

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 2012

**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO.7802 – 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 2012

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 2012, and its sources and uses of funds and movement in special account for the year ended 31 December 2012, 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:

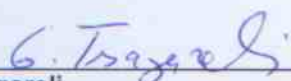
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis 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.

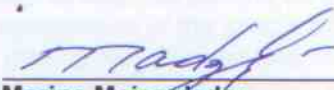
The special purpose project financial statements for the year ended 31 December 2012 were authorized for issue on 20 June 2013 by Management.

On behalf of Management:



Giorgi Tsagareli
Director

20 June 2013



Marina Majagaladze
Financial Manager

20 June 2013

INDEPENDENT AUDITORS' REPORT

To 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 2012 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 2012 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.

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 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 2012, and its sources and uses of funds, SOEs and special account statement for the year ended 31 December 2012 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 IBRD. 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 IBRD and should not be distributed or used by anyone other than these specified parties.

Deloitte & Touche


20 June 2013

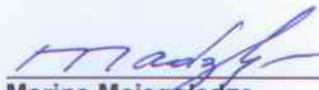
**TRANSPORT REFORM AND REHABILITATION CENTER
KAKHETI REGIONAL ROADS IMPROVEMENT PROJECT
LOAN NO. 7802 – GE**

**STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2012
(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	1,898,101	26,269,792				
Government of Georgia ("GoG") co-financing	255,808	5,279,878				
TOTAL FUNDS RECEIVED	2,153,909	31,549,670				
Foreign Exchange Difference	-	(4,253)				
	2,153,909	31,545,417				
LESS: EXPENDITURES						
Component 1 Improvement of Vaziani-Gombori-Telavi Road (IBRD - 80%)	957,026	20,254,153	957,026	20,254,153	-	-
Component 2 Strengthening of Roads Sector Institution (IBRD- 80%)	66,341	264,121	66,341	264,121	-	-
Component 3 Project Implementation (IBRD - 80%)	-	-	-	-	-	-
IBRD TOTAL	1,023,367	20,518,274	1,023,367	20,518,274	-	-
Component 1 Improvement of Vaziani-Gombori-Telavi Road (GoG - 20%)	239,223	5,209,595	239,223	5,209,595	-	-
Component 2 Strengthening of Roads Sector Institution (GoG - 20%)	16,585	66,030	16,585	66,030	-	-
Component 3 Project Implementation (GoG - 20%)	-	-	-	-	-	-
GoG TOTAL	255,808	5,275,625	255,808	5,275,625	-	-
TOTAL EXPENDITURES BY COMPONENTS	1,279,175	25,793,899	1,279,175	25,793,899	-	-
UNALLOCATED						
Front End Fees	-	75,000	-	75,000	-	-
TOTAL UNALLOCATED EXPENDITURE	-	75,000	-	75,000	-	-
TOTAL EXPENDITURES	1,279,175	25,868,899	1,279,175	25,868,899	-	-
NET FLOWS OF FUNDS	874,734	5,676,518				

On behalf of Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

20 June 2013

20 June 2013

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**

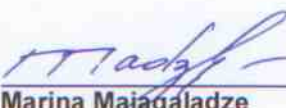
**BALANCE SHEET STATEMENT
AS AT 31 DECEMBER 2012
(in US Dollars)**

	31 December 2012
ASSETS	
IBRD Special Account	5,676,518
TOTAL ASSETS	5,676,518
Funds received:	
Funds received from IBRD	26,269,792
Funds received from GoG	5,279,878
Total funds received	31,549,670
Project expenditures:	
Financed by IBRD	(20,518,274)
Financed by GoG	(5,275,625)
Unallocated	(75,000)
Foreign exchange difference	(4,253)
Total project expenditures	(25,873,152)
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS, NET	5,676,518

On behalf of Management:


Giorgi Tsagareli
Director

20 June 2013


Marina Majagaladze
Financial Manager

20 June 2013

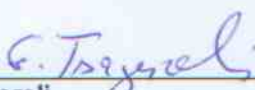
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**STATEMENT OF EXPENDITURE WITHDRAWAL SCHEDULE
FOR THE YEAR ENDED 31 DECEMBER 2012
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Civil Works	Goods	Consultants' Services	Operating Costs
-	-	-	-	-	-
		-	-	-	-

On behalf of Management:



 Giorgi Tsagareli
 Director

20 June 2013



 Marina Majagaladze
 Financial Manager

20 June 2013

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

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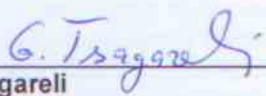
**SPECIAL ACCOUNT STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

(in US Dollars)

Account No.	211221799
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 31 December 2011	4,801,784
ADD	
Funds received from IBRD	1,898,101
DEDUCT	
Funds used for the Project expenditures	<u>(1,023,367)</u>
Balance as at 31 December 2012	<u>5,676,518</u>

On behalf of Management:



Giorgi Tsagareli
Director

20 June 2013



Marina Majagaladze
Financial Manager

20 June 2013

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

**TRANSPORT REFORM AND REHABILITATION CENTER
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**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

(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 November 2013.

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 – 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 cash on hand and balances with State Treasury.

