

**EURASIAN TRANSPORT
CORRIDOR INVESTMENT
CENTER**

LOAN NO.2560-GEO
(ROAD CORRIDOR INVESTMENT PROGRAM –
PROJECT 1)

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

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
ROAD CORRIDOR INVESTMENT PROGRAM
LOAN NO.2560-GEO**

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
Imprest account statement	7
Notes to the special purpose project financial statements	8-14

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 Road Corridor Investment Program – Project 1 (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 financial position of the Project as at 31 December 2013, and its sources and uses of funds and movement in impressed account 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 Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank.

In preparing the financial statements, management is responsible for:

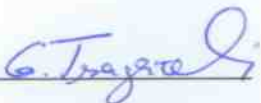
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis 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 year ended 31 December 2013 were authorised for issue on 23 June 2014 by the Management.

On behalf of the Management:



Giorgi Tsagareli
Director

23 June 2014



Marina Majagaladze
Financial Manager

23 June 2014

INDEPENDENT AUDITOR'S REPORT

To the management of Eurasia Transport Corridor Investment Center:

We have audited the accompanying special purpose project financial statements of the Road Corridor Investment Program – Project 1 (the "Project") financed under the Loan Agreement No. 2560-GEO dated 29 October 2009, implemented by the Eurasian Transport Corridor Investment Center, which comprise the Balance Sheet as at 31 December 2013 and the related Statement of Sources and Uses of Funds, Statement of Expenditures Withdrawal Schedule ("SOEs") and statement of Imprest 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 financial statements have been prepared by the 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 Guidelines for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank 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 statement that is 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 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 movement in imprest account for the year ended 31 December 2013 in accordance with the IPSAS – Cash Basis of accounting and Asian Development 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 Asian Development Bank. 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 the Asian Development Bank and should not be distributed or used by anyone other than these specified parties.

Deloitte & Touche

23 June 2014
Tbilisi, Georgia

EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1
LOAN NO 2560-GEO

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						
Asian Development Bank (ADB) Funds	31,847,146	90,189,887				
Direct payments	31,117,780	88,879,793				
SOE procedures	623,637	762,561				
Additional advance	-	441,804				
Summary sheet	105,729	105,729				
Government of Georgia (GoG) co-financing	13,102,045	29,203,192				
TOTAL FUNDS RECEIVED	44,949,191	119,393,079				
Foreign exchange difference	(10)	(473)				
LESS: EXPENDITURES						
Category 1 - Civil works and land acquisitions	29,198,125	81,016,911	29,198,125	81,016,911	-	-
Category 2 - Consultant's services for works supervision and design	2,116,710	8,167,141	2,116,710	8,167,141	-	-
Category 3 - Project management support	274,234	487,385	274,234	487,385	-	-
Category 4 - Consultancy for capacity development of RDMRDI	40,062	40,062	40,062	40,062	-	-
ADB TOTAL	31,629,131	89,711,499	31,629,131	89,711,499	-	-
Category 1 - Civil works and land acquisitions	12,524,506	26,732,765	12,524,506	26,732,765	-	-
Category 2 - Consultant's services for works supervision and design	554,861	2,445,973	554,861	2,445,973	-	-
Category 3 - Project management support	10,204	11,521	10,204	11,521	-	-
Category 4 - Consultancy for capacity development of RDMRDI	12,464	12,464	12,464	12,464	-	-
GoG TOTAL	13,102,035	29,202,723	13,102,035	29,202,723	-	-
TOTAL PROJECT EXPENDITURES	44,731,166	118,914,222	44,731,166	118,914,222		
NET FLOW OF FUNDS	218,015	478,384				

On behalf of the Management:


Giorgi Tsagareli
Director

23 June 2014


Marina Majagaladze
Financial Manager

23 June 2014

The notes on pages 8 to 14 form an integral part of these special purpose project financial statements.

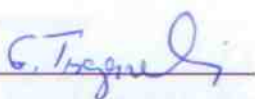
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
ROAD CORRIDOR INVESTMENT PROGRAM - PROJECT 1
LOAN NO. 2560-GEO

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

	31 December 2013
ASSETS	
ADB imprest account	478,384
TOTAL ASSETS	478,384
Funds received:	
Funds received from ADB	90,189,887
Funds received from GoG	29,203,192
Total funds received	119,393,079
Project expenditures:	
Financed by ADB	(89,711,499)
Financed by GoG	(29,202,723)
Total project expenditures	(118,914,222)
Foreign exchange difference	(473)
TOTAL PROJECT EXPENDITURES AND OTHER FUNDS	478,384

On behalf of the Management:

Giorgi Tsagareli
Director



Marina Majagaladze
Financial Manager



23 June 2014

23 June 2014

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EURASIAN TRANSPORT CORRIDOR CENTER
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1
LOAN NO. 2560-GEO

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	Attributable to 2013 - Component 4	Total SOE attributable to 2014 <i>Unaudited</i>
84	03/04/2013	-	-	-	-	-	-	-
85	01/04/2013	-	-	-	-	-	-	-
86	28/03/2013	-	-	-	-	-	-	-
87	29/03/2013	-	-	-	-	-	-	-
88	07/05/2013	-	-	-	-	-	-	-
89	06/05/2013	-	-	-	-	-	-	-
90	03/05/2013	-	-	-	-	-	-	-
91	03/05/2013	-	-	-	-	-	-	-
92	17/06/2013	-	-	-	-	-	-	-
93	17/06/2013	-	-	-	-	-	-	-
94	15/07/2013	-	-	-	-	-	-	-
95	28/06/2013	-	-	-	-	-	-	-
96	15/07/2013	-	-	-	-	-	-	-
97	12/07/2013	-	-	-	-	-	-	-
98	23/07/2013	-	-	-	-	-	-	-
99	23/07/2013	-	-	-	-	-	-	-
100	12/08/2013	-	-	-	-	-	-	-
101	12/08/2013	-	-	-	-	-	-	-
102	09/09/2013	-	-	-	-	-	-	-
103	09/09/2013	-	-	-	-	-	-	-
104	11/09/2013	-	-	-	-	-	-	-
105	11/09/2013	-	-	-	-	-	-	-
106	23/09/2013	-	-	-	-	-	-	-
107	26/09/2013	-	-	-	-	-	-	-
109	24/10/2013	367,571	133,906	233,665	48,823	-	184,842	-
111	18/10/2013	-	-	-	-	-	-	-
112	18/10/2013	-	-	-	-	-	-	-
113	18/10/2013	-	-	-	-	-	-	-
114	22/10/2013	-	-	-	-	-	-	-
115	23/10/2013	-	-	-	-	-	-	-
116	23/10/2013	-	-	-	-	-	-	-
117	18/10/2013	-	-	-	-	-	-	-
119	18/10/2013	-	-	-	-	-	-	-
120	20/11/2013	-	-	-	-	-	-	-
121	22/11/2013	-	-	-	-	-	-	-
122	20/11/2013	-	-	-	-	-	-	-
123	13/12/2013	-	-	-	-	-	-	-
124	12/12/2013	-	-	-	-	-	-	-
125	18/12/2013	-	-	-	-	-	-	-
126	13/12/2013	-	-	-	-	-	-	-
127	11/12/2013	-	-	-	-	-	-	-
128	11/12/2013	-	-	-	-	-	-	-
129	18/12/2013	256,066	-	256,066	148,232	40,062	67,772	-
		623,637	133,906	489,731	197,055	40,062	252,614	-

On behalf of the Management:

Giorgi Tsagareli
Director

23 June 2014

Marina Majagaladze
Financial Manager

23 June 2014

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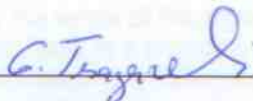
EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1
LOAN NO. 2560-GEO


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

Account No.	2120220223
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

Balance as at 1 January 2013	260,369
ADD	
ADB replenishment	729,366
DEDUCT	
Funds used for the Project expenditures	511,351
Balance as at 31 December 2013	478,384

On behalf of the Management:


Giorgi Tsagareli
Director


Marina Majagaladze
Financial Manager

23 June 2014

23 June 2014

The notes on pages 8 to 14 form an integral part of these special purpose project financial statements.

**EURASIAN TRANSPORT CORRIDOR INVESTMENT CENTER
ROAD CORRIDOR INVESTMENT PROGRAM – PROJECT 1
LOAN NO. 2560-GEO**

**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 "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 purpose of the project ("Road corridor investment program – project 1") is the construction of a new two-lane road of approximately 28 km in length bypassing Kobuleti, and expansion and improvement of approximately 6 – km road section between Kobuleti and Batumi. The Asian Development Bank Loan Agreement No. 2560-GEO (SF) (the "Agreement") in the amount of Special Drawing Rights ("SDR") 75,892,000 was signed between the Government of Georgia ("GoG") and Asian Development Bank ("ADB") on 29 October 2009 and came into effect on 1 December 2009. Loan No 2843 was added to project financing on 18 April 2012 with the amount of USD 140,000,000. The closing date of the project is 31 December 2015. Funds available under Loan No 2843 will be utilized only after Loan No 2560 has been fully utilized, which has not occurred yet.

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 for the Financial Governance and Management of Investment Projects Financed by Asian Development Bank. 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. IMPREST ACCOUNT

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

4. BASIS OF FUNDING

According to the terms of the Agreement, Category 1 – works are co-financed by proceeds received from ADB and GoG at a proportional rate of 82.3% and 17.7%, respectively, Category 2 – Consulting Services and Category 3 – Project Management Support expenses are 100% financed by ADB.

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

