

**“Central Asia Road Links Project – CARs-1”  
Credit № 5430-KG, Grant № H934-KG**

**Special Purpose Project Financial Statements**  
for the period from July 25, 2014 to December 31, 2015

**and independent auditors’ report**

**“CENTRAL ASIA ROAD LINKS PROJECT – CARS-1”  
CREDIT № 5430-KG, GRANT № H934-KG**

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**TABLE OF CONTENTS**

	<b>Page</b>
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JULY 25, 2014 TO DECEMBER 31, 2015	2
INDEPENDENT AUDITORS’ REPORT	3-4
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JULY 25, 2014 TO DECEMBER 31, 2015:	
Statement of financial position	5
Statement of cash proceeds and disbursements	6
Statement of uses of funds by project components	7
Statement of applications	8
Statement of special account	9
Notes to the special purpose project financial statements	10-15

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JULY 25, 2014 TO DECEMBER 31, 2015**

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 3-4, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the special purpose project financial statements of "Central Asia Road Links Project – CARs-1", Credit № 5430-KG, Grant № H934-KG (the "Project").

Management is responsible for the preparation of the special purpose project financial statements that present fairly, in all material respects, the financial position, cash proceeds and disbursements, uses of funds by project components, special account of the Project for the period from July 25, 2014 to December 31, 2015 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

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

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IPSAS and WB Guidelines have been followed, subject to any material departures disclosed and explained in the special purpose project financial statements; and
- preparing the special purpose project financial statements on a going concern basis, unless it is inappropriate to presume that the Project will continue its activity for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining effective and sound system of internal control and for revealing risks in system of internal control;
- maintaining proper accounting records that 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 IPSAS and WB Guidelines;
- compliance with laws and regulations of the Kyrgyz Republic, accounting system of the Project and the requirements of the World Bank;
- taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- detecting and preventing fraud and other irregularities.

The special purpose project financial statements for the period from July 25, 2014 to December 31, 2015 were approved and authorized for issue on May 27, 2016 by the management of the Project.

**On behalf of the Management:**



**Kubanychbek Mamaev**  
Director

May 27, 2016  
Bishkek, Kyrgyz Republic



**Ulanbek Zainalov**  
Financial Manager

May 27, 2016  
Bishkek, Kyrgyz Republic

## **INDEPENDENT AUDITORS' REPORT**

To the Management of "Central Asia Road Links Project – CARs-1" under the Ministry of Transportation and Communications of the Kyrgyz Republic:

We have audited the accompanying special purpose project financial statements of "Central Asia Road Links Project – CARs-1", (the "Project") which comprise the statement of financial position, the statement of cash proceeds and disbursements, the statement of uses of funds by project components, the statement of special account for the period from July 25, 2014 to December 31, 2015, and a summary of significant accounting policies and other explanatory information (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 International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines"), and for such internal control as management determines is necessary to enable the preparation of the 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 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 auditors' 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 controls 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.

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, financial position as at December 31, 2015 and cash proceeds and disbursements, uses of funds by project components and special account for the period from July 25, 2014 to December 31, 2015 in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

## Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the Project Financial Statements which describes the basis of accounting. These special purpose project financial statements were prepared for complying with the appropriate World Bank Guidelines and Grant agreement requirements, and therefore are not intended to be a complete presentation of the “Central Asia Road Links Project – CARs-1” (the “Project”) operations.

## Other Matter

The special purpose project financial statements are prepared to assist the Project to comply with the requirements of the World 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 and the World Bank should not be distributed or used by anyone other than these specified parties.

May 27, 2016

  
Kubat Alymkulov



Certified accountant, FCCA  
Certificate of auditor of the Kyrgyz Republic # A 0069  
Audit Director, Baker Tilly Bishkek LLC


“Baker Tilly Bishkek” LLC,  
License Series A # 0049 issued by the State Committee  
on Review and Regulation of the financial market of the  
Kyrgyz Republic

**“CENTRAL ASIA ROAD LINKS PROJECT – CARS-1”  
CREDIT № 5430-KG, GRANT № H934-KG**

**STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2015  
(in US Dollars)**

	Notes	December 31, 2015
<b>ASSETS AND EXPENDITURES</b>		
Cash and cash equivalents	4	169,144
Cumulative project expenditures	5	102,432
Other non-operating expenditures		705
<b>TOTAL ASSETS AND EXPENDITURES</b>		<u>272,281</u>
<b>FINANCING</b>		
Financing received	6	266,585
Other income	7	5,693
Foreign exchange gain		3
<b>TOTAL FINANCING</b>		<u>272,281</u>

On behalf of the Management:



**Kubanychbek Mamaev  
Director**

May 27, 2016  
Bishkek, Kyrgyz Republic



**Ulanbek Zainalov  
Financial Manager**

May 27, 2016  
Bishkek, Kyrgyz Republic

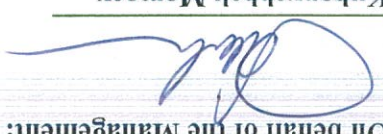
The notes on pages 10-15 form an integral part of the special purpose project financial statements. The Independent Auditors' Report is on pages 3-4

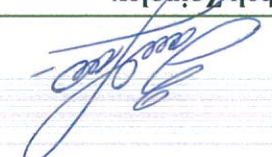
**“CENTRAL ASIA ROAD LINKS PROJECT – CARS-1”  
CREDIT № 5430-KG, GRANT № H934-KG**

**STATEMENT OF CASH PROCEEDS AND DISBURSEMENTS  
FOR THE PERIOD FROM JULY 25, 2014 TO DECEMBER 31, 2015**

(in US Dollars)

	Notes	For the period from July 25, 2014 to December 31, 2015	Cumulative
Opening balance		-	-
Funding sources			
IDA Grant H934-KG	6	266,585	266,585
IDA Credit 5430-KG	6	-	-
Total financing		266,585	266,585
Other income	7	5,693	5,693
Foreign exchange gain		3	3
Total receipts		272,281	272,281
Project expenses			
Goods	5	2,878	2,878
Operating costs	5	99,284	99,284
Other costs	5	270	270
Total project expenses		102,432	102,432
Other non-operating expenditures		705	705
Closing balance	4	169,144	169,144

On behalf of the Management:  
  
Kubanychbek Mamaev  
Director

  
Ulanbek Zainalov  
Financial Manager

May 27, 2016  
Bishkek, Kyrgyz Republic

May 27, 2016  
Bishkek, Kyrgyz Republic

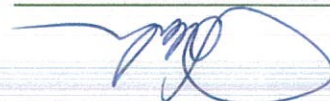
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**“CENTRAL ASIA ROAD LINKS PROJECT – CARS-1”  
CREDIT № 5430-KG, GRANT № H934-KG**

**STATEMENT OF FUNDS BY PROJECT COMPONENTS  
FOR THE PERIOD FROM JULY 25, 2014 TO DECEMBER 31, 2015  
(in US Dollars)**

	For the period from May 10, 2014 to December 31, 2015	Cumulative
Component I. Rehabilitation of Priority Road Sections in Batken Region	-	-
Component II. Improvement of Road Operations and Maintenance Practices	-	-
Component III. Project Management and Implementation	102,203	102,203
Other costs	270	270
	<u>102,473</u>	<u>102,473</u>

On behalf of the Management:

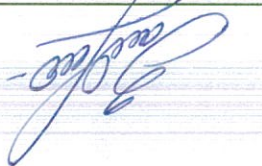


Kubanychbek Mammaev

Director

May 27, 2016

Bishkek, Kyrgyz Republic



Ulanbek Zainalov

Financial Manager

May 27, 2016

Bishkek, Kyrgyz Republic

The notes on pages 10-15 form an integral part of the special purpose project financial statements. The Independent Auditors' Report is on pages 3-4



**“CENTRAL ASIA ROAD LINKS PROJECT – CARS-1”  
CREDIT № 5430-KG, GRANT № H934-KG**

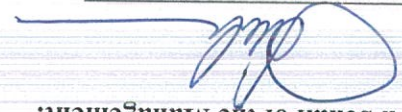
**STATEMENT OF APPLICATIONS**

**FOR THE PERIOD FROM JULY 25, 2014 TO DECEMBER 31, 2015**

*(in US Dollars)*

Sources of financing	Applications	Date application received	Advance	Goods and services, including audit, trainings and operating expenses	Total
IDA Grant №H934-KG	1	February 27, 2015	200,000	-	200,000
	2	August 12, 2015	-	38,961	38,961
	3	December 3, 2015	-	27,624	27,624
			<u>200,000</u>	<u>66,585</u>	<u>266,585</u>

On behalf of the Management:



Kubanychbek Mamaev

Director



Ulanbek Zainalov

Financial Manager

May 27, 2016

Bishkek, Kyrgyz Republic

May 27, 2016

Bishkek, Kyrgyz Republic

The notes on pages 10-15 form an integral part of the special purpose project financial statements. The Independent Auditors' Report is on pages 3-4

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May 27, 2016  
Bishkek, Kyrgyz Republic

May 27, 2016  
Bishkek, Kyrgyz Republic

Ulanbek Zainalov  
Financial Manager

Kubanychbek Mamaev  
Director

On behalf of the Management:

Description	Notes	US Dollars	US Dollars	Total
Balance as at July 25, 2014		-	-	-
Advances received	6	200,000	-	200,000
Reimbursement of expenses	6	66,585	-	66,585
Total funds received to a special account		266,585	-	266,585
The amount of eligible expenditures paid		102,162	-	102,162
Balance as at December 31, 2015	4	164,423	-	164,423

STATEMENT OF SPECIAL ACCOUNT  
FOR THE PERIOD FROM JULY 25, 2014 TO DECEMBER 31, 2015  
(in US Dollars)

"CENTRAL ASIA ROAD LINKS PROJECT - CARS-1"  
CREDIT № 5430-KG, GRANT № H934-KG

**1. GENERAL INFORMATION**

According to the Agreement between the Kyrgyz Republic and International Development Association (the “IDA”) dated July 25, 2014, the IDA provided a Credit №5430-KG in the amount of 23,900,000 Special Drawing Rights (the “SDR”) and Grant №H934-KG in the amount of 5,300,000 SDR to the Kyrgyz Republic.

The Financing was provided for implementation of the “Central Asia Road Links Project – CARS-1” (the “Project”).

**Project purpose**

The objective of the Project is to increase transport connectivity between the Kyrgyz Republic and Tajikistan along priority cross-border road links in Batken Region, whilst supporting improvements in road operations and maintenance practices.

The Project is to be implemented during 2014-2019 and comprises 3 components:

1. Component I: Rehabilitation of Priority Road Sections in Batken Region;
2. Component II: Improvement of Road Operations and Maintenance Practices ;
3. Component III: Project Management and Implementation.

**Component I: Rehabilitation of Priority Road Sections in Batken Oblast**

This component focuses on rehabilitation of about 56 kilometers of road sections in Batken Region along and within close vicinity of the road corridor Osh-Batken-Istana. Those road sections will link the Kyrgyz Republic with its neighboring countries and include specifically:

- Istana-Karagach/Madaniyat border crossing (36.08 kilometers),
- Batken-Tortkul (14.30 kilometers), and
- Batken-Kyzyl Bel/Guliston border crossing (6.11 kilometers).

**Component II: Improvement of Road Operations and Maintenance Practices**

This component finances the provision of goods, and consultants’ services for the improvement of road operations and maintenance practices.

Improvement of maintenance practices will include the establishment of Service Level Agreement between Ministry of Transportation and Communications of the Kyrgyz Republic and “Osh-Batken-Istana” Road Department (the “OBIVAD”), support exposure of OBIVAD management to international practices on maintenance techniques through the hiring of individual internationally recruited consultants.

Also this component includes a review of regional standards, norms, and parameters on vehicle (truck) weight and axle load limits and tariffication as well as the development of a strategic plan for the institutional arrangements for transport control.

### ***Component III: Project Management and Implementation***

This component aims to support project coordination, implementation, and management through financing of provision of goods, consultants' services, training, and operating costs, including an audit.

#### ***Project management***

Ministry of Transportation and Communication of the Kyrgyz Republic is responsible for Project implementation, usage of project resources in accordance with stated budget, and Project's objectives achievement.

Duration of the Project is from July 25, 2014 to April 30, 2019.

## **2. PRESENTATION OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS**

### **Basis of preparation**

These special purpose project financial statements have been prepared in accordance with the International Public Sector Accounting Standard (the "IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Under the cash basis system income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received.

The Project's approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented.

These special purpose project financial statements consist of:

- Statement of financial position;
- Statement of cash proceeds and disbursements;
- Statement of uses of funds by project components;
- Statement of applications;
- Statement of special account;
- Notes to the special purpose project financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these special purpose project financial statements is US Dollars (the "USD").

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Cash basis of accounting**

Special purpose project financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity. Special purpose project financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the special purpose project financial statements is balances of cash and changes therein.

## Foreign currency

Operations in foreign currency initially are counted in functional currency by the commercial bank exchange rate settled on a date of operation.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate on a date settled by the NBKR.

All foreign exchange differences resulted from maturity or recounting are included in statement of cash proceeds and disbursements.

Non-monetary items are valued according to their historic cost in foreign currency, which are recalculated on rates of the initial operation date.

In preparation of the special purpose project financial statements the following exchange rate of NBKR in regard to Kyrgyz som was used:

	<b>December 31, 2015</b>
Kyrgyz som to USD	75.8993

## Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short term.

## Taxes

Calculation and payment of personal income tax and social security contributions from income of local staff and consultants is made in accordance with the requirements and rates of the Tax Code of the Kyrgyz Republic.

## Project expenses

The expenses are recorded in the period when they were actually paid.

## Sources of funds

The funds were provided by the World Bank to the Project by replenishment of special account or through direct payment to the end supplier of goods and/or services.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2015 comprise:

	Currency	December 31, 2015
Special account Grant H934-KG	USD	164,423
Interest account Grant H934-KG	USD	2,491
Tender account Grant H934-KG	USD	2,130
Non-operating account Grant H934-KG	KGS	100
		<u>169,144</u>

## 5. CUMULATIVE PROJECT EXPENDITURES

Project expenditures by components are presented in the statement of funds by project components. Project expenditures on major categories are presented in the statement of cash proceeds and disbursements. Breakdown of project expenses by categories and donors is presented as follows:

	For the period from July 25, 2014 to December 31, 2015		
	Grant H934-KG	Credit 5430-KG	Total
Software	2,878	-	2,878
	<u>2,878</u>	<u>-</u>	<u>2,878</u>

### OPERATING COSTS

	For the period from July 25, 2014 to December 31, 2015		
	Grant H934-KG	Credit 5430-KG	Total
Salary and related taxes	76,183	-	76,183
Office maintenance	13,301	-	13,301
Business trip expenses	7,000	-	7,000
Trainings	1,908	-	1,908
Other	892	-	892
	<u>99,284</u>	<u>-</u>	<u>99,284</u>

### OTHER COSTS

	For the period from July 25, 2014 to December 31, 2015		
	Grant H934-KG	Credit 5430-KG	Total
Advertising	270	-	270
	<u>270</u>	<u>-</u>	<u>270</u>

## 6. FINANCING RECEIVED

The financing was presented by the following reimbursement methods:

Financing method / sources of financing:	For the period from July 25, 2014 to December 31, 2015		
	Grant H934-KG	Credit 5430-KG	Total
Advances	200,000	-	200,000
Reimbursement of expenses	66,585	-	66,585
	<u>266,585</u>	<u>-</u>	<u>266,585</u>

## 7. OTHER INCOME

Other income for the period from July 25, 2014 to December 31, 2015 consists of the following:

	For the period from July 25, 2014 to December 31, 2015		
	Grant H934-KG	Credit 5430-KG	Total
Interest income	3,192	-	3,192
Sale of tender documents	2,501	-	2,501
	<u>5,693</u>	<u>-</u>	<u>5,693</u>

## 8. UNDRAWN FUNDS

As at December 31, 2015 undrawn funds with breakdown by grants are presented as follows:

	Grant H934-KG (in SDR)	Credit 5430-KG (in SDR)
Approved grant amount	5,300,000	23,900,000
Disbursed during the period	<u>189,879</u>	<u>-</u>
Undrawn amount	<u>5,110,121</u>	<u>23,900,000</u>
	Grant H934-KG (in SDR)	Credit 5430-KG (in SDR)
Opening disbursed amount	-	-
Disbursed during the period	<u>189,879</u>	<u>-</u>
Closing disbursed amount	<u>189,879</u>	<u>-</u>
	Grant H934-KG (in USD)	Credit 5430-KG (in USD)
Opening disbursed amount	-	-
Disbursed during the period	<u>266,585</u>	<u>-</u>
Closing disbursed amount	<u>266,585</u>	<u>-</u>

## 9. COMMITMENTS

In the normal course of activities, the Project concludes agreements with suppliers of goods and services in accordance with the established budget and procurement plan. Contract value of obligations valid as at December 31, 2015 was as follows:

Counterparty	Contract #	Contract signing date	Contract value	Paid up to December 31, 2015	Remaining amount to be paid
Xinjiang Beixin Road and Bridge Group Co Ltd	CARs/ICB-CW	November 16, 2015	34,120,271	-	34,120,271
EGIS International	CARs/CS/CQBS-01	July 9, 2015	2,512,493	-	2,512,493

## 10. LEGAL CASES

There were no any legal claims related to the Project.

## 11. EVENTS AFTER THE REPORTING DATE

During 2016 until the date of issue of these special purpose project financial statements the World Bank provided financing to the Project as follows:

Value date	Application	Financing method	Grant H934-KG	Credit 5430-KG
April 5, 2016	1	direct payment	-	1,103,779
April 6, 2016	6	direct payment	2,705,000	-
April 13, 2016	4	direct payment	86,760	-
April 13, 2016	5	direct payment	96,202	-
April 29, 2016	3	direct payment	-	338,234
May 3, 2016	7	special account replenishment	65,513	-
			<u>2,953,475</u>	<u>1,442,013</u>

As at the date of issue of these financial statements no other significant events or transactions happened, except for the events or transactions described above.