

TRANSPORT REFORM AND REHABILITATION CENTER

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

Special Purpose Project Financial Statements

For the Year Ended 31 December 2015

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

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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 2015, and its sources and uses of funds and movement in special account for the year ended 31 December 2015, in compliance with the Cash Basis International Public Sector Accounting Standard, *Financial Reporting under the Cash Basis of Accounting* ("IPSAS – Cash Basis"), and in conformity with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "World Bank Guidelines").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis, are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in 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 2015 were authorized for issue on 30 June 2016 by the Management.

On behalf of Management:



Giorgi Tsagareli
Director

30 June 2016



Marina Majagladze
Financial Manager

30 June 2016



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4, Besiki Street
0108 Tbilisi, Georgia
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Independent Auditors' 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 International Bank for Reconstruction and Development (the "IBRD"), Loan Agreement No. 7802-GE dated 12 November 2009, implemented by the Transport Reform and Rehabilitation Center (the "Center"), which comprise the Statement of Balance Sheet as at 31 December 2015 and the Statements of Sources and Uses of Funds, Statement of Expenditure Withdrawal Schedule ("SOEs") and Special Account Statement 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.

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 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.

Auditors' 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 our 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, we consider internal control relevant to the entity'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 entity'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.

KPMG Georgia LLC, a company incorporated under the Laws of Georgia, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Transport Reform and Rehabilitation Center
Independent Auditors' Report

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 special purpose project financial statements for the year ended 31 December 2015 present fairly, in all material respects, the financial position of the Project as at 31 December 2015, 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.

Other Matters

The special purpose project financial statements of the Project as at and for the year ended 31 December 2014 were audited by other auditors whose report dated 22 June 2015 expressed an unmodified opinion on those statements.

Data included on pages 4 to 12 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

Basis of Accounting

Without modifying our opinion, 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.

KPMG Georgia LLC
KPMG Georgia LLC
30 June 2016



**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 2015
(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 Bank for Reconstruction and Development ("IBRD") Funds	-	30,000,000				
Government of Georgia ("GoG") co-financing	698,596	7,384,250				
TOTAL FUNDS RECEIVED	698,596	37,384,250				
Foreign exchange difference	-	(4,253)				
LESS: EXPENDITURES						
Component 1 – Improvement of Vaziani-Gombori-Telavi and Sasadilo-Sioni (IBRD-80%)	2,649,345	26,424,987	2,649,345	26,424,987	-	-
Component 2 – Strengthening of Road Sector Institution (IBRD-80%)	141,493	2,385,697	141,493	2,385,697	-	-
Component 3 – Project implementation (IBRD – 80%)	658	116,619	658	116,619	-	-
IBRD TOTAL	2,791,496	28,927,303	2,791,496	28,927,303	-	-
Component 1 – Improvement of Vaziani-Gombori-Telavi and Sasadilo-Sioni Road (GoG -20%)	662,952	6,754,037	662,952	6,754,037	-	-
Component 2 – Strengthening of Roads Sector Institution (GoG - 20%)	35,479	596,660	35,479	596,660	-	-
Component 3 – Project Implementation (GoG – 20%)	165	29,300	165	29,300	-	-
GoG TOTAL	698,596	7,379,997	698,596	7,379,997	-	-
TOTAL EXPENDITURES BY COMPONENTS	3,490,092	36,307,300	3,490,092	36,307,300	-	-
UNALLOCATED						
Front end fees	-	75,000	-	75,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	75,000	-	75,000	-	-
TOTAL PROJECT EXPENDITURES	3,490,092	36,382,300	3,490,092	36,382,300	-	-
NET FLOWS OF FUNDS	(2,791,496)	(997,697)				

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 30 June 2016 and were signed on its behalf by:


Giorgi Tsagareli
 Director

30 June 2016


Marina Majagaladze
 Financial Manager

30 June 2016

The notes on pages 8 to 12 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 OF 31 DECEMBER 2015
(in US Dollars)**

	<u>31 December 2015</u>
ASSETS	
IBRD Special Account	<u>997,697</u>
TOTAL ASSETS	<u>997,697</u>
Funds received:	
Funds received from IBRD	30,000,000
Funds received from GoG	<u>7,384,250</u>
Total funds received	<u>37,384,250</u>
Project expenditures:	
Financed by IBRD	(28,927,303)
Financed by GoG	(7,379,997)
Unallocated	<u>(75,000)</u>
Total project expenditures	<u>36,382,300</u>
Foreign exchange difference	<u>(4,253)</u>
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	<u>997,697</u>

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 30 June 2016 and were signed on its behalf by:



Giorgi Tsagareli
 Director

30 June 2016



Marina Majagaladze
 Financial Manager

30 June 2016

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**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
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**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2015
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Total SOE in withdrawal schedule	Total SOE attributable to 2014	Total SOE attributable to 2015	Attributable to 2015 - Component 1	Attributable to 2015 - Component 2	Attributable to 2015 - Component 3
20	19-Mar-15	208,522	208,085	436	-	436	-
21	7-Jul-15	77,033	-	77,033	9,308	67,725	-
22	11-Nov-15	1,069,443	-	1,069,443	1,021,138	47,647	658
23	13-Nov-15	-	-	-	-	-	-
24	24-Dec-15	24,993	-	24,993	24,993	-	-
		1,379,991	208,085	1,171,905	1,055,439	115,808	658

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 30 June 2016 and were signed on its behalf by:


Giorgi Tsagareli
 Director


Marina Majagaladze
 Financial Manager

30 June 2016

30 June 2016

The notes on pages 8 to 12 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**

**SPECIAL ACCOUNT STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015
(in US Dollars)**

Account No.	202251794
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2015	<u>3,789,193</u>
ADD	
Funds received from IBRD	-
DEDUCT	
Funds used for the Project expenditures	<u>(2,791,496)</u>
Balance as at 31 December 2015	<u><u>997,697</u></u>

The special purpose project financial statements were approved by the management of Transport Reform and Rehabilitation Center on 30 June 2016 and were signed on its behalf by:



Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager

30 June 2016

30 June 2016

The notes on pages 8 to 12 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 2015
(in US Dollars)**

1. BACKGROUND

The Investment Center for Euro-Asian Transport Corridor was established in 1995 as a non-entrepreneurial and non-profit legal entity under the laws of Georgia in accordance with the Georgian Presidential Decree N 119 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 Kakheti Regional Roads Improvement Project (the "Project"), financed under the International Bank for Reconstruction and Development (the "IBRD"). 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 IBRD on 12 November 2009 ("inception"). The main objectives of the Project is to reduce transportation costs and improve access and road security for Kakheti regional roads.

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 the Project funds on the cash basis 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"), since management believes that this currency is more meaningful for the users of the special purpose project financial statements. 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 the presentation currency are converted to US Dollars at the exchange rate prevailing at the date of the transaction.

Cash – Cash represents the balances with the State Treasury of Georgia.

3. SPECIAL ACCOUNT

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

**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 2015
(in US Dollars)**

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 2015 were as follows:

(a) Special Account

The 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 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 a common GEL account and special organization code for their funds in the State Treasury of Georgia.

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 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.

**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 2015
(in US Dollars)**

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

	31 December 2015
Application of Withdrawals Schedule	
Expenses incurred in 2015 as per the Applications of Withdrawals Schedule	2,791,496
Expenses incurred in 2015 without Applications of Withdrawals Schedule	-
	<u>2,791,496</u>
 IBRD funds received in 2015	 -
 Add:	
Opening Balance	
Special Account	<u>3,789,193</u>
	<u>3,789,193</u>
 Less:	
Closing Balance	
Special Account	<u>997,697</u>
	<u>997,697</u>
 TOTAL EXPENDITURES INCURRED IN 2015	 <u><u>2,791,496</u></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 2015
(in US Dollars)**

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 – Improvement of Vaziani-Gombori-Telavi and Sasadilo-Sioni Road						
Civil works	2,506,453	29,821,414	2,506,453	29,821,414	-	-
Supervision of civil works for Vaziani-Gombori-Telavi and Sasadilo-Sioni Road	805,844	3,215,730	805,844	3,215,730	-	-
Land costs	-	141,880	-	141,880	-	-
TOTAL COMPONENT 1	3,312,297	33,179,024	3,312,297	33,179,024	-	-
Component 2 – Strengthening of Roads Sector Institution						
Consultancy	101,702	552,899	101,702	552,899	-	-
Civil Works for road safety	21,217	2,347,834	21,217	2,347,834	-	-
Goods for Road Department of the Ministry of Economic Development	54,053	81,624	54,053	81,624	-	-
TOTAL COMPONENT 2	176,972	2,982,357	176,972	2,982,357	-	-
Component 3 - Project Implementation						
The Center's foreign projects unit consultant fees	823	145,919	823	145,919	-	-
TOTAL COMPONENT 3	823	145,919	823	145,919	-	-
TOTAL EXPENDITURES BY COMPONENTS	3,490,092	36,307,300	3,490,092	36,307,300	-	-
UNALLOCATED						
Front end fees	-	75,000	-	75,000	-	-
TOTAL UNALLOCATED	-	75,000	-	75,000	-	-
TOTAL PROJECT EXPENDITURES	3,490,092	36,382,300	3,490,092	36,382,300	-	-

The Project consists of the following main components:

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

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

Each component of the Project is further divided into four types of expenses for the SOE purposes: civil works, goods, consultants' services and operating 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 2015
(in US Dollars)**

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 2015 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 THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS

These special purpose project financial statements were authorized for issue by the management of the Center on 30 June 2016.