

**TRANSPORT REFORM AND  
REHABILITATION CENTER**

LOAN NO.8402-GE

(THIRD SECONDARY AND LOCAL ROADS PROJECT)

**Special Purpose Project Financial Statements**

**For the Year Ended 31 December 2017**

**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS REHABILITATION  
LOAN NO.8402-GE**

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**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS REHABILITATION  
LOAN NO.8402-GE**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION  
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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Management of the Third Secondary And Local Roads 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 year ended 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 financial statements, management is responsible for:

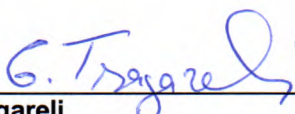
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis 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 year ended 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 5713  
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 Third Secondary And Local Roads Project (the "Project"), financed under the International Bank for Reconstruction and Development (the "IBRD"), Loan Agreement No. 8402-GE, dated 9 July 2014, 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, Expenditures Withdrawal Schedule ("SOEs") and Designated Account for the year then ended, 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 year then ended 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 14 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.

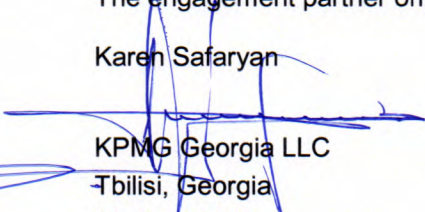
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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

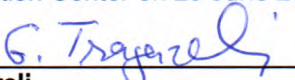


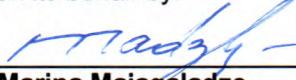
**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS PROJECT  
LOAN NO. 8402-GE**

**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2017  
(in US Dollars)**

|  | Actual as at<br>31 December 2017 |                       | Planned as at<br>31 December 2017 |                       | Variance        |                       |
|--|----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------|-----------------------|
|  | Year<br>to date                  | Cumulative<br>to date | Year<br>to date                   | Cumulative<br>to date | Year<br>to date | Cumulative<br>to date |
|  |                                  |                       | Unaudited                         | Unaudited             | Unaudited       | Unaudited             |
| <b>FUNDS RECEIVED BY SOURCES</b>   |                                  |                       |                                   |                       |                 |                       |
| International Bank for<br>Reconstruction and Development<br>("IBRD") Funds                               | 12,713,386                       | 39,535,005            |                                   |                       |                 |                       |
| Government of Georgia<br>("GoG") co-financing  | 3,377,684                        | 11,557,110            |                                   |                       |                 |                       |
| <b>TOTAL FUNDS RECEIVED</b>  | <b>16,091,070</b>                | <b>51,092,115</b>     |                                   |                       |                 |                       |
| Foreign exchange differences   | -                                | 576                   |                                   |                       |                 |                       |
| <b>LESS: EXPENDITURES</b>  |                                  |                       |                                   |                       |                 |                       |
| Component 1 – Rehabilitation and<br>Improvement of Selected Secondary<br>and Local Roads<br>(IBRD - 80%) | 12,207,207                       | 37,801,970            | 12,207,207                        | 37,801,970            | -               | -                     |
| Component 2 – Institutional<br>Strengthening and Project<br>Management (IBRD - 80%)                      | 85,462                           | 163,175               | 85,462                            | 163,175               | -               | -                     |
| <b>IBRD TOTAL</b>  | <b>12,292,669</b>                | <b>37,965,145</b>     | <b>12,292,669</b>                 | <b>37,965,145</b>     | <b>-</b>        | <b>-</b>              |
| Component 1 – Rehabilitation and<br>Improvement of Selected Secondary<br>and Local Roads<br>(GoG -20%)   | 3,356,330                        | 11,516,310            | 3,356,330                         | 11,516,310            | -               | -                     |
| Component 2 – Institutional<br>Strengthening and Project<br>Management (GoG - 20%)                       | 21,354                           | 40,809                | 21,354                            | 40,809                | -               | -                     |
| <b>GoG TOTAL</b>   | <b>3,377,684</b>                 | <b>11,557,119</b>     | <b>3,377,684</b>                  | <b>11,557,119</b>     | <b>-</b>        | <b>-</b>              |
| <b>TOTAL EXPENDITURES BY<br/>COMPONENTS</b>  | <b>15,670,353</b>                | <b>49,522,264</b>     | <b>15,670,353</b>                 | <b>49,522,264</b>     | <b>-</b>        | <b>-</b>              |
| <b>UNALLOCATED</b>   |                                  |                       |                                   |                       |                 |                       |
| Front end fees   | -                                | 187,500               | -                                 | 187,500               | -               | -                     |
| <b>TOTAL UNALLOCATED<br/>EXPENDITURES</b>  | <b>-</b>                         | <b>187,500</b>        | <b>-</b>                          | <b>187,500</b>        | <b>-</b>        | <b>-</b>              |
| <b>TOTAL PROJECT EXPENDITURES</b>  | <b>15,670,353</b>                | <b>49,709,764</b>     | <b>15,670,353</b>                 | <b>49,709,764</b>     | <b>-</b>        | <b>-</b>              |
| <b>NET FLOWS OF FUNDS</b>  | <b>420,717</b>                   | <b>1,382,927</b>      |                                   |                       |                 |                       |

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 9 to 14 form an integral part of these special purpose project financial statements



**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS PROJECT  
LOAN NO. 8402-GE**

**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2017  
(in US Dollars)**

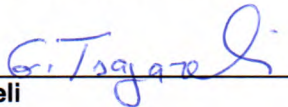
|  | Actual as at<br>31 December 2016 |                       | Planned as at<br>31 December 2016 |                       | Variance         |                       |
|--|----------------------------------|-----------------------|-----------------------------------|-----------------------|------------------|-----------------------|
|  | Year<br>to date                  | Cumulative<br>to date | Year<br>to date                   | Cumulative<br>to date | Year<br>to date  | Cumulative<br>to date |
|  |                                  |                       | <i>Unaudited</i>                  | <i>Unaudited</i>      | <i>Unaudited</i> | <i>Unaudited</i>      |
| <b>FUNDS RECEIVED BY SOURCES</b>   |                                  |                       |                                   |                       |                  |                       |
| International Bank for<br>Reconstruction and Development<br>("IBRD") Funds                               | 10,875,406                       | 26,821,619            |                                   |                       |                  |                       |
| Government of Georgia<br>("GoG") co-financing  | 4,991,770                        | 8,179,426             |                                   |                       |                  |                       |
| <b>TOTAL FUNDS RECEIVED</b>  | <b>15,867,176</b>                | <b>35,001,045</b>     |                                   |                       |                  |                       |
| Foreign exchange differences   | 576                              | 576                   |                                   |                       |                  |                       |
| <b>LESS: EXPENDITURES</b>  |                                  |                       |                                   |                       |                  |                       |
| Component 1 – Rehabilitation and<br>Improvement of Selected Secondary<br>and Local Roads<br>(IBRD - 80%) | 13,428,185                       | 25,594,762            | 13,428,185                        | 25,594,762            | -                | -                     |
| Component 2 – Institutional<br>Strengthening and Project<br>Management (IBRD - 80%)                      | 77,714                           | 77,714                | 77,714                            | 77,714                | -                | -                     |
| <b>IBRD TOTAL</b>  | <b>13,505,899</b>                | <b>25,672,476</b>     | <b>13,505,899</b>                 | <b>25,672,476</b>     | <b>-</b>         | <b>-</b>              |
| Component 1 – Rehabilitation and<br>Improvement of Selected Secondary<br>and Local Roads<br>(GoG -20%)   | 4,972,324                        | 8,159,980             | 4,972,324                         | 8,159,980             | -                | -                     |
| Component 2 – Institutional<br>Strengthening and Project<br>Management (GoG - 20%)                       | 19,455                           | 19,455                | 19,455                            | 19,455                | -                | -                     |
| <b>GoG TOTAL</b>   | <b>4,991,779</b>                 | <b>8,179,435</b>      | <b>4,991,779</b>                  | <b>8,179,435</b>      | <b>-</b>         | <b>-</b>              |
| <b>TOTAL EXPENDITURES BY<br/>COMPONENTS</b>  | <b>18,497,678</b>                | <b>33,851,911</b>     | <b>18,497,678</b>                 | <b>33,851,911</b>     | <b>-</b>         | <b>-</b>              |
| <b>UNALLOCATED</b>   |                                  |                       |                                   |                       |                  |                       |
| Front end fees   | -                                | 187,500               | -                                 | 187,500               | -                | -                     |
| <b>TOTAL UNALLOCATED<br/>EXPENDITURES</b>  | <b>-</b>                         | <b>187,500</b>        | <b>-</b>                          | <b>187,500</b>        | <b>-</b>         | <b>-</b>              |
| <b>TOTAL PROJECT EXPENDITURES</b>  | <b>18,497,678</b>                | <b>34,039,411</b>     | <b>18,497,678</b>                 | <b>34,039,411</b>     | <b>-</b>         | <b>-</b>              |
| <b>NET FLOWS OF FUNDS</b>  | <b>(2,629,926)</b>               | <b>962,210</b>        |                                   |                       |                  |                       |


**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
LOAN NO. 8402-GE**

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

|   | <u>31 December<br/>2017</u> | <u>31 December<br/>2016</u> |
|---|-----------------------------|-----------------------------|
| <b>ASSETS</b>                                     |                             |                             |
| IBRD Designated Account                           | 1,382,927                   | 962,210                     |
| <b>TOTAL ASSETS</b>                               | <u>1,382,927</u>            | <u>962,210</u>              |
| <b>Funds received:</b>                            |                             |                             |
| Funds received from IBRD                          | 39,535,005                  | 26,821,619                  |
| Funds received from GoG                           | 11,557,110                  | 8,179,426                   |
| <b>Total funds received</b>                       | <u>51,092,115</u>           | <u>35,001,045</u>           |
| <b>Project expenditures:</b>                      |                             |                             |
| Financed by IBRD                                  | (37,965,145)                | (25,672,476)                |
| Financed by GoG                                   | (11,557,119)                | (8,179,435)                 |
| Unallocated                                       | (187,500)                   | (187,500)                   |
| <b>Total project expenditures</b>                 | <u>(49,709,764)</u>         | <u>(34,039,411)</u>         |
| <b>Foreign exchange difference</b>                | <u>576</u>                  | <u>576</u>                  |
| <b>TOTAL PROJECT EXPENDITURES AND OTHER FUNDS</b> | <u>1,382,927</u>            | <u>962,210</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 9 to 14 form an integral part of these special purpose project financial statements.



**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS PROJECT  
LOAN NO. 8402-GE**

**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE  
FOR THE YEAR ENDED 31 DECEMBER 2017  
(in US Dollars)**

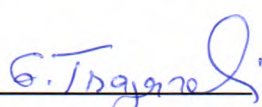
*Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2017:*

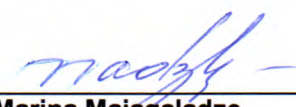
| Withdrawal No. | Withdrawal application date | Total SOE in withdrawal schedule | Total SOE attributable to 2016 | Total SOE attributable to 2017 | Attributable to 2017 - Component 1 | Attributable to 2017 - Component 2 | Total SOE attributable to 2018 |
|----------------|-----------------------------|----------------------------------|--------------------------------|--------------------------------|------------------------------------|------------------------------------|--------------------------------|
|                |                             |                                  |                                |                                |                                    |                                    | <i>Unaudited</i>               |
| 14             | 16-Jun-17                   | 1,658,541                        | -                              | 1,658,541                      | 1,640,299                          | 18,242                             | -                              |
| 15             | 5-Sep-17                    | 2,066,647                        | -                              | 2,066,647                      | 2,048,409                          | 18,238                             | -                              |
| 16             | 1-Dec-17                    | 1,507,243                        | -                              | 1,507,243                      | 1,494,281                          | 12,962                             | -                              |
| 20             | 8-Jun-18                    | 657,651                          | -                              | 338,694                        | 331,289                            | 7,405                              | 318,957                        |
|                |                             | <b>5,890,082</b>                 |                                | <b>5,571,125</b>               | <b>5,534,768</b>                   | <b>36,357</b>                      | <b>318,957</b>                 |

*Statement of Expenditure Withdrawal Schedule for the year ended 31 December 2016:*

| Withdrawal No. | Withdrawal application date | Total SOE in withdrawal schedule | Total SOE attributable to 2015 | Total SOE attributable to 2016 | Attributable to 2016 - Component 1 | Attributable to 2016 - Component 2 | Total SOE attributable to 2017 |
|----------------|-----------------------------|----------------------------------|--------------------------------|--------------------------------|------------------------------------|------------------------------------|--------------------------------|
|                |                             |                                  |                                |                                |                                    |                                    | <i>Unaudited</i>               |
| 6              | 16-Mar-16                   | 462,758                          | 248,713                        | 214,044                        | 202,435                            | 11,609                             | -                              |
| 7              | 18-May-16                   | 982,674                          | -                              | 982,673                        | 969,916                            | 12,757                             | -                              |
| 8              | 20-Jun-16                   | 888,879                          | -                              | 888,878                        | 883,874                            | 5,005                              | -                              |
| 9              | 31-Aug-16                   | 2,033,767                        | -                              | 2,033,767                      | 2,016,585                          | 17,182                             | -                              |
| 10             | 27-Sep-16                   | 1,431,290                        | -                              | 1,431,290                      | 1,426,407                          | 4,883                              | -                              |
| 11             | 20-Oct-16                   | 1,239,848                        | -                              | 1,239,848                      | 1,237,729                          | 2,119                              | -                              |
| 12             | 20-Dec-16                   | 1,031,939                        | -                              | 1,031,939                      | 1,019,691                          | 12,248                             | -                              |
| 13             | 13-Jan-17                   | 1,282,682                        | -                              | 1,282,685                      | 1,279,876                          | 2,808                              | -                              |
|                |                             | <b>9,353,837</b>                 | <b>248,713</b>                 | <b>9,105,124</b>               | <b>9,036,513</b>                   | <b>68,611</b>                      | <b>-</b>                       |

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 9 to 14 form an integral part of these special purpose project financial statement



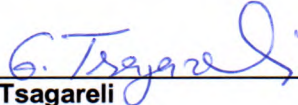
**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
LOAN NO. 8402-GE**


**STATEMENT OF DESIGNATED ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2017  
(in US Dollars)**

|                        |  |
|------------------------|--|
| <b>Account No.</b>     | 202250038  |
| <b>Depository Bank</b> | State Treasury                                     |
| <b>Address</b>         | 16 V. Gorgasali street<br>Tbilisi, 0114<br>Georgia |

|   |                  |
|---|------------------|
| <b>Balance as at 1 January 2017</b>             | <b>962,210</b>   |
| <b>ADD</b>                                      |                  |
| Funds received from IBRD in 2017                |                  |
| Replenishments                                  | 11,196,925       |
| Direct Payment                                  | 1,516,461        |
| Foreign exchange differences in 2017            | -                |
| <b>DEDUCT</b>                                   |                  |
| Funds used for the Project expenditures in 2017 |                  |
| Funds used via Designated Accounts              | 10,776,208       |
| Direct Payment                                  | 1,516,461        |
| <b>Balance as at 31 December 2017</b>           | <b>1,382,927</b> |
| <br>  |                  |
| <b>Balance as at 1 January 2016</b>             | <b>3,592,136</b> |
| <b>ADD</b>                                      |                  |
| Funds received from IBRD in 2016                |                  |
| Replenishments                                  | 10,875,406       |
| Direct Payment                                  | -                |
| Foreign exchange differences in 2016            | 567              |
| <b>DEDUCT</b>                                   |                  |
| Funds used for the Project expenditures in 2016 |                  |
| Funds used via Designated Accounts              | (13,505,899)     |
| Direct Payment                                  | -                |
| <b>Balance as at 31 December 2016</b>           | <b>962,210</b>   |

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 9 to 14 form an integral part of these special purpose project financial statements



**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
LOAN NO. 8402-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017  
(in US Dollars)**

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**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 Third Secondary and Local Roads Project (SLRP III) (the "Project"), financed under the International Bank for Reconstruction and Development (the "IBRD"). Loan Agreement No.8402-GE (the "Agreement") in the amount of US Dollars ("USD") 75 million was signed between the Government of Georgia ("GoG") and IBRD on 9 July 2014 ("inception"). The main objectives of the loan are: rehabilitation and improvement of about 200 kilometers of secondary and local roads, preparation of designs and supporting studies for future transport projects and strengthening the capacity of Government of Georgia, Road Department of the Ministry of Regional Development and Infrastructure of Georgia (RDMRDI).

**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.

**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.



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**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**

According to the terms of the Agreement, the expenditures of all works, goods and consultant services contracts, including all applicable taxes are co-financed by proceeds received from IBRD and the GoG at a proportional rate of 80% and 20%, respectively.

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

**5. METHODS OF WITHDRAWAL**

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 and prepares and sends replenishment requests to the World Bank with authorized signatures. The replenishment requests and respective documentation are reviewed by the World Bank and an approved 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.

**6. STATEMENT OF EXPENDITURES (SOE)**

Withdrawals are to be made on the basis of SOEs for expenses on contracts within the following contractual limits:

- (i) All expenditures for works valued at less than USD 4,000,000;
- (ii) Goods and non-consulting services valued at less than USD 300,000;
- (iii) Consultant services contracts (firms) valued at less than USD 200,000;
- (iv) Consultant services contracts (individuals) valued at less than USD 50,000.



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

|   | <u>31 December<br/>2017</u> |
|---|-----------------------------|
| <b>Application of Withdrawals Schedule</b>                                |                             |
| Expenses incurred in 2017 as per the Applications of Withdrawals Schedule | 12,292,669                  |
| Expenses incurred in 2017 without Applications of Withdrawals Schedule    | -                           |
|   | <u>12,292,669</u>           |
| <br>  |                             |
| IBRD funds received in 2017   | 12,713,386                  |
| Foreign exchange differences  | -                           |
| <br>  |                             |
| <b>Add:</b>   |                             |
| <b>Opening Balance</b>  |                             |
| Designated account  | 962,210                     |
|   | <u>962,210</u>              |
| <br>  |                             |
| <b>Less:</b>  |                             |
| <b>Closing Balance</b>  |                             |
| Designated account  | 1,382,927                   |
|   | <u>1,382,927</u>            |
| <br>  |                             |
| <b>TOTAL EXPENDITURES INCURRED IN 2017</b>                                | <u>12,292,669</u>           |
| <br>  |                             |
|   | <u>31 December<br/>2016</u> |
| <b>Application of Withdrawals Schedule</b>                                |                             |
| Expenses incurred in 2016 as per the Applications of Withdrawals Schedule | 13,505,899                  |
| Expenses incurred in 2016 without Applications of Withdrawals Schedule    | -                           |
|   | <u>13,505,899</u>           |
| <br>  |                             |
| IBRD funds received in 2016   | 10,875,406                  |
| Foreign exchange differences  | 567                         |
| <br>  |                             |
| <b>Add:</b>   |                             |
| <b>Opening Balance</b>  |                             |
| Designated account  | 3,592,136                   |
|   | <u>3,592,136</u>            |
| <br>  |                             |
| <b>Less:</b>  |                             |
| <b>Closing Balance</b>  |                             |
| Designated account  | 962,210                     |
|   | <u>962,210</u>              |
| <br>  |                             |
| <b>TOTAL EXPENDITURES INCURRED IN 2016</b>                                | <u>13,505,899</u>           |



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**8. PROJECT EXPENDITURES BY COMPONENTS**

| Project activities  | Actual as at<br>31 December 2017 |                       | Planned as at<br>31 December 2017 |                       | Variance         |                       |
|---|----------------------------------|-----------------------|-----------------------------------|-----------------------|------------------|-----------------------|
|   | Year<br>to date                  | Cumulative<br>to date | Year<br>to date                   | Cumulative<br>to date | Year<br>to date  | Cumulative<br>to date |
|   |                                  |                       | <i>Unaudited</i>                  | <i>Unaudited</i>      | <i>Unaudited</i> | <i>Unaudited</i>      |
| <b>Component 1 – Rehabilitation<br/>and Improvement of Selected<br/>Secondary and Local Roads</b> |                                  |                       |                                   |                       |                  |                       |
| Civil works   | 13,266,899                       | 41,798,458            | 13,266,899                        | 41,798,458            | -                | -                     |
| Land Cost   | 308,779                          | 2,071,018             | 308,779                           | 2,071,018             | -                | -                     |
| Consultancy for supervision and<br>design   | 1,987,859                        | 5,448,803             | 1,987,859                         | 5,448,803             | -                | -                     |
| <b>TOTAL COMPONENT 1</b>  | <b>15,563,537</b>                | <b>49,318,279</b>     | <b>15,563,537</b>                 | <b>49,318,279</b>     | -                | -                     |
| <b>Component 2 – Institutional<br/>Strengthening</b>  |                                  |                       |                                   |                       |                  |                       |
| Project Management  | 99,158                           | 196,327               | 99,158                            | 196,327               | -                | -                     |
| Training  | 7,658                            | 7,658                 | 7,658                             | 7,658                 | -                | -                     |
| <b>TOTAL COMPONENT 2</b>  | <b>106,816</b>                   | <b>203,985</b>        | <b>106,816</b>                    | <b>203,985</b>        | -                | -                     |
| <b>TOTAL EXPENDITURES BY<br/>COMPONENTS</b>   | <b>15,670,353</b>                | <b>49,522,264</b>     | <b>15,670,353</b>                 | <b>49,522,264</b>     | -                | -                     |
| <b>UNALLOCATED</b>  |                                  |                       |                                   |                       |                  |                       |
| Front end fees  | -                                | 187,500               | -                                 | 187,500               | -                | -                     |
| <b>TOTAL UNALLOCATED<br/>EXPENDITURE</b>  | <b>-</b>                         | <b>187,500</b>        | <b>-</b>                          | <b>187,500</b>        | <b>-</b>         | <b>-</b>              |
| <b>TOTAL PROJECT<br/>EXPENDITURES</b>   | <b>15,670,353</b>                | <b>49,709,764</b>     | <b>15,670,353</b>                 | <b>49,709,764</b>     | <b>-</b>         | <b>-</b>              |



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| Project activities  | Actual as at<br>31 December 2016 |                       | Planned as at<br>31 December 2016 |                       | Variance         |                       |
|---|----------------------------------|-----------------------|-----------------------------------|-----------------------|------------------|-----------------------|
|   | Year to<br>date                  | Cumulative<br>to date | Year to<br>date                   | Cumulative<br>to date | Year<br>to date  | Cumulative<br>to date |
|   |                                  |                       | <i>Unaudited</i>                  | <i>Unaudited</i>      | <i>Unaudited</i> | <i>Unaudited</i>      |
| <b>Component 1 – Rehabilitation<br/>and Improvement of Selected<br/>Secondary and Local Roads</b> |                                  |                       |                                   |                       |                  |                       |
| Civil works   | 14,518,292                       | 28,531,559            | 14,518,292                        | 28,531,559            | -                | -                     |
| Land Cost   | 1,615,695                        | 1,762,239             | 1,615,695                         | 1,762,239             | -                | -                     |
| Consultancy for supervision and<br>design   | 2,266,522                        | 3,460,944             | 2,266,522                         | 3,460,944             | -                | -                     |
| <b>TOTAL COMPONENT 1</b>  | <b>18,400,509</b>                | <b>33,754,742</b>     | <b>18,400,509</b>                 | <b>33,754,742</b>     | -                | -                     |
| <b>Component 2 – Institutional<br/>Strengthening</b>  |                                  |                       |                                   |                       |                  |                       |
| Project Management  | 97,169                           | 97,169                | 97,169                            | 97,169                | -                | -                     |
| Training  | -                                | -                     | -                                 | -                     | -                | -                     |
| <b>TOTAL COMPONENT 2</b>  | <b>97,169</b>                    | <b>97,169</b>         | <b>97,169</b>                     | <b>97,169</b>         | -                | -                     |
| <b>TOTAL EXPENDITURES BY<br/>COMPONENTS</b>   | <b>18,497,678</b>                | <b>33,851,911</b>     | <b>18,497,678</b>                 | <b>33,851,911</b>     | -                | -                     |
| <b>UNALLOCATED</b>  |                                  |                       |                                   |                       |                  |                       |
| Front end fees  | -                                | 187,500               | -                                 | 187,500               | -                | -                     |
| <b>TOTAL UNALLOCATED<br/>EXPENDITURE</b>  | <b>-</b>                         | <b>187,500</b>        | <b>-</b>                          | <b>187,500</b>        | <b>-</b>         | <b>-</b>              |
| <b>TOTAL PROJECT<br/>EXPENDITURES</b>   | <b>18,497,678</b>                | <b>34,039,411</b>     | <b>18,497,678</b>                 | <b>34,039,411</b>     | <b>-</b>         | <b>-</b>              |

The Project consists of the following main components:

- Rehabilitation and improvement of about 200 kilometers of secondary and local roads, through the carrying out of works and the provision of goods and consultant's services.
- Strengthen the capacity of the Road Department of the Ministry of Regional Development and Infrastructure of Georgia and Foreign Project Unit (FPU) in project management and implementation, identifying, developing and implementing road safety measures on secondary and local roads and carrying out impact evaluations.

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

Each component of the Project are further divided into four types of expenses for the SOE purposes: civil works, goods, consultants' services and operating costs.



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**9. 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 year then ended.

**10. 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.

**11. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

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

**12. APPROVAL OF FINANCIAL STATEMENTS**

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