

**EURASIAN TRANSPORT
CORRIDOR INVESTMENT
CENTER**

LOAN NO.3524-GEO
(SECONDARY ROAD IMPROVEMENT PROJECT)

Special Purpose Project Financial Statements
For the year ended 31 December 2018

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO.3524-GEO**

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**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Management of the Secondary Road Improvement Project (the "Project") implemented by the Eurasian Transport Corridor Investment Center ("ETCIC" or Transport Reform and Rehabilitation Center – "TRRC") is responsible for the preparation of the special purpose project financial statements that present fairly the Statement of Sources and Uses of Funds for the year ended 31 December 2018, the Balance Sheet as at 31 December 2018 and the related, Statement of Expenditures Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2018, in accordance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis"), and the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank.

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; and
- 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 for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank;
- 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 detecting and fraud and other irregularities.

The special purpose project financial statements for the yearend 31 December 2018 were authorized for issue on 25 June 2019 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director

25 June 2019



Marina Majagaladze
Financial Manager

25 June 2019

INDEPENDENT AUDITOR'S REPORT

To the management of Eurasia Transport Corridor Investment Center:

Opinion

We have audited the accompanying special purpose project financial statements of the Secondary Road Improvement Project (the "Project") financed under the Loan Agreement No. 3524-GEO dated 19 June 2017 (the "Agreement"), implemented by the Eurasian Transport Corridor Investment Center, which comprise Statement of Sources and Uses of Funds for the year ended 31 December 2018, the Balance Sheet as at 31 December 2018 and the related, Statement of Expenditures Withdrawal Schedule ("SOEs") and Statement of Imprest Account for the year ended 31 December 2018 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the IPSAS – Cash Basis and Asian Development Bank Guidelines, as further detailed in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards of Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and 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 Project's management to comply with the financial reporting provisions of the Agreement referred to above. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the management of the Project in reporting the information to the Government of Georgia, and to communicate the compliance with the use of the Project's funds to the Asian Development Bank. This report is not intended for the benefit of any other third parties and we accept no responsibility or liability to any party other than those mentioned above in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2.

This includes determining that the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" ("IPSAS – Cash Basis") is an acceptable basis for the preparation of the special purpose project financial statement in the circumstances, 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.

In preparing the financial statements, management is responsible for assessing the Organisation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

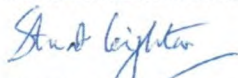
Auditor's Responsibilities for the Audit of the Financial Statements

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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and access the risks of material misstatement of the 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 Organisation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the special purpose project financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organisation to cease to continue as a going concern.

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.



Stuart Leighton
On behalf of Deloitte and Touche LLC



25 June 2019
Tbilisi, Georgia

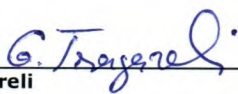
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO 3524-GEO**

**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)**

	Actual		Planned*		Variance	
	Period to date	Cumulative to date	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Period to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
FUNDS RECEIVED BY SOURCES						
Asian Development Bank (ADB) Funds	3,462,481	6,103,561				
Direct payments	3,353,798	5,870,545				
Replenishment	25,000	25,000				
Interest and commitment charges	183,683	208,016				
Government of Georgia (GoG) co-financing	1,198,047	1,714,511				
TOTAL FUNDS RECEIVED	4,660,528	7,818,072				
LESS: EXPENDITURES						
Category 1 – Works and consulting services	3,253,798	5,870,545	3,253,798	5,870,545	-	-
Category 2 – Project management support	4,363	4,363	4,363	4,363	-	-
Category 3 – Interest and commitment charges	183,683	208,016	183,683	208,016	-	-
Category 4 – Unallocated	-	-	-	-	-	-
ADB TOTAL	3,441,844	6,082,924	3,441,844	6,082,924	-	-
Category 1 – Works and consulting services	1,196,960	1,713,424	1,196,960	1,713,424	-	-
Category 2 – Project management support	1,087	1,087	1,087	1,087	-	-
Category 3 – Interest and commitment charges	-	-	-	-	-	-
Category 4 – Unallocated	-	-	-	-	-	-
GoG TOTAL	1,198,047	1,714,511	1,198,047	1,714,511	-	-
TOTAL PROJECT EXPENDITURES	4,639,891	7,797,435	4,639,891	7,797,435		
NET FLOW OF FUNDS	20,637	20,637				

*The project uses flex budget approach, so that at the end of the period plan is always equal to Actual.

On behalf of the Management:


Giorgi Tsagareli
Director

25 June 2019


Marina Majagaladze
Financial Manager

25 June 2019

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**BALANCE SHEET STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)**

	31 December 2018
ASSETS	
ADB imprest account	<u>20,637</u>
TOTAL ASSETS	<u>20,637</u>
Funds received:	
Funds received from ADB	6,103,561
Funds received from GoG	<u>1,714,511</u>
Total funds received	<u>7,818,072</u>
Project expenditures:	
Financed by ADB	(6,082,924)
Financed by GoG	<u>(1,714,511)</u>
Total project expenditures	<u>(7,797,435)</u>
TOTAL FUNDS RECEIVED LESS PROJECT EXPENDITURES	<u>20,637</u>

On behalf of the Management:



Giorgi Tsagareli
 Director



Marina Majagaladze
 Financial Manager

25 June 2019

25 June 2019

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE Attributable to 2018	Total SOE attributable to 2019 <i>Unaudited</i>
00026	25-Mar-19	-	6,500	10,018
		-	6,500	10,018

Withdrawal application No.26 was sent to ADB on 25-Mar-2019, the amount was approved and replenished by ADB in May 2019. Total SOE expenditures in withdrawal application No.26 were USD 16,518 from which USD 6,500 is SOE attributable to 2018 and USD 10,018 is SOE attributable to 2019. There was no SOE withdrawal application sent for approval in 2018.

On behalf of the Management:



Giorgi Tsagareli
Director

25 June 2019



Marina Majagaladze
Financial Manager

25 June 2019

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

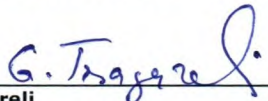
**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524 – GEO**

**STATEMENT OF IMPREST ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US Dollars)**

Account No.	210250199
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2018	-
ADD	
ADB replenishment	25,000
DEDUCT	
Funds used for the Project expenditures	<u>(4,363)</u>
Balance as at 31 December 2018	<u><u>20,637</u></u>

On behalf of the Management:



Giorgi Tsagareli
Director
25 June 2019



Marina Majagaladze
Financial Manager
25 June 2019

The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENED 31 DECEMBER 2018
(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 "Eurasian Transport Corridor Investment Center" (the "ETCIC" or Transport Reform and Rehabilitation Center – "TRRC") was formed within the Investment Center for Euro-Asian Transport Corridor to manage the allocated loan received from the Asian Development Bank ("ADB") and monitor the implementation of transport sector projects.

The objectives of the Project are increased mobility and accessibility of the residents of the Kharagauli municipality and tourists. The Project shall comprise rehabilitation of approximately 50 km road between Dzirula and Chumateleti to two-lane all-weather standard, including short access roads to the Borjomi-Kharagauli National Park and to Kharagauli and other railway stations. The Project shall include the provision of Consulting Services for construction supervision and Project management support. The Project is expected to be completed by 31 August 2021.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank and the accounting policies set out below. 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*.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the Project's financial results to the Government of Georgia and to communicate the compliance with the use of the funds to the Asian Development Bank. As a result, these special purpose project financial statements may not be suitable for another purpose.

Project financing - is recognised as a source of project funds when the cash is received.

Project expenditures - are recognised as a use of project funds when the payments are made.

Functional currency – These 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 balances with the State Treasury.

3. BASIS OF FUNDING

According to the terms of the Agreement, Category 1 – works and consulting, Category 2 – Project management Support are financed 100% of the total expenditure claimed by ADB and Category 3 – Interest and commitment charges are 100% financed by ADB. Category 1 and 2 is exclusive of taxes and duties imposed within the territory of the borrower.

4. METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2018 were as follows:

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in US Dollars)**

(a) Imprest account

Available amounts were drawn from time to time within limits determined within the loan agreements for the direct payment of eligible expenditures for sub-projects from this special account. No amounts were drawn down during the period from 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 ADB directly to third parties. TRRC forms withdrawal applications for request of direct payments and sends it to the ADB, 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.

5. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE ADB TO ACTUAL EXPENDITURES OF THE PROJECT

	31 December 2018
Application of Withdrawals Schedule	
Expenses incurred in 2018 as per the Applications of Withdrawals Schedule	3,258,161
Expenses incurred in 2018 as Capitalised charges	183,683
	3,441,844
ADB replenishments	25,000
Capitalised charges	183,683
ADB direct payments	3,254,798
	3,462,481
Add:	
Opening Balances	
Imprest Account	-
	-
Less:	
Closing Balances	
Imprest Account	(20,637)
	(20,637)
TOTAL EXPENDITURES INCURRED IN 2018	3,441,844

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**
(in US Dollars)

Withdrawal No.	Value date	Total amount in withdrawal schedule	Total attributable to 2018
00004	25-Jun-18	25,000	25,000
00005	21-Sep-18	271,839	271,839
00006	29-Nov-18	16,980	16,980
00007	03-Dec-18	26,324	26,324
00008	03-Dec-18	10,703	10,703
00009	17-Dec-18	41,456	41,456
00010	19-Dec-18	64,516	64,516
00011	19-Dec-18	25,983	25,983
00012	18-Dec-18	107,481	107,481
00013	26-Dec-18	2,688,516	2,688,516
CAP	01-Nov-18	102,693	102,693
CAP	01-May-18	80,990	80,990
		<u>3,462,481</u>	<u>3,462,481</u>

Ten withdrawal applications were approved by ADB. Also interest and commitment charges for USD 183,683 were capitalised on the loan amount as commission charge.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in US Dollars)**

6. PROJECT EXPENDITURES BY COMPONENTS

Project Activities	Period ended 31 December 2018			Cumulative from inception		
	ADB Financing	GoG Financing	Total	ADB Financing	GoG Financing	Total
Component A – Investment costs						
Civil works	2,874,478	500,063	3,374,541	5,491,225	971,705	6,462,930
Land acquisition/social mitigation	-	629,184	629,184	-	674,006	674,006
Consultancy	379,320	67,713	447,033	379,320	67,713	447,033
TOTAL COMPONENT A	3,253,798	1,196,960	4,450,758	5,870,545	1,713,424	7,583,969
Component B – Project management costs						
Project management costs	4,363	1,087	5,450	4,363	1,087	5,450
TOTAL COMPONENT B	4,363	1,087	5,450	4,363	1,087	5,450
Component C –						
Contingencies unallocated	-	-	-	-	-	-
Contingencies unallocated	-	-	-	-	-	-
TOTAL COMPONENT C	-	-	-	-	-	-
Component D – Financial charges during implementation - CAP						
Financial charges during implementation	183,683	-	183,683	208,016	-	208,016
TOTAL COMPONENT D	183,683	-	183,683	208,016	-	208,016
TOTAL PROJECT EXPENDITURES	3,441,844	1,198,047	4,639,891	6,082,924	1,714,511	7,797,435

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
SECONDARY ROAD IMPROVEMENT PROJECT
LOAN NO. 3524-GEO**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**
(in US Dollars)

The Project comprises the following main components:

- Component A – Investment costs;
- Component B – Project management costs;
- Component C – Contingencies; and
- Component D – Financial charges during implementation

If the amount of the Loan allocated to a Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category. The Project comprises the following main categories:

- Category 1 – Works and consulting services
- Category 2 – Project management support
- Category 3 – Interest and commitment charges
- Category 4 – Unallocated

7. COMMITMENTS AND CONTINGENCIES

The Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project as at 31 December 2018 and on the funds received and disbursed during the period then ended.

8. 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 and 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.

For the last two years Georgia has experienced a number of legislative changes, which have been largely related to the European Union Association Agreement. Whilst the legislative changes implemented during 2017 and 2018 paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

9. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There were no significant events subsequent to the balance sheet date that require adjustment to, or disclosure in, these special purpose financial statements.

10. APPROVAL OF SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These financial statements were authorised for issue by the Management of ETCIC on 25 June 2019.