

**TRANSPORT REFORM AND  
REHABILITATION CENTER**

CREDIT NO. 5078 – GE  
(SECOND SECONDARY AND LOCAL ROADS  
REHABILITATION PROJECT)

**Special Purpose Project Financial Statements**  
For the Year Ended 31 December 2012

STATE OF GEORGIA  
MBC AND  
KEY TO

TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND SECONDARY AND LOCAL ROADS REHABILITATION  
PROJECT  
CREDIT NO. 5078 – 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**

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Management of the Second Secondary and Local Roads Rehabilitation 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:

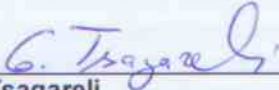
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis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

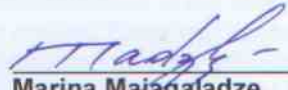
- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of 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 authorised 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 Second Secondary and Local Roads Rehabilitation Project (the "Project") financed under the Credit Agreement No.5078-GE dated 22 March 2012, 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.

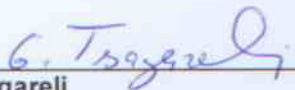
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose project 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.

**TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
CREDIT NO. 5078 – 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
<b>FUNDS RECEIVED BY SOURCES</b>						
International Development Association (IDA) Funds	13,551,568	13,551,568				
Government of Georgia (GoG) co-financing	3,502,922	3,502,922				
<b>TOTAL FUNDS RECEIVED</b>	<b>17,054,490</b>	<b>17,054,490</b>				
Foreign Exchange Difference	(5,264)	(5,264)				
	<b>17,049,226</b>	<b>17,049,226</b>				
<b>LESS: EXPENDITURES</b>						
Component 1 Rehabilitation and Improvement of Selected Secondary and Local Roads (IDA - 80%)	13,550,624	13,550,624	13,550,624	13,550,624	-	-
Component 2 Institutional Strengthening and Project Management (IDA – 80%)	901	901	901	901	-	-
<b>IDA TOTAL</b>	<b>13,551,525</b>	<b>13,551,525</b>	<b>13,551,525</b>	<b>13,551,525</b>	<b>-</b>	<b>-</b>
Component 1 Rehabilitation and Improvement of Selected Secondary and Local Roads (GoG - 20%)	3,497,433	3,497,433	3,497,433	3,497,433	-	-
Component 2 Institutional Strengthening and Project Management (GoG – 20%)	225	225	225	225	-	-
<b>GoG TOTAL</b>	<b>3,497,658</b>	<b>3,497,658</b>	<b>3,497,658</b>	<b>3,497,658</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES BY COMPONENTS</b>	<b>17,049,183</b>	<b>17,049,183</b>	<b>17,049,183</b>	<b>17,049,183</b>	<b>-</b>	<b>-</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>17,049,183</b>	<b>17,049,183</b>	<b>17,049,183</b>	<b>17,049,183</b>	<b>-</b>	<b>-</b>
<b>NET FLOWS OF FUNDS</b>	<b>43</b>	<b>43</b>				

On behalf of Management:

  
Giorgi Tsagareli  
Director

20 June 2013

  
Marina Majagaladze  
Financial Manager

20 June 2013

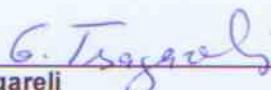
The notes on pages 8 to 12 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
CREDIT NO. 5078 – GE**

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

	<u>31 December 2012</u>
<b>ASSETS</b>	
IDA Designated Account	<u>43</u>
<b>TOTAL ASSETS</b>	<u><u>43</u></u>
<b>Funds received:</b>	
Funds received from IDA	13,551,568
Funds received from GoG	<u>3,502,922</u>
<b>Total funds received</b>	<u><u>17,054,490</u></u>
<b>Project expenditures:</b>	
Financed by IDA	(13,551,525)
Financed by GoG	(3,497,658)
Foreign exchange difference	<u>(5,264)</u>
<b>Total project expenditures</b>	<u><u>(17,054,447)</u></u>
<b>TOTAL PROJECT EXPENDITURES AND OTHER FUNDS</b>	<u><u>43</u></u>

On behalf of Management:

  
\_\_\_\_\_  
Giorgi Tsagareli  
Director

20 June 2013

  
\_\_\_\_\_  
Marina Majagaladze  
Financial Manager

20 June 2013

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**TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
CREDIT NO. 5078 – GE**

**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
2	12/09/2012	1,442,743	-	-	-
4	17/10/2012	640,694	-	-	-
5	31/10/2012	416,720	-	-	-
7	22/01/2013	680,269	-	901	-
		<u>3,180,426</u>	<u>-</u>	<u>901</u>	<u>-</u>

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  
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
CREDIT NO. 5078 – GE

SPECIAL ACCOUNT STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2012  
(in US Dollars)

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Account No.	202250948
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

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Balance as at 31 December 2011

ADD

Funds received from IDA

13,551,568

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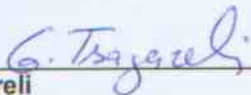
Funds used for Project Expenditures

(13,551,525)


Balance as at 31 December 2012

43

On behalf of Management:

  
\_\_\_\_\_  
Giorgi Tsagareli  
Director

20 June 2013

  
\_\_\_\_\_  
Marina Majagaladze  
Financial Manager

20 June 2013

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**TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
CREDIT NO. 5078 – GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012  
(in US Dollars)**

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**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 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 Development Association Credit Agreement No. 5078-GE (the "Agreement") in the amount of Special Drawing Rights ("SDR") 25.8 million was signed between the Government of Georgia ("GoG") and International Development Association ("IDA") on 22 March 2012 and came into effect on 10 April 2012. The main objectives of the credit are: rehabilitation and improvement of about 225 kilometers for at least nineteen sections of secondary and local roads and strengthening the capacity of Government of Georgia, Road Department of the Ministry of Regional Development and Infrastructure of Georgia (RDMRDI) and the local road construction industry to plan and better manage the road network. The closing date of the loan is 30 June 2017.

**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 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 cash on hand and balances with State Treasury.

**TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND SECONDARY AND LOCAL ROADS REHABILITATION PROJECT  
CREDIT NO. 5078 – GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)**

*(in US Dollars)*

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**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 authorisation from IDA in accordance with the Agreement.

**4. BASIS OF FUNDING**

According to the terms of the Agreement, expenditures are co-financed by proceeds received from IDA 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 acquisition costs.

**5. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the credit to 31 December 2012 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 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 credit 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.

