

**TRANSPORT REFORM AND  
REHABILITATION CENTER**

LOAN NO.7741-GE  
(THIRD EAST-WEST HIGHWAY IMPROVEMENT  
PROJECT)

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

**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO.7741-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 2013**

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Management of the Third 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 31 December 2013, and its sources and uses of funds and movement in special account for 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 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 2013 were authorised for issue on 23 June 2014 by the Management.

On behalf of Management:

  
Giorgi Tsagareli  
Director

  
Marina Majagaladze  
Financial Manager

23 June 2014

23 June 2014



## INDEPENDENT AUDITOR'S REPORT

### To the management of the Transport Reform and Rehabilitation Center:

We have audited the accompanying special purpose project financial statements of the Third East-West Highway Improvement Project (the "Project") financed under the Loan Agreement No. 7741-GE dated 18 September 2009, implemented by the Transport Reform and Rehabilitation Center, which comprise the Balance Sheet Statement as at 31 December 2013 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 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 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.

#### *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 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 2013, and its sources and uses of funds, SOEs and special account statement for the year ended 31 December 2013 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 International Bank for Reconstruction and Development. 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 International Bank for Reconstruction and Development and should not be distributed or used by anyone other than these specified parties.

*Deloitte & Touche*

23 June 2014  
Tbilisi, Georgia



**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO. 7741-GE**

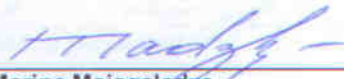
**STATEMENT OF SOURCES AND USES OF FUNDS  
FOR THE YEAR ENDED 31 DECEMBER 2013  
(in US Dollars)**

	Actual		Planned		Variance	
	Year to date	Cumulative to date	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>	Year to date <i>Unaudited</i>	Cumulative to date <i>Unaudited</i>
<b>FUNDS RECEIVED BY SOURCES</b>						
International Bank for Reconstruction and Development ("IBRD") Funds	4,522,826	147,000,000				
Government of Georgia ("GoG") co-financing	3,205,271	36,031,661				
<b>TOTAL FUNDS RECEIVED</b>	<b>7,728,097</b>	<b>183,031,661</b>				
Foreign exchange difference	-	(193,267)				
<b>LESS: EXPENDITURES</b>						
Component 1 - Construction of Sveneti-Ruisis Road (IBRD - 80%)	11,525,090	137,461,475	11,525,090	137,461,475	-	-
Component 2 - Roads safety (IBRD - 80%)	777,374	2,836,828	777,374	2,836,828	-	-
Component 3 - Project management (IBRD - 80%)	200,075	353,854	200,075	353,854	-	-
<b>IBRD TOTAL</b>	<b>12,502,539</b>	<b>140,652,157</b>	<b>12,502,539</b>	<b>140,652,157</b>	<b>-</b>	<b>-</b>
Component 1 - Construction of Sveneti-Ruisis Road (GoG - 20%)	2,920,147	34,947,109	2,920,147	34,947,109	-	-
Component 2 - Roads safety (GoG - 20%)	194,419	709,451	194,419	709,451	-	-
Component 3 - Project management (GoG - 20%)	90,705	181,796	90,705	181,796	-	-
<b>GoG TOTAL</b>	<b>3,205,271</b>	<b>35,838,356</b>	<b>3,205,271</b>	<b>35,838,356</b>	<b>-</b>	<b>-</b>
<b>TOTAL EXPENDITURES BY COMPONENTS</b>	<b>15,707,810</b>	<b>176,490,513</b>	<b>15,707,810</b>	<b>176,490,513</b>	<b>-</b>	<b>-</b>
<b>UNALLOCATED</b>						
Front end fees	-	367,500	-	367,500	-	-
<b>TOTAL UNALLOCATED EXPENDITURE</b>	<b>-</b>	<b>367,500</b>	<b>-</b>	<b>367,500</b>	<b>-</b>	<b>-</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>15,707,810</b>	<b>176,858,013</b>	<b>15,707,810</b>	<b>176,858,013</b>	<b>-</b>	<b>-</b>
<b>NET (OUTFLOW)/INFLOW OF FUNDS</b>	<b>(7,979,713)</b>	<b>5,980,381</b>				

On behalf of Management:

  
Giorgi Tsagareli  
Director

23 June 2014

  
Marina Majagaladze  
Financial Manager

23 June 2014

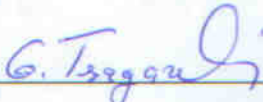
The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO. 7741-GE


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

	31 December 2013
<b>ASSETS</b>	
IBRD Special Account	5,980,381
<b>TOTAL ASSETS</b>	<b>5,980,381</b>
<b>Funds received:</b>	
Funds received from IBRD	147,000,000
Funds received from GoG	36,031,661
<b>Total funds received</b>	<b>183,031,661</b>
<b>Project expenditures:</b>	
Financed by IBRD	(140,652,158)
Financed by GoG	(35,838,355)
Unallocated	(367,500)
<b>Total project expenditures</b>	<b>176,858,013</b>
Foreign exchange difference	(193,267)
<b>TOTAL PROJECT EXPENDITURES AND OTHER FUNDS</b>	<b>5,980,381</b>

On behalf of Management:

  
Giorgi Tsagareli  
Director

23 June 2014

  
Marina Majagaladze  
Financial Manager

23 June 2014

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

TRANSPORT REFORM AND REHABILITATION CENTER  
 THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
 LOAN NO. 7741-GE

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 <i>Unaudited</i>	Total SOE attributable to 2012	Total SOE attributable to 2013	Attributable to 2013 - Component 1	Attributable to 2013 - Component 2	Attributable to 2013 - Component 3	Total SOE attributable to 2014 <i>Unaudited</i>
14	29/01/2013	599,632	599,632	-	-	-	-	-
15	24/05/2013	81,378	-	81,378	-	40,929	40,449	-
16	05/12/2013	514,198	-	514,198	362,899	79,736	71,563	-
17	16/04/2014	87,411	-	42,583	-	31,013	11,570	44,828
		<b>1,282,619</b>	<b>599,632</b>	<b>638,159</b>	<b>362,899</b>	<b>151,678</b>	<b>123,582</b>	<b>44,828</b>

On behalf of Management:



Giorgi Tsagareli  
 Director

23 June 2014



Marina Majagaledze  
 Financial Manager

23 June 2014

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.



TRANSPORT REFORM AND REHABILITATION CENTER  
THIRDT EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO. 7741-GE

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


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Account No.	211221798
Depository Bank	State Treasury
Address	16 V. Gorgasali street Tbilisi, 0114 Georgia

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Balance as at 1 January 2013	<u>13,960,094</u>
<b>ADD</b>	
Funds received from IBRD	4,522,826
<b>DEDUCT</b>	
Funds used for Project expenditures	<u>(12,502,539)</u>
Balance as at 31 December 2013	<u><u>5,980,381</u></u>

On behalf of Management:

  
Giorgi Tsagareli  
Director

  
Marina Majagaladze  
Financial Manager

23 June 2014

23 June 2014

The notes on pages 8 to 11 form an integral part of these special purpose project financial statements.

**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO. 7741-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013  
(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 Bank for Reconstruction and Development Loan Agreement No. 7741-GE (the "Agreement") in the amount of 147 million United States Dollars ("USD") was signed between the Government of Georgia ("GoG") and International Bank for Reconstruction and Development ("IBRD") on 18 September 2009 ("inception"). The main objectives of the loan are: to contribute to the gradual reduction of road transport costs and improve access, ease of transit and road safety along central part of the East-West Corridor and strengthen the capacity of the Road Department in the Ministry of Regional Development and Infrastructure of Georgia (RDMRDI) and relevant government entities to plan and manage the road network and to improve road safety. The closing date of the loan is 30 June 2015.

**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** – 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. 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 IBRD in accordance with the Agreement.

**4. BASIS OF FUNDING**

According to the terms of the Agreement, the expenditures are co-financed by proceeds received from IBRD and the Government of Georgia (GoG) at a proportional rate of 80% and 20%, respectively.

GoG is also responsible for paying all taxes except for non-residential income tax which is financed at the proportional rate as above.



**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO. 7741-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)  
(in US Dollars)**

**5. METHODS OF WITHDRAWAL**

The methods of withdrawal used from the inception of the loan to 31 December 2013 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 amounts is transferred to the special account.

**(b) Direct Payment**

Available amounts are drawn from time to time within limits determined under the loan 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.

**6. STATEMENT OF EXPENDITURES**

Withdrawals are to be made on the basis of SOEs for expenses on contracts within the following contractual limits:

- (i) All expenditures for Works valued at less than USD 1,200,000;
- (ii) Consultant services contracts (firms) valued at less than USD 200,000;
- (iii) Consultant services contracts (individuals) valued at less than USD 50,000;
- (iv) All expenditures for Goods valued at less than USD 100,000;

**7. RECONCILIATION OF AMOUNTS SHOWN AS RECEIVED FROM THE IBRD TO ACTUAL EXPENDITURES OF THE PROJECT**

	<u>31 December 2013</u>
<b>Application of Withdrawals Schedule</b>	
Expenses incurred in 2013 as per the Applications of Withdrawals Schedule	12,502,539
Expenses incurred in 2013 without Applications of Withdrawals Schedule	-
	<u>12,502,539</u>
IBRD replenishment	4,522,826
Foreign exchange difference	-



**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO. 7741-GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

*(in US Dollars)*

<b>Add:</b>	
Opening Balance Special Account	13,960,094
	<u>13,960,094</u>
<b>Less:</b>	
Closing Balance Special Account	5,980,381
	<u>5,980,381</u>
<b>TOTAL EXPENDITURES INCURRED IN 2013</b>	<u><u>12,502,539</u></u>

**8. PROJECT EXPENDITURES BY COMPONENTS**

Project activities	Actual		Planned		Variance	
	Year to date	Cumulative to date	Year to date	Cumulative to date	Year to date	Cumulative to date
			<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>
<b>Component 1 - Construction of Sveneti-Ruisi section</b>						
Civil works	12,157,571	162,996,471	12,157,571	162,996,471	-	-
Land acquisition	43,395	514,725	43,395	514,725	-	-
Consultant's services for works supervision and design	2,244,271	8,897,388	2,244,271	8,897,388	-	-
<b>TOTAL COMPONENT 1</b>	<u>14,445,237</u>	<u>172,408,584</u>	<u>14,445,237</u>	<u>172,408,584</u>	-	-
<b>Component 2 - Roads Safety</b>						
Civil works for road safety	-	42,606	-	42,606	-	-
Consultant's services and training	971,793	3,406,687	971,793	3,406,687	-	-
Goods	-	96,986	-	96,986	-	-
<b>TOTAL COMPONENT 2</b>	<u>971,793</u>	<u>3,546,279</u>	<u>971,793</u>	<u>3,546,279</u>	-	-
<b>Component 3 - Project Management</b>						
Project management	290,780	535,650	290,780	535,650	-	-
<b>TOTAL COMPONENT 3</b>	<u>290,780</u>	<u>535,650</u>	<u>290,780</u>	<u>535,650</u>	-	-
<b>TOTAL EXPENDITURES BY COMPONENTS</b>	<u>15,707,810</u>	<u>176,490,513</u>	<u>15,707,810</u>	<u>176,490,513</u>	-	-
<b>UNALLOCATED</b>						
Front end fees	-	367,500	-	367,500	-	-
<b>TOTAL UNALLOCATED</b>	<u>-</u>	<u>367,500</u>	<u>-</u>	<u>367,500</u>	-	-
<b>TOTAL PROJECT EXPENDITURES</b>	<u>15,707,810</u>	<u>176,858,013</u>	<u>15,707,810</u>	<u>176,858,013</u>	-	-

**TRANSPORT REFORM AND REHABILITATION CENTER  
THIRD EAST-WEST HIGHWAY IMPROVEMENT PROJECT  
LOAN NO. 7741 – GE**

**NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**  
*(in US Dollars)*

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The Project consists of the following main components:

- Component 1 - Upgrading the existing E60 East-West Highway from Sveneti to Ruisi to a dual carriageway road;
- Component 2 - Institutional strengthening;
- Component 3 - Institutional support to Road Department and TRRC related to Project implementation, audits and Project monitoring and evaluation.

The Components for project expenses are further divided into four types of expenses for SOE purposes: Civil Works, Goods, Consultants' services and operating costs.

**9. COMMITMENTS AND CONTINGENCIES**

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2013 and on the funds received and disbursed during the year then ended.

**10. OPERATING ENVIRONMENT**

Emerging markets such as Georgia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks.

Laws and regulations affecting businesses in Georgia continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Georgia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

**11. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE**

There were no significant events subsequent to the balance sheet date.

**12. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue by the Management of TRRC on 23 June 2014.