

**TRANSPORT REFORM AND  
REHABILITATION CENTER**

CREDIT NO. 4373 – GE  
(SECOND EAST-WEST HIGHWAY  
IMPROVEMENT PROJECT)

**Special Purpose Project Financial Statements**  
For the Nine Month Period Ended 30 September 2012

**TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
CREDIT NO. 4373 – GE**

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012**

Management of the Second East-West Highway 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 30 September 2012, and its sources and uses of funds and movement in special account for the nine month period ended 30 September 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:

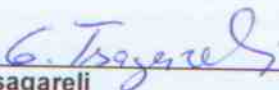
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IPSAS – Cash Basis 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 nine month period ended 30 September 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 East-West Highway Improvement Project (the "Project") financed under the Credit Agreement No.4373-GE dated 20 December 2007, implemented by the Transport Reform and Rehabilitation Center, which comprise the Balance Sheet Statement as at 30 September 2012 and the related Statement of Sources and Uses of Funds, Statement of Expenditures Withdrawal Schedule ("SOEs") and Special Account Statement for the nine month period ended 30 September 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 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 30 September 2012, and its sources and uses of funds, SOEs and special account statement for the nine month ended 30 September 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 IDA. 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 IDA and should not be distributed or used by anyone other than these specified parties.

*Deloitte & Touche*


20 June 2013

**TRANSPORT REFORM AND REHABILITATION CENTER  
SECOND EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
CREDIT NO. 4373 – GE**


**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012  
(in US Dollars)**

	Actual		Planned		Variance	
	9 month period to date	Cumulative to date	9 month period to date	Cumulative to date	9 month period to date	Cumulative to date
			Unaudited	Unaudited	Unaudited	Unaudited
<b>FUNDS RECEIVED BY SOURCES</b>						
International Development Association (IDA) Funds	-	34,873,107				
Government of Georgia (GoG) co-financing	15,859	15,546,199				
<b>TOTAL FUNDS RECEIVED</b>	<b>15,859</b>	<b>50,419,306</b>				
Foreign Exchange Difference	-	285				
	<b>15,859</b>	<b>50,419,591</b>				
<b>LESS: EXPENDITURES</b>						
Component 1 - Upgrade Igoeti-Sveneti section (IDA - 70%)	42,651	34,105,869	42,651	34,105,869	-	-
Component 2 - Roads Safety (IDA - 70%)	-	372,534	-	372,534	-	-
Component 3 - Project management (IDA - 70%)	-	394,985	-	394,985	-	-
<b>IDA TOTAL</b>	<b>42,651</b>	<b>34,873,388</b>	<b>42,651</b>	<b>34,873,388</b>	<b>-</b>	<b>-</b>
Component 1 - Upgrade Igoeti-Sveneti section (GoG - 30%)	15,859	15,065,115	15,859	15,065,115	-	-
Component 2 - Roads Safety (GoG - 30%)	-	159,657	-	159,657	-	-
Component 3 - Project management (GoG - 30%)	-	321,431	-	321,431	-	-
<b>GoG TOTAL</b>	<b>15,859</b>	<b>15,546,203</b>	<b>15,859</b>	<b>15,546,203</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES</b>	<b>58,510</b>	<b>50,419,591</b>	<b>58,510</b>	<b>50,419,591</b>	<b>-</b>	<b>-</b>
<b>NET (OUTFLOW)/INFLOW OF FUNDS</b>	<b>(42,651)</b>	<b>-</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 EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
CREDIT NO. 4373 – GE**

**BALANCE SHEET STATEMENT  
AS AT 30 SEPTEMBER 2012  
(in US Dollars)**

	<u>30 September 2012</u>
<b>ASSETS</b>	
IDA special account	-
<b>TOTAL ASSETS</b>	<u>-</u>
<b>Funds received:</b>	
Funds received from IDA	34,873,107
Funds received from GoG	15,546,199
Foreign exchange difference	285
<b>Total funds received</b>	<u>50,419,591</u>
<b>Project expenditures:</b>	
Financed by IDA	(34,873,388)
Financed by GoG	(15,546,203)
<b>Total project expenditures</b>	<u>(50,419,591)</u>
<b>TOTAL PROJECT EXPENDITURES AND OTHER FUNDS, NET</b>	<u>-</u>

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 NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012  
(in US Dollars)**

Withdrawal No.	Withdrawal application date	Civil Works	Goods	Consultants' Services	Operating Costs
21	14/09/2012	5,646	-	-	-
		<u>5,646</u>	<u>-</u>	<u>-</u>	<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 EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
CREDIT NO. 4373 – GE**

**SPECIAL ACCOUNT STATEMENT  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2012**  
*(in US Dollars)*

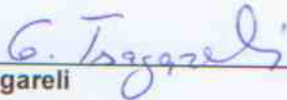
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Account No.	202220387
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

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Balance as at 31 December 2011	42,651
<b>ADD</b> Funds received from IDA	-
<b>DEDUCT</b> Funds used for Project Expenditures	(42,651)
Balance as at 30 September 2012	-

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.

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SECOND EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
CREDIT NO. 4373 – GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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. 4373-GE (the "Agreement") in the amount of Special Drawing Rights ("SDR") 22.4 million was signed between the Government of Georgia ("GoG") and International Development Association ("IDA") on 20 December 2007 and came into effect on 10 March 2008. The main objectives of the credit are: to contribute to the gradual reduction of road transport costs and improve access, ease of transit and safety along the central part of Georgia's East-West corridor through upgrading a segment of the East-West Highway from Tbilisi to Rikoti, 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 was initially established as 29 February 2012, but was subsequently amended to 30 June 2012. All expenditures were incurred before the date of closure while the last replenishment was submitted in September 2012 within the standard grace period (four months from the closure date).

**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.

