose project financial statements were authorized for issue by the management of the Center on 29 June 2018.