

**TRANSPORT REFORM AND
REHABILITATION CENTER**

CREDIT NO. 5078-GE
(SECOND SECONDARY AND LOCAL ROADS
REHABILITATION PROJECT)

**Special Purpose Project Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2013**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES
AND APPROVAL OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

TRANSPORT REFORM AND REHABILITATION CENTER SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT CREDIT NO. 5078-GE

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management of the Second Secondary and Local Roads Rehabilitation 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 2013, and its sources and uses of funds and movement in special account for the year ended 31 December 2013, 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:

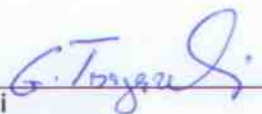
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis 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 special 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 2013 were authorized for issue on 23 June 2014 by Management.

On behalf of Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

23 June 2014

23 June 2014

INDEPENDENT AUDITOR'S REPORT

To the management of the Transport Reform and Rehabilitation Center:

We have audited the accompanying special purpose project financial statements of the Second Secondary and Local Roads Rehabilitation Project (the "Project") financed under the Credit Agreement No.5078-GE dated 22 March 2012, implemented by the Transport Reform and Rehabilitation Center, which comprise the Balance Sheet Statement as at 31 December 2013 and the related Statement of Sources and Uses of Funds, Statement of Expenditures Withdrawal Schedule ("SOEs") and Special Account Statement for the year ended 31 December 2013 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements"). The special purpose project financial statements have been prepared by management using 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") as described in Note 2.

Management's responsibility 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 basis of accounting described in Note 2. This includes determining that the IPSAS – Cash Basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these special purpose project financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special purpose project financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the special purpose project financial statements 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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose project financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

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 2013, and its sources and uses of funds, SOEs and special account statement for the year ended 31 December 2013 in accordance with the IPSAS – Cash Basis of accounting and World Bank Guidelines, as further detailed in Note 2.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to Note 2 to the special purpose financial statements which describe the basis of accounting. The special purpose project financial statements are prepared to assist the Project to comply with the requirements of International Development Association. As a result, the special purpose project financial statements may not be suitable for another purpose. Our report is intended solely for use by the management of the Project, the Government of Georgia and International Development Association and should not be distributed or used by anyone other than these specified parties.

Deloitte & Touche


23 June 2014
Tbilisi, Georgia


**TRANSPORT REFORM AND REHABILITATION CENTER
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
CREDIT NO. 5078-GE**

**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2013
(in US Dollars)**

	Actual		Planned		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
			Unaudited	Unaudited	Unaudited	Unaudited
FUNDS RECEIVED BY SOURCES						
International Development Association (IDA) funds	21,320,102	34,871,670				
Government of Georgia (GoG) co-financing	4,933,651	8,436,573				
TOTAL FUNDS RECEIVED	26,253,753	43,308,243				
Foreign exchange difference	2,124	(3,140)				
LESS: EXPENDITURES						
Component 1 Rehabilitation and Improvement of Selected Secondary and Local Roads (IDA - 80%)	19,830,184	33,380,808	19,830,184	33,380,808	-	-
Component 2 Institutional Strengthening and Project Management (IDA - 80%)	364,189	365,090	364,189	365,090	-	-
IDA TOTAL	20,194,373	33,745,898	20,194,373	33,745,898	-	-
Component 1 Rehabilitation and Improvement of Selected Secondary and Local Roads (GoG - 20%)	4,844,736	8,342,169	4,844,736	8,342,169	-	-
Component 2 Institutional Strengthening and Project Management (GoG - 20%)	91,039	91,264	91,039	91,264	-	-
GoG TOTAL	4,935,775	8,433,433	4,935,775	8,433,433	-	-
TOTAL EXPENDITURES BY COMPONENTS	25,130,148	42,179,331	25,130,148	42,179,331	-	-
TOTAL PROJECT EXPENDITURES	25,130,148	42,179,331	25,130,148	42,179,331	-	-
NET FLOWS OF FUNDS	1,125,729	1,125,772				

On behalf of Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

23 June 2014

23 June 2014

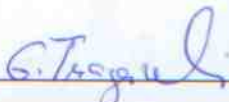
The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
 SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
 CREDIT NO. 5078-GE**


**BALANCE SHEET STATEMENT
 AS AT 31 DECEMBER 2013
 (in US Dollars)**

	<u>31 December 2013</u>
ASSETS	
IDA Designated Account	<u>1,125,772</u>
TOTAL ASSETS	<u><u>1,125,772</u></u>
Funds received:	
Funds received from IDA	34,871,670
Funds received from GoG	<u>8,436,573</u>
Total funds received	<u><u>43,308,243</u></u>
Project expenditures:	
Financed by IDA	(33,745,898)
Financed by GoG	<u>(8,433,433)</u>
Total project expenditures	<u><u>(42,179,331)</u></u>
Foreign exchange difference	(3,140)
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	<u><u>1,125,772</u></u>

On behalf of Management:



 Giorgi Tsagareli
 Director



 Marina Majagaladze
 Financial Manager

23 June 2014

23 June 2014


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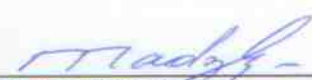
**TRANSPORT REFORM AND REHABILITATION CENTER
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
CREDIT NO. 5078-GE**

**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2013
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2012	Total SOE attributable to 2013	Attributable to 2013 - Component 1	Attributable to 2013 - Component 2	Total SOE attributable to 2014
		<i>Unaudited</i>					<i>Unaudited</i>
6	24/01/2013	-	-	-	-	-	-
7	22/01/2013	681,170	681,170	-	-	-	-
8	11/02/2013	113,395	-	113,395	112,496	899	-
9	28/05/2013	1,070,360	-	1,070,360	1,055,241	15,119	-
10	24/07/2013	952,880	-	952,880	925,210	27,670	-
11	03/09/2013	1,448,118	-	1,448,118	1,441,418	6,700	-
12	14/11/2013	1,004,717	-	1,004,717	1,000,925	3,792	-
13	15/11/2013	616,532	-	616,532	608,080	8,452	-
14	12/12/2013	249,033	-	249,033	246,195	2,838	-
15	24/01/2014	922,254	-	921,327	917,665	3,662	927
		6,377,289	681,170	6,376,362	6,307,230	69,132	927

On behalf of Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

23 June 2014

23 June 2014

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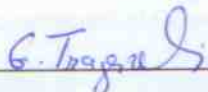
**TRANSPORT REFORM AND REHABILITATION CENTER
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
CREDIT NO. 5078-GE**

**SPECIAL ACCOUNT STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013
(in US Dollars)**


Account No.	202250948
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2013	<u>43</u>
ADD	
Funds received from IDA	<u>20,560,999</u>
DEDUCT	
Funds used for Project expenditures	<u>19,435,270</u>
Balance as at 31 December 2013	<u><u>1,125,772</u></u>

On behalf of Management:



 Giorgi Tsagareli
 Director



 Marina Majagaladze
 Financial Manager

23 June 2014

23 June 2014

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
CREDIT NO. 5078-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(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. A project unit named "Transport Reform and Rehabilitation Center" (the "TRRC") was formed within the Investment Center for Euro-Asian Transport Corridor 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 International Development Association Credit Agreement No. 5078-GE (the "Agreement") in the amount of Special Drawing Rights ("SDR") 25.8 million was signed between the Government of Georgia ("GoG") and International Development Association ("IDA") on 22 March 2012 and came into effect on 10 April 2012. The main objectives of the credit are: rehabilitation and improvement of about 225 kilometers for at least nineteen sections of secondary and local roads and strengthening the capacity of Government of Georgia, Road Department of the Ministry of Regional Development and Infrastructure of Georgia (RDMRDI) and the local road construction industry to plan and better manage the road network. The closing date of the loan is 30 June 2017.

2. ACCOUNTING POLICIES

Basis of accounting – 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 incorporate the following principal accounting policies, which have been consistently followed in all material respects and 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. 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.

Functional currency – This special purpose project financial statements are expressed in United States Dollars ("US Dollar" or "USD").

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 comprises cash on hand and balances with State Treasury.

3. SPECIAL ACCOUNT

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

4. BASIS OF FUNDING

According to the terms of the Agreement, expenditures are co-financed by proceeds received from IDA and the Government of Georgia (GoG) at a proportional rate of 80% and 20%, respectively.

GoG is responsible for paying all value added, non-residential and other taxes, and land acquisition costs.

**TRANSPORT REFORM AND REHABILITATION CENTER
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
CREDIT NO. 5078-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)
(in US Dollars)**

5. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the credit to 31 December 2013 were as follows:

(a) Special Account

Transport Reform and Rehabilitation Center withdraws the eligible amounts from the special 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 special account.

(b) Direct Payment

Available amounts are drawn from time to time within limits determined under the credit agreement for direct payments of eligible expenditures for sub-projects. Direct payments are made by the World Bank directly to third parties. TRRC 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 Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

6. STATEMENT OF EXPENDITURES WITHDRAWAL SCHEDULE

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

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

	<u>31 December 2013</u>
Application of Withdrawals Schedule	
Expenses incurred in 2013 as per the Applications of Withdrawals Schedule	20,194,373
Expenses incurred in 2013 without Applications of Withdrawals Schedule	-
	<u>20,194,373</u>
IDA direct payments in 2013	759,103
IDA replenishments in 2013	<u>20,560,999</u>
	<u>21,320,102</u>

**TRANSPORT REFORM AND REHABILITATION CENTER
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
CREDIT NO. 5078-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)
(in US Dollars)**

Add:	
Opening Balance	
Special Account	43
	<u>43</u>
Less:	
Closing Balance	
Special Account	1,125,772
	<u>1,125,772</u>
TOTAL EXPENDITURES INCURRED IN 2013	<u><u>20,194,373</u></u>

8. PROJECT EXPENDITURES BY COMPONENTS

Project activities	Actual		Planned		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
Component 1 - Rehabilitation and Improvement of Selected Secondary and Local Roads						
Civil works	23,323,213	39,205,373	23,323,213	39,205,373	-	-
Technical Supervision	1,303,859	1,343,340	1,303,859	1,343,340	-	-
Design	47,848	1,174,264	47,848	1,174,264	-	-
TOTAL COMPONENT 1	<u>24,674,920</u>	<u>41,722,977</u>	<u>24,674,920</u>	<u>41,722,977</u>	-	-
Component 2 - Institutional Strengthening and Project Management						
Road Management System Equipment (RD)	-	-	-	-	-	-
Consultancy	365,331	365,331	365,331	365,331	-	-
FPU Consultants	89,897	91,023	89,897	91,023	-	-
TOTAL COMPONENT 2	<u>455,228</u>	<u>456,354</u>	<u>455,228</u>	<u>456,354</u>	-	-
TOTAL PROJECT EXPENDITURES	<u>25,130,148</u>	<u>42,179,331</u>	<u>25,130,148</u>	<u>42,179,331</u>	-	-

The Project consists of the following components:

- Rehabilitation and improvement of about 225 kilometers for at least nineteen sections of secondary and local roads, through the carrying out of works and the provision of goods and consultants' services.
- Strengthen the capacity of Road Department and FPU in project management and implementation, identifying, developing and implementing road safety measures on secondary and local roads and carrying out impact evaluations.

The Components for project expenses are further divided into four types of expenses for SOE purposes: Civil Works, Goods, Consultants' Services and Operating Costs.

**TRANSPORT REFORM AND REHABILITATION CENTER
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT
CREDIT NO. 5078-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**
(in US Dollars)

9. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2013 and on the funds received and disbursed during the year then ended.

10. OPERATING ENVIRONMENT

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks.

Laws and regulations affecting businesses in Georgia continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

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 financial statements were authorized for issue by the Management of TRRC on 23 June 2014.