

# Audited Project Financial Statements

---

Project Number: 43405-025

Loan/Grant Number: 3078

Period covered: 1 January 2014 to 31 December 2014

## GEO: Urban Services Improvement Investment Program – Tranche 3

Prepared by EY Georgia for the United Water Supply Company of Georgia LLC

For the Asian Development Bank

Date received by ADB: 30 December 2015

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 United Water Supply Company of Georgia LLC.

**“Urban Services Improvement Investment  
Program”**

**Loan No. 3078-GEO (SF) (Project 3)**

*Financial Statement*

*For the year ended 31 December 2014*

*Together with Independent Auditors' Report*

**Contents**

Independent Auditors' Report

Statement of cash receipts and payments..... 3

Notes to the financial statement ..... 4-9

## Independent Auditors' Report

To the management and shareholders of United Water Supply Company of Georgia LLC

We have audited the accompanying financial statement of "Urban services Improvement Investment Program (Georgia)" (the Project), implemented by United Water Supply Company of Georgia LLC (the Entity) and financed by loan No. 3078-GEO (SF) (Project 3) from Asian Development Bank, which comprise the statement of cash receipts and payments, for the year ended 31 December 2014 and a summary of significant accounting policies and other explanatory information (the "Financial Statement").

### ***Management's responsibility for the financial statements***

Management is responsible for the preparation and fair presentation of the Financial Statement in accordance with International Public Sector Accounting Standard (IPSAS) "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants and for such internal control as management determines is necessary to enable the preparation of the Financial Statement that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on this Financial Statement 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 financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement if the 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the 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 Financial Statement presents fairly, in all material respects, the cash receipts and payments of the Project for the year ended 31 December 2014 in accordance with International Public Sector Accounting Standard (IPSAS) "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

### **Emphasis of matter**

Without qualifying our opinion we draw attention to the fact that the United Water Supply Company of Georgia LLC has previously issued Financial Statements for the year ended 31 December 2014 in accordance with International Public Sector Accounting Standard (IPSAS) "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, on which we expressed an unqualified opinion on 21 October 2015. The previously issued Financial Statements for the year ended 31 December 2014 authorised for issue on 8 December 2015 have been revised as disclosed in Note 12. This opinion on these revised financial statements supersedes our previously issued opinion.

*EY Georgia LLC*

8 December 2015

Tbilisi, Georgia



# STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2014

In US Dollars

2014

	Cash receipts and payments controlled by the entity		Cash receipts and payments by third party		Total Cash receipts and payments	
	For the year	Cumulative	For the year	Cumulative	For the year	Cumulative
<b>Opening cash balance:</b>	-	-	-	-	-	-
Cash receipts from the Asian Development Bank			3,824,553	3,824,553	3,824,553	3,824,553
Cash receipts from the Government of Georgia	733,317	733,317	-	-	733,317	733,317
<b>Total cash receipts:</b>	<b>733,317</b>	<b>733,317</b>	<b>3,824,553</b>	<b>3,824,553</b>	<b>4,557,870</b>	<b>4,557,870</b>
<b>Cash disbursements from the Asian Development Bank funding:</b>						
Construction or civil works	-	-	(3,759,891)	(3,759,891)	(3,759,891)	(3,759,891)
Goods	-	-	(64,662)	(64,662)	(64,662)	(64,662)
Cash disbursements from the Government of Georgia funding:						
Construction or civil works	(663,506)	(663,506)	-	-	(663,506)	(663,506)
Goods	(69,811)	(69,811)	-	-	(69,811)	(69,811)
<b>Total cash disbursements:</b>	<b>(733,317)</b>	<b>(733,317)</b>	<b>(3,824,553)</b>	<b>(3,824,553)</b>	<b>(4,557,870)</b>	<b>(4,557,870)</b>
Foreign exchange difference, net	-	-	-	-	-	-
<b>Closing cash balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Signed and authorized for issue on 8 December 2015.

Nikoloz Kizikurashvili, Director

Nanuli Petriashvili, Head of Accounting Department

## NOTES TO THE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)  
Financial Statement for Loan No. 3078-GEO (SF) (Project 3)

*All amounts in US Dollars*

---

### 1. General

According to the loan agreement dated 19 December 2013 the Asian Development Bank (the "ADB") provided a Loan no. 3078-GEO (SF) to Government of Georgia (the "GOG") from the ADB's special funds resources in various currencies equivalent to sixty-four million two hundred five thousand Special Drawing Rights ("SDR") (the "Loan") for the purposes of implementing "the Urban Services Improvement Investment Program" (the "Project").

On 7 March 2014 a subsidiary loan agreement was formed between Georgia as represented by the Ministry of Finance of Georgia, the Ministry of Regional Development and Infrastructure of Georgia (the "MRDI") and the United Water Supply Company of Georgia LLC (the "UWSCG LLC" or the Entity). The liabilities under the Loan in respect of the Project were reassigned to the Entity and the implementation was concluded to take place under the oversight of the MRDI.

The Entity is 100 % owned by the State of Georgia.

Address of the UWSCG LLC: 76B Vazha-Phshavela Ave., Tbilisi, Georgia  
Duration of the Project: December 2014 until 30 June 2018

#### *Project purpose*

The objective of the Investment Program is to improve water supply and sanitation services in secondary towns of Georgia.

The Project consists of the following components:

#### 1. Component: Infrastructure improvement

The objective of the component is construction of a new Water Supply System (WSS) in Kutaisi and Ureki, including a water distribution network, sewage collection system, build of reservoirs and pumping stations. This component consists of the following activities:

- 1.1. Activity: *Augmentation of the water supply system in the town of Kutaisi through construction of reservoirs, pumping stations, and corresponding water transmission mains, and distribution network*
- 1.2. Activity: *Construction of a new water supply and sewerage system in the town of Ureki including a water distribution network, sewage collection system and sewage treatment plant*
- 1.3. Activity: *Procurement of sewer cleaning vehicle and water quality testing laboratory equipment*



## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

"Urban Services Improvement Investment Program" (Georgia)  
Financial Statement for Loan No. 3078-GEO (SF) (Project 3)

*All amounts in US Dollars*

---

### 1. General (Continued)

#### 2. Component: Institutional Effectiveness

The objective of this component is to implement Geographic Information Systems (GIS) mapping of water and sewerage network for secondary towns, human resource development through establishing WSS management program in Georgian universities and hiring of Individual Consultants in order to support the Investment Program Management Office (IPMO). This component consists of the following activities:

- 2.1. Activity: *Provision of support (i) for GIS mapping of water and sewerage network for secondary towns, and (ii) for human resource development through WSS management program in Georgian universities*
- 2.2. Activity: *Provision of support to the UWSCG LLC for (i) creation of sex-disaggregated consumer database to develop targeted marketing campaigns (ii) establishing customer care units in WSS service centers, and (iii) project implementation and management, including supporting the Investment Program management office, and capacity development and training.*

### 2. Basis of preparation

These financial statement is prepared in accordance with the International Public Sector Accounting Standards ("IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the international Federation of Accountants.

Financial statement comprises:

- ▶ Statement of cash receipts and payments
- ▶ Notes to the financial statement including the summary of significant accounting policies and other explanatory notes.

The reporting currency of this financial statement is US Dollars.

### 3. Summary of significant accounting policies

#### (i) Cash basis of accounting

The financial statement was prepared and presented based on cash method of accounting. Cash method of accounting is the accounting principle, according to which changes in the financial position of the entity are recognized only at the time when cash is paid or obtained. Financial statements prepared based on cash method presents information on the source of cash, application of funds objectives and cash balances at the reporting date. The measurement focus in the financial statement is balances of cash and changes therein.



## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

"Urban Services Improvement Investment Program" (Georgia)  
Financial Statement for Loan No. 3078-GEO (SF) (Project 3)

*All amounts in US Dollars*

---

### 3. Summary of significant accounting policies (Continued)

#### (ii) Foreign currency

Cash accounts of the Project are maintained in Georgian Lari (GEL), however the financial statement is prepared in USD for the purposes of reporting to the ADB.

Cash receipts and payments arising from transactions in a foreign currency is recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments. Foreign exchange rate is the actual rate used for each transaction. Funds received from the ADB in the foreign currency are translated using the actual rate at which the ADB purchases the foreign currency at the transaction date. For co-financing received from the GOG, the rate published by the National Bank of Georgia (NBG) is used as actual rate; since this is the reference rate most commonly used for foreign currency denominated contracts in Georgia.

#### (iii) Cash

As the Project is mainly financed through direct payments of reimbursement procedures, the UWSCG LLC does not have Bank account for Project expenses, attributable to ADB funds. Only one cash account for funds received from the GOG is maintained in Georgian commercial bank. Funds received from the GOG are mainly transferred at the same day from the UWSCG LLC account in the Georgian commercial bank to contractors' accounts. On this account are also located funds received under resolution of the GOG No. 526, related to land acquisition and resettlement (Note 9).

#### (iv) Project expenditures

The expenses and advances paid are recorded in the period when they are actually paid by direct payment, reimbursement payment or transferred to the escrow account or account for letter of credit. The Project expenditures are financed proportionately by the ADB and the GOG (Note 6).

### 4. Project funds by main categories and components

The table below presents annual cash receipts by sources and payments by categories:

	2014	
	<i>In US Dollars</i>	<i>In Georgian Lari*</i>
Cash receipts from the ADB	3,824,553	6,677,697
Cash receipts from the GOG	733,317	1,310,335
<b>Total cash receipts:</b>	<b>4,557,870</b>	<b>7,988,032</b>

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

"Urban Services Improvement Investment Program" (Georgia)  
Financial Statement for Loan No. 3078-GEO (SF) (Project 3)

*All amounts in US Dollars*

### 4. Project funds by main categories and components (Continued)

	2014	
	<i>In US Dollars</i>	<i>In Georgian Lari*</i>
Construction or Civil Works	4,423,397	7,734,950
Goods	134,473	253,082
<b>Total cash disbursements:</b>	<b>4,557,870</b>	<b>7,988,032</b>

*\* For the purposes of presenting expenditures in GEL, the costs incurred under the contracts denominated in currency other than GEL, has been translated using the NBG rate prevailing at the date of transaction.*

The table below presents annual cash disbursements by components:

	2014	
	<i>In US Dollars</i>	<i>In Georgian Lari</i>
Component 1.2	4,423,397	7,734,950
Component 1.3	134,473	253,082
<b>Total cash disbursements:</b>	<b>4,557,870</b>	<b>7,988,032</b>

### 5. Comparison of budget and actual cash disbursements

The table below presents comparison of budget and actual cash disbursements from the ADB funding and the GOG co-financing separately:

The budget of the Project agreed between the parties relates to the whole period of the Project, which is determined as 4 years. At the end of the Project final variance will be presented between budget and cumulative actual cash payments under the Project.

#### *Budget related to the ADB financing*

	<b>Budget*</b>	<b>Actual Payments</b>	<b>Variance</b>
Construction or civil works	85,068,328	3,759,891	81,308,437
Goods	1,214,103	64,662	1,149,441
Consulting services	2,163,073	–	2,163,073
Interest charge	3,511,915	–	3,511,915
Unallocated	1,063,427	–	1,063,427
<b>Total cash disbursements:</b>	<b>93,020,846</b>	<b>3,824,553</b>	<b>89,196,293</b>

As at 31 December 2014, undrawn borrowing facilities comprised USD 89,196,293

*\*Budget figures originally presented in SDRs are converted to USD using the International Monetary Fund (IMF) exchange rate – 1.4488 as at 31 December 2014.*



## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

"Urban Services Improvement Investment Program" (Georgia)  
Financial Statement for Loan No. 3078-GEO (SF) (Project 3)

*All amounts in US Dollars*

### 5. Comparison of budget and actual cash disbursements (continued)

#### *Budget related to the GOG co-financing*

	Budget**	Actual payments	Variance
Construction or civil works	15,307,280	663,506	14,643,774
Goods	218,467	69,811	148,656
Consulting services	389,226	–	389,226
Unallocated	1,167,850	–	1,167,850
<b>Total cash disbursements:</b>	<b>17,082,823</b>	<b>733,317</b>	<b>16,349,506</b>

*\*\*The budget for the GOG co-financing represents the planned spending by the GOG proportionate to their co-financing for the Project (Note 6).*

#### *Disbursement plan*

The entity shall update the disbursement plan, which is prepared before the Loan agreement, annually or as needed throughout the duration of the Project. According to the disbursement plan for 2014, no cash disbursements were budgeted during 2014. However, total cash disbursements amounted to USD 4,557,870. During 2014, within the Loan agreement two contracts were signed with suppliers. According to the contracts' conditions, contractors presented advance bank guarantees and disbursements of advances were released.

### 6. Funds Provided

The Project is financed by two sources: 84.75% of Construction or civil works, goods and consulting services are financed by the ADB and remaining 15.25% by the GOG under resolution of GOG No. 147, dated 27 January 2014; interest charge is totally financed by the ADB. As for, unallocated expenses 47.66% are financed by the ADB and remaining by the GOG.

During 2014 the ADB made direct payment to the suppliers' accounts as advance payments in the suppliers' contractual currencies.

Financing from the GOG was received by the Entity on GEL accounts in Georgian Commercial Bank and then repaid to respective beneficiary. Under the resolution of the GOG no. 147, dated 27 January 2014, all financing made by the GOG into the Project are contributed into the capital of the Entity.

### 7. Cash Disbursements

Total cash disbursements during 2014, includes letter of credit in the amount of USD 58,176, placed under the agreement signed with the contractor. The amount was totally financed by the GOG.

## **NOTES TO THE FINANCIAL STATEMENT (CONTINUED)**

"Urban Services Improvement Investment Program" (Georgia)  
Financial Statement for Loan No. 3078-GEO (SF) (Project 3)

*All amounts in US Dollars*

---

### **8. Loan No. 3078-GEO (SF) from the ADB**

The Loan bears an interest rate of 2% per annum and has a maturity of 25 years. The payments of principal commence after the grace period starting from May 2019.

The interest charge and any other charge on the Loan shall be payable semi-annually on 15 May and 15 November in each year, starting from 15 May 2015.

### **9. Land acquisition and resettlement**

During the year ended 31 December 2014 the GOG has provided USD 274,935 (GEL 486,718) to finance land acquisition and resettlement in Ureki Region under the resolution of the GOG Georgia No. 526. The expenditure related to resettle the population from the specific lands to be used for the construction for the Project purposes. The expenditure was incurred after the Project was launched and was not included under the initial budget, and was totally financed by the GOG. From the total amount of financing USD 233,831 (GEL 408,987) was paid to land owners during 2014.

### **10. Financial covenants**

As at 31 December 2014, the UWSCG LLC was in compliance with the following financial covenants related to the Project:

- 1) Withdrawals from the Loan Account may be made for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Works, Goods, and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount;
- 2) Notwithstanding any other provision of this Loan Agreement, no withdrawal shall be made from the Loan Account until the Subsidiary Loan Agreement.

### **11. Use of Funds for the Purpose Intended**

As at 31 December 2014, the UWSCG LLC has utilised all funds received from the ADB and the GOG only for the purpose of the Project, for which the financing was provided and no proceeds of the Loan have been utilised for other purposes. Goods and services financed have been procured in accordance with the relevant financing agreements.

### **12. Revision of Financial Statements**

These Financial Statements have been revised to include Note 11 disclosing the compliance in respect of all external funds having been used in accordance with the relevant financing agreements covering the Project and on Goods and services having been procured in accordance with the relevant financing agreements. These Financial Statements supersede the previously issued Financial Statements on 21 October 2015.