

**TRANSPORT REFORM AND
REHABILITATION CENTER**

LOAN NO.7802-GE
(KAKHETI REGIONAL ROADS IMPROVEMENT
PROJECT)

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

TRANSPORT REFORM AND REHABILITATION CENTER KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT LOAN NO.7802-GE

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS	1
INDEPENDENT AUDITOR'S REPORT	2-3
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013:	
Statement of sources and uses of funds	4
Balance sheet statement	5
Statement of expenditure withdrawal schedule	6
Special account statement	7
Notes to the special purpose project financial statements	8-11

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 Kakheti Regional Roads Improvement 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 Kakheti Regional Roads Improvement Project (the "Project") financed under the Loan Agreement No.7802-GE dated 12 November 2009, 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 Bank for Reconstruction and Development. 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 Bank for Reconstruction and Development 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
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-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 <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
International Bank for Reconstruction and Development ("IBRD") funds	1,161,604	27,431,396				
Government of Georgia ("GoG") co-financing	291,663	5,571,541				
TOTAL FUNDS RECEIVED	1,453,267	33,002,937				
Foreign exchange difference	-	(4,253)				
LESS: EXPENDITURES						
Component 1 Improvement of Vaziani-Gombori-Telavi Road (IBRD - 80%)	660,839	20,914,992	660,839	20,914,992	-	-
Component 2 Strengthening of Roads Sector Institution (IBRD-80%)	1,012,574	1,276,695	1,012,574	1,276,695	-	-
Component 3 Project Implementation (IBRD - 80%)	39,288	39,288	39,288	39,288	-	-
IBRD TOTAL	1,712,701	22,230,975	1,712,701	22,230,975	-	-
Component 1 Improvement of Vaziani-Gombori-Telavi Road (GoG - 20%)	28,609	5,238,204	28,609	5,238,204	-	-
Component 2 Strengthening of Roads Sector Institution (GoG - 20%)	253,104	319,134	253,104	319,134	-	-
Component 3 Project Implementation (GoG - 20%)	9,950	9,950	9,950	9,950	-	-
GoG TOTAL	291,663	5,567,288	291,663	5,567,288	-	-
TOTAL EXPENDITURES BY COMPONENTS	2,004,364	27,798,263	2,004,364	27,798,263	-	-
UNALLOCATED						
Front end fees	-	75,000	-	75,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	75,000	-	75,000	-	-
TOTAL PROJECT EXPENDITURES	2,004,364	27,873,263	2,004,364	27,873,263	-	-
NET FLOWS OF FUNDS	(551,097)	5,125,421				

On behalf of Management:


Giorgi Tsagareli
Director
23 June 2014


Marina Majagaladze
Financial Manager
23 June 2014

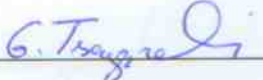
The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-GE**


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

	<u>31 December 2013</u>
ASSETS	
IBRD Special Account	5,125,421
TOTAL ASSETS	<u>5,125,421</u>
Funds received:	
Funds received from IBRD	27,431,396
Funds received from GoG	5,571,541
Total funds received	<u>33,002,937</u>
Project expenditures:	
Financed by IBRD	(22,230,975)
Financed by GoG	(5,567,288)
Unallocated	(75,000)
Total project expenditures	<u>(27,873,263)</u>
Foreign exchange difference	(4,253)
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	<u>5,125,421</u>

On behalf of Management:


Giorgi Tsagareli
Director

23 June 2014


Marina Majagaladze
Financial Manager

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
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-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 <i>Unaudited</i>	Total SOE attributable to 2012	Total SOE attributable to 2013	Attributable to 2013 - Component 1	Attributable to 2013 - Component 2	Attributable to 2013 - Component 3	Total SOE attributable to 2014 <i>Unaudited</i>
15	20/08/2013	622,234	-	622,234	602,166	-	20,068	-
16	22/11/2013	306,170	-	306,170	275,216	19,665	11,289	-
17	26/03/2014	188,321	-	124,823	124,823	-	-	63,498
		<u>1,116,725</u>	-	<u>1,053,227</u>	<u>1,002,205</u>	<u>19,665</u>	<u>31,357</u>	<u>63,498</u>

On behalf of Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

23 June 2014

23 June 2014

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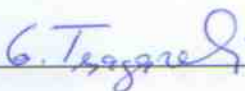
**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-GE**


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

Account No.	31011
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2013	<u>5,676,518</u>
ADD	
Funds received from IBRD	<u>1,161,604</u>
DEDUCT	
Funds used for the Project expenditures	<u>1,712,701</u>
Balance as at 31 December 2013	<u><u>5,125,421</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
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-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 the 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 Bank for Reconstruction and Development Loan Agreement No.7802-GE (the "Agreement") in the amount of 30 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 12 November 2009 ("inception"). The main objective of the loan is to reduce transportation costs and improve access and road security for Kakheti regional roads. The closing date of the loan is 30 August 2015.

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 IBRD in accordance with the Agreement.

4. BASIS OF FUNDING

According to the terms of the Agreement, all expenditures are co-financed by proceeds received from IBRD 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 acquisitions costs.

**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-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 loan 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 approved amounts is transferred to the special 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. 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

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 2,000,000;
- (ii) Consultant services contracts (firms) valued at less than USD 100,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000;
- (iv) All expenditures for Goods valued at less than USD 300,000;

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

	31 December 2013
Application of Withdrawals Schedule	
Expenses incurred in 2013 as per the Applications of Withdrawals Schedule	1,712,701
Expenses incurred in 2013 without Applications of Withdrawals Schedule	-
	<u>1,712,701</u>
 IBRD funds received in 2013	 <u>1,161,604</u>
	<u>1,161,604</u>
 Add:	
Opening balance Special Account	 <u>5,676,518</u>
	<u>5,676,518</u>

**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-GE**

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

Less:	
Closing balance Special Account	5,125,421
	<u>5,125,421</u>
TOTAL EXPENDITURES INCURRED IN 2013	<u><u>1,712,701</u></u>

8. PROJECT EXPENDITURES BY COMPONENTS

Project activities	Actual		Planned		Variance	
	Year to date	Cumulative to date	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
Component 1 - Improvement of Vaziani- Gombori-Telavi Road						
Civil works	547,412	24,353,255	547,412	24,353,255	-	-
Supervision of civil works for VGT road	142,036	1,658,061	142,036	1,658,061	-	-
Land costs	-	141,880	-	141,880	-	-
TOTAL COMPONENT 1	<u>689,448</u>	<u>26,153,196</u>	<u>689,448</u>	<u>26,153,196</u>	-	-
Component 2 - Strengthening of Roads Sector Institution						
Consultancy	37,694	367,845	37,694	367,845	-	-
Civil works for road safety Goods for road Department of the Ministry of Economic Development	1,203,403	1,203,403	1,203,403	1,203,403	-	-
	24,581	24,581	24,581	24,581	-	-
TOTAL COMPONENT 2	<u>1,265,678</u>	<u>1,595,829</u>	<u>1,265,678</u>	<u>1,595,829</u>	-	-
Component 3 - Project Implementation						
TRRC foreign projects unit consultants fees	49,238	49,238	49,238	49,238	-	-
TOTAL COMPONENT 3	<u>49,238</u>	<u>49,238</u>	<u>49,238</u>	<u>49,238</u>	-	-
TOTAL EXPENDITURES BY COMPONENTS	<u>2,004,364</u>	<u>27,798,263</u>	<u>2,004,364</u>	<u>27,798,263</u>	-	-
UNALLOCATED						
Front end fees	-	75,000	-	75,000	-	-
TOTAL UNALLOCATED	<u>-</u>	<u>75,000</u>	<u>-</u>	<u>75,000</u>	-	-
TOTAL PROJECT EXPENDITURES	<u>2,004,364</u>	<u>27,873,263</u>	<u>2,004,364</u>	<u>27,873,263</u>	-	-

**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802-GE**

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

The Project consists of following components:

- Improvement and supervision of Vaziani-Gombori-Telavi Road;
- Strengthening of Roads Sector Institution, improvement of road safety;
- Project Implementation.

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

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.