

Audited Project Financial Statements

Project Number: 45007

Loan Number: 3098

Period covered: 24 September 2014–31 December 2015

Mongolia: Ulaanbaatar Urban Services and Ger Areas Development Investment Program

Prepared by Municipality of Ulaanbaatar

For the Asian Development Bank

Date received by ADB: 4 July 2016

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Municipality of Ulaanbaatar.



DALAIWAN AUDIT

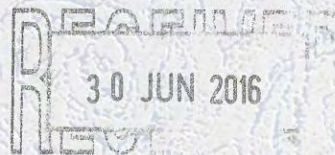
AUDITOR'S REPORT

**ULAANBAATAR URBAN SERVICES AND
GER AREAS DEVELOPMENT INVESTMENT
PROGRAM PROJECT 1
Loan №3098 MON**

Financial statements as of
December 31, 2015



ASIAN DEVELOPMENT BANK



MONGOLIA RESIDENT MISSION



an independent member of
**BAKER TILLY
INTERNATIONAL**

INDEPENDENT AUDITOR'S REPORT

To: Mr. Ts. Bayarsaikhan Project Coordinator
Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1
Loan № 3098 MON

We have audited the accompanying financial statements of Loan № 3098 MON Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1, which comprise the balance sheet as at December 31, 2015, and the statement of project sources and uses of funds, statement of expenditure (Loan withdrawals) and imprest account statement for the year then ended. Management of the project is responsible for the preparation of these financial statements and our responsibility is to express an opinion thereon based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

Management of the project have prepared these financial statements in accordance with International Public Sector Accounting Standards on cash basis wherein revenues are recognized when cash is received and expenses are recognized when paid.

In our opinion, the financial statement and the report of project sources and uses of funds have been prepared in accordance with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants; cash receipt and cash expenditure of the Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1 for the year ended Dec 31, 2015 present fairly, in all material respect; and spending incurred for the intended purpose as stated in the Loan Agreement 3098 MON.

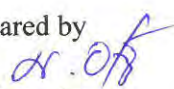
УЛААНБААТАР ХОТ
General Director, CPA
Ts. Jigden

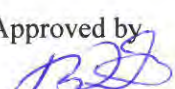
June 15, 2016
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The Government of Mongolia
Asian Development Bank
Loan 3098 MON
Ulaanbaatar Urban Services and Ger Areas Development Investment Program Project 1

BALANCE SHEET
as at December 31, 2015

	At Dec 31, 2015 USD	At Dec 31, 2014 USD
ASSETS		
Cash and cash equivalent:	3	1,560,302.79
Cash at bank:		-
Imprest account (USD)	1,560,302.79	
Cumulative project expenditures:	53,354.53	0.00
ADB Loan		
Civil work		
Interest charge	53,329.53	
Correspondent bank charge	25.00	
Exchange rate loss		
TOTAL ASSETS	1,613,657.32	0.00
FUNDS		
ADB Loan	1,500,000.00	
Interest charge	53,329.53	
Bank interest income	60,327.79	
TOTAL FUNDS	1,613,657.32	-

Prepared by

Ms. N. Otgonjargal
Project accountant

Approved by

Mr. Ts. Bayarsaikhan
Project coordinator

INDEPENDENT AUDITOR'S REPORT

To: Mr. Ts. Bayarsaikhan Project Coordinator
Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1
Loan № 3098 MON

We have audited the statement of project sources and uses of funds for the year ended December 31, 2015 of the Loan № 3098 MON Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the statement of sources and uses of fund. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the internal controls and procedures involved in preparation of the statement of sources and uses of funds can be relied upon, and the applications for loan withdrawals sufficiently support it.

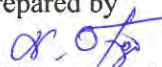



General Director, CPA
Ts. Jigden
June 15, 2016

The Government of Mongolia
Asian Development Bank
Loan 3098 MON
Ulaanbaatar Urban Services and Ger Areas Development Investment Program Project 1

STATEMENT OF PROJECT SOURCES AND USES OF FUNDS
for the year ended December 31, 2015

	Cumulative to Dec 31 2015 USD	Cumulative to Dec 31, 2014 USD
SOURCES		
ADB Loan	1,500,000.00	
Interest charge	53,329.53	
Bank interest income	60,327.79	
TOTAL SOURCES OF FUNDS	1,613,657.32	0.00
USES OF FUNDS		
Civil work		
Interest charge	53,329.53	
Correspondent bank charge	25.00	
TOTAL USES OF FUNDS	53,354.53	0.00
Surplus of receipts over expenditure	1,560,302.79	0.00
Cash at bank:		
Imprest account (USD)	1,560,302.79	
Sub account (MNT)		
Balance of cash and cash equivalents	1,560,302.79	0.00

Prepared by

Ms. N. Otgonjargal
Project accountant

Approved by

Mr. Ts. Bayarsaikhan
Project coordinator



DALAIVAN AUDIT

Audit assurance, property and business
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INDEPENDENT AUDITOR'S REPORT

To: Mr. Ts. Bayarsaikhan Project Coordinator
Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1
Loan № 3098 MON

We have audited the statement of expenditures (Loan withdrawals) for the year ended December 31, 2015 of the Loan № 3098 MON Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the statement of expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

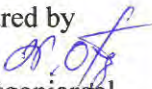
In our opinion, the statement of expenditures (Loan and grant withdrawals) is prepared in accordance with the ADB Loan Disbursement Handbook and receipts and expenditures are supported by the primary documents, classified in accordance with expense category as stated in the loan agreement and present fairly.

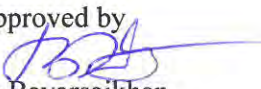


The Government of Mongolia
Asian Development Bank
Loan 3098 MON
Ulaanbaatar Urban Services and Ger Areas Development Investment Program Project 1

STATEMENT OF EXPENDITURES
for the year ended December 31, 2015

Number of WA	Application Type	Claimed date	Credited date	Amount claimed (in USD)	Amount credited (in USD)	Differenc e
WA 0001	Initial advance	2014.10.15	2014.12.30	1,500,000.00	1,500,000.00	-
WA's up to Dec 31, 2015 (WA 0001)				1,500,000.00	1,500,000.00	-

Prepared by

Ms. N. Otgonjargal
Project accountant

Approved by

Mr. Ts. Bayarsaikhan
Project coordinator



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INDEPENDENT AUDITOR'S REPORT

To: Mr. Ts. Bayarsaikhan Project Coordinator
Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1
Loan № 3098 MON

We have audited the Imprest Account Statement for the year ended December 31, 2015 of Loan № 3098 MON Ulaanbaatar Urban Service and Ger Areas Development Investment Program Project 1, which was prepared within the loan agreement Loan № 3098 MON framework to support withdrawals.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the Imprest Account Statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.


In our opinion, the imprest account statement was prepared in accordance with the ADB Loan Disbursement Handbook, cash replenishment and liquidation of the imprest account present fairly.




The Government of Mongolia
Asian Development Bank
Loan 3098 MON
Ulaanbaatar Urban Services and Ger Areas Development Investment Program Project 1

IMPREST ACCOUNT STATEMENT
Usd account no 106000029973 at State bank
as at December 31, 2015

	At Dec 31, 2015 USD	At Dec 31, 2014 USD
Part A - Account transactions		
Beginning balance		
Add:		
Total amount deposited current year	1,500,000.00	
Total bank interest earned	60,327.79	
Foreign exchange gain		
Deduct:		
Total amount withdrawn		
Total correspondent bank charge	25.00	
Ending balance	1,560,302.79	0.00
Part B - Account reconciliation		
Amount advanced by the ADB	1,500,000.00	
Balance of the Imprest Account at the end of the year	1,560,302.79	
Add: Amount claimed and not yet credited		
Amount withdrawn and not yet claimed		
Correspondent bank charge		
Previous year		
Current year	25.00	
Foreign exchange loss		
Deduct:		
Interest earned:		
Previous year		
Current year	60,327.79	
Foreign exchange gain		
Total advance to Special account accounted for	1,500,000.00	0.00

Prepared by

Ms. N. Otgonjargal
Project accountant

Approved by

Mr. Ts. Bayarsaikhan
Project coordinator

NOTES OF THE FINANCIAL STATEMENTS

1. Project introduction

By the framework financing agreement dated 30 June 2014 between Asian Development Bank (ADB) and Government of Mongolia, ADB agreed to make loan of USD 27,500,000 from its ordinary capital resources (Loan number 3098-MON), loan of USD 22,500,000 and non-refundable assistance of USD 3,700,000 from its Special Funds resources (Loan number 3099-MON and Grant number 0381) for the purpose of implementing the Ulaanbaatar Urban Services and Ger Areas Development Investment Program - Project 1. The financing agreements for such loan and grant came into effect from 25 September 2014.

The implementing agency of the Ulaanbaatar Urban Services and Ger Areas Development Investment Program - Project 1 is the Ulaanbaatar City Major's Office. A re-lending agreement was effected between the Ministry of Finance and Municipality of Ulaanbaatar on 26 December 2014, based on the financing agreements for loan and grant promulgated by the State Ikh Khural for the Ulaanbaatar Urban Services and Ger Areas Development Investment Program - Project 1 on 30 June 2014 and the Procedure on Re-lending of Foreign Loan and Aid approved by decree number 185 of the Government of Mongolia. By the re-lending agreement, it was agreed to re-lend the Municipality of Ulaanbaatar the loans to be made from ADB, loan of USD 27,500,000 from its ordinary capital resources and loan of USD 22,500,000 from its Special Funds, in compliance to the financing agreement for loan and aid signed by ADB and Government of Mongolia on 30 June 2014. Loan closing date is 30 June 2018 according to the re-lending agreement signed by the Ministry of Finance and the Municipality of Ulaanbaatar.

Work to be done by funding of loan number 3098-MON, loan number 3099-MON, and aid number 0381:

Ulaanbaatar Urban Services and Ger Areas Development Investment Program for implementation of Ulaanbaatar City Master Plan will be implemented with 3 stages for a period of 9 years. Under the initial stage, Ulaanbaatar Urban Services and Ger Areas Development Investment Program – Project 1, support will be provided to the implementation of Ulaanbaatar City Master Plan in its direction to develop Selbe and Bayankhoshuu sub-centers. These sub-centers that currently reside 200,000 people are given top priority and are planned to be connected to the infrastructure and social and economic services for the purpose of making into a center of ger districts on the northern part of the city. Following shall be conducted within the frame of the project:

- (i) **Sewerage network:** Extension from the nearest terminals of the existing city sewerage system: (a) 3.5 kilometers (km) collector main for Bayankhoshuu and 2.6 km for Selbe, (b) sewerage pumping station along with 2 km of sewer pipe extension and 0.9 km of sewer pressure pipe, and (c) connection to the public facilities located along the road corridor and within each sub-center
Road and urban services: (a) 1 km of combined priority roads to be built in the sub-centers, (b) 18.6 km of water supply, 20 km of wastewater, and 21 km of district heating network pipes, (c) sidewalks, drainage, flood protection, waste collection facilities, public space lightening and urban furniture, and (d) heating facilities using most suitable, state-of-the-art, environmentally friendly technologies.
- (ii) **Social and economic facilities:** Two kindergartens, 8–9 hectares (ha) of green areas and small squares, two vocational training centers and business incubator centers associated to such.
- (iii) **Multi-interventions in the Ulaanbaatar Water Supply and Sewerage Authority (USUG):** to improve the central wastewater treatment plant and drinking water supply network, improve local control and central operational control systems (SCADA), improve water pumping system, implement a domestic and industrial water metering program, and install remote controlled flow-meters for nonrevenue water management.
- (iv) **Institutional strengthening and capacity development:** for (a) detailed design and construction supervision for the water supply and wastewater collection systems, municipal infrastructure, and heating services, (b) community participation, awareness and empowerment, small- and medium-enterprises (SME) development; (c) capacity building and institutional strengthening for urban planning and sub-center development, (d) program

management office (PMO) to strengthen program implementation capacities, and (e) service provider institutional and regulatory reforms.

Financing plan of the Ulaanbaatar Urban Services and Ger Areas Development Investment Program – Project 1 is shown below:

No	Financial source	Total amount (USD)	Share in total
1	Loan from ADB ordinary capital resources (3098- MON)	27,500,000	26%
2	Loan from ADB Special Funds resources (3099-MON)	22,500,000	22%
3	ADB grant (0381-MON)	3,700,000	4%
4	Municipality of Ulaanbaatar financing	22,440,000	21%
5	Co-financing	28,380,000	27%
	Total	104,520,000	

Allocation of loan financing - Loan number 3098-MON:

Allocation of loan financing from ADB ordinary capital resources is shown below:

	Category	Allocated amount (USD)	ADB financing share
1.	Civil works	23,500,000	
1A	Heating distribution networks	4,949,1010	55 %
1B	Other work and services (exclusive heating distribution networks)	18,550,990	69.6 %
2.	Interest and commitment charges	2,240,000	
3.	Unallocated	1,760,000	
	Total	27,500,000	

Not including taxes and charges that are imposed within the territory of Mongolia.

Project Implementation Unit:

Municipality of Ulaanbaatar is the implementing agency of the project and is responsible for the implementation and execution of the project. Project Implementation Unit of the Ulaanbaatar Urban Services and Ger Areas Development Investment Program – Project 1 was established by permission number 7-2/402 of the Ministry of Finance dated 27 January 2014 and decree number 108 of the Capital City Citizens' Representative Khural dated 26 June 2014, hired PIU specialists by open selection, and appointed to respective positions by decree number B/222 of the Municipality of Ulaanbaatar dated 25 September 2014. The PIU has 16 staff including the project coordinator, financial officer, monitoring and evaluation officer, procurement officer, water supply sewerage supervision engineer, heat supply engineer, civil engineer, auto road supervision engineer, electrical engineer, environmental and social safeguard specialist, resettlement specialist, interpreter – assistance officer, and drivers (3).

By decree number 107 of the Capital City Citizens' Representative Khural dated 26 June 2014, the Project Steering Committee was established comprising 15 members representing the Municipality of Ulaanbaatar, Ministry of Finance, Ministry of Economic Development, Ministry of Construction and Urban Development, Ulaanbaatar Water Supply and Sewerage Authority, Ulaanbaatar Heating Distribution Network, and Ulaanbaatar Electricity Distribution Network. The Project Steering Committee convened 3 times in 2015, settled issues that raised in the course of the project implementation, gave corresponding recommendations and directions, and approved action report of the project implementation in 2014 and plan of work for 2015.

2. Summary of significant accounting policies

a) The basis of accounting presentation

Financial statements of the project were expressed on monetary basis. By the monetary basis, financing was recorded at the time of receipt in the account but not at the time of commitment but expenditures were recorded at the time of approval but not at the time of payment.

b) Financial statement measurement

The financial statements were expressed in US dollars. Official exchange rate of the Bank of Mongolia on the closing date of the financial statements were used to express in Mongolian tugrugs the financial statements presented in US dollars in compliance with ADB's Loan Disbursement Handbook. Loss or gain caused by difference between exchange rates is expressed in the project statements of sources of fund and expenditures.

c) Financial statement presentation

The accounts' balances in the financial statements as of 31 December 2015 have been compared with such balances ended as of 31 December 2014.

d) Imprest Account and Statement of Expenditures

In accordance to the Letter of Agreement, imprest account of the project denominated in USD was opened in an ADB accepted bank. Replenishment to and payment from the imprest account was managed and conducted according to ADB's Loan Disbursement Handbook. Maximum amount in the imprest account is supposed to be 1,500,000 USD. The statements of expenditures are used to claim already approved expenditures or to receive advances in the imprest account.

e) Procurement

Procurement of works, goods, services is undertaken in accordance with ADB Loan Procurement Guidelines. Procurement of consultancy services is undertaken in accordance with ADB Guidelines on the Use of Consultants.

3. Project implementation

Ulaanbaatar Urban Services and Ger Areas Development Investment Program – Project 1 is a multi-financed but comprehensive project and thus expressed in financial statement reconciliation of loan agreements of Loan number 3099-MON in order to avoid from duplication.

4. Items of the financial statements

a) Cash and cash equivalent

Balances of cash and cash equivalent as of 31 December 2015 are shown below:

Cash and cash equivalent	2015.12.31 US dollar	2014.12.31 US dollar
Cash in bank account:		
Imprest account (US dollar)	1,560,302.79	-
Sub-account (togrog)	-	-
Total	1,560,302.79	-

Imprest account no.106000029973 of US dollar to receive financing from ADB's ordinary capital resources (Loan number 3098) was opened in State Bank on 10 November 2014 by authorization of the Ministry of Finance. Advance of 1,500,000 US dollar was received in the imprest account on 30 December 2014. As of 31 December 2015, no expenditure is made from the imprest account but interest revenue of 60,327.79 US dollar was deposited by the bank.

Transactions from the imprest account were endorsed by first signatory the State Secretary of the Ministry of Finance and second signatory the project coordinator.

b) Expenditures

No expenditure was made from ADB financing in the audit period.

c) ADB financing

	2015.12.31 US dollar	2014.12.31 US dollar
ADB loan no. 3098	1,500,000.00	-
Interest and commitment charge	53,329.53	-
Total	1,553,329.53	-

In 2014, ADB made financing of 1,500,000 US dollars. From financing of 27,500,000.00 US dollars, total amount entitled under the Loan agreement, 1,500,000.00 US dollar financing or 5.5% of the total entitled financing has been received.

The Borrower is supposed to pay ADB interest and commitment charge on the outstanding amount from the amount withdrawn from the loan account as specified in 2.2 of the Loan agreement annually and twice a year, 15 May and 15 November. The sum of the interest is according to (a) and (b) of 2.2 of the Loan agreement. Accordingly, interest and commitment charge of 53,329.53 US dollars was estimated by ADB.