

# Audited Project Financial Statements

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Project Number: 43405-025  
Loan/Grant Number: 3078  
Period covered: 1 January 2016 to 31 December 2016

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

Prepared by EY Georgia LLC

For the Asian Development Bank  
Date received by ADB: 03 May 2017

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)**

*Special Purpose Financial Statement*  
*For the year ended 31 December 2016*  
*Together with Independent Auditors' Report*

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**Independent Auditors' Report**

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## Independent Auditor's Report

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

### **Opinion**

We have audited the statement of cash receipts and payments for the year ended 31 December 2016 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 and notes to the statement of cash receipts and payments, including a summary of significant accounting policies (together "the Special Purpose Financial Statement").

In our opinion, the accompanying Special Purpose Financial Statement is prepared, in all material respects, in accordance with the basis of accounting described in Note 2 of the Special Purpose Financial Statement.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Special Purpose Financial Statement* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of matter - Basis of accounting and restriction on use**

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of accounting. The Special Purpose Financial Statement has been prepared by the management of the Entity based on the requirements of the Project 3 Loan Agreement No. 3078-GEO (SF), dated 19 December 2013 (the Loan Agreement) as described in Note 2 of the Special Purpose Financial Statement. The Special Purpose Financial Statement is prepared to provide information to Asian Development Bank and the Government of Georgia. As a result of the Special Purpose Financial Statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

### **Responsibilities of management for the Special Purpose Financial Statement**

Management is responsible for the preparation of the Special Purpose Financial Statement in accordance with the basis of accounting described in Note 2 of the Special Purpose Financial statement, and for such internal control as management determines is necessary to enable the preparation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's responsibilities for the audit of the Special Purpose Financial Statement**

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,



they could reasonably be expected to influence the economic decisions of users taken on the basis of this Special Purpose Financial Statement.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- ▶ Evaluate the overall presentation, structure and content of the Special Purpose Financial Statement, including the disclosures, and whether the Special Purpose Financial Statement represents the underlying transactions and events in a manner that achieves fair presentation.

Our cumulative liability with respect to any damage or loss connected with this report may not exceed the fee received by us under the audit agreement. We do not accept any liability if the users of this report do not accept the terms of the audit agreement on which the report was prepared.

#### ***Other matters on which we are required to report***

The Entity is also responsible for compliance with Sections 3.02, 3.03 and 3.04 of the Loan Agreement on the use of the proceeds of the Loan and for compliance with financial covenants contained in paragraphs 6 and 7 of Schedule 3 to the Loan Agreement. We have audited the utilization of the proceeds of the Loan in accordance with requirements of Sections 3.02, 3.03 and 3.04 of the Loan Agreement and the Entity's compliance with the financial covenants contained in paragraphs 6 and 7 of Schedule 3 to the Loan Agreement, described in Notes 10.1 and 10.2 of the Special Purpose Financial Statement. In our opinion, the Entity has utilized, in all material respects, the proceeds of the Loan only for the purposes of the Project in accordance with Sections 3.02, 3.03 and 3.04 of the Loan Agreement and no proceeds have been used for other purposes and the Entity is compliant with financial covenants contained in paragraphs 6 and 7 of Schedule 3 to the Loan Agreement.



Ruslan Khoroshvili  
On Behalf of EY Georgia LLC

28 April 2017

# STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2016

In US Dollars

	2016					
	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
Opening cash balance:	-	-	-	-	-	-
Cash receipts from the Asian Development Bank	-	-	10,002,259	24,474,066	10,002,259	24,474,066
Cash receipts from the Government of Georgia	1,699,247	4,251,150	-	-	1,699,247	4,251,150
<b>Total cash receipts:</b>	<b>1,699,247</b>	<b>4,251,150</b>	<b>10,002,259</b>	<b>24,474,066</b>	<b>11,701,506</b>	<b>28,725,216</b>
Cash disbursements from the Asian Development Bank funding:						
Construction or civil works	-	-	(9,575,436)	(23,377,512)	(9,575,436)	(23,377,512)
Goods	-	-	-	(508,646)	-	(508,646)
Consulting Services	-	-	(95,292)	(106,261)	(95,292)	(106,261)
Interest Charge	-	-	(331,531)	(481,647)	(331,531)	(481,647)
Cash disbursements from the Government of Georgia funding:						
Construction or civil works	(1,682,209)	(4,129,799)	-	-	(1,682,209)	(4,129,799)
Goods	-	(102,409)	-	-	-	(102,409)
Consulting Services	(17,038)	(18,942)	-	-	(17,038)	(18,942)
<b>Total cash disbursements:</b>	<b>(1,699,247)</b>	<b>(4,251,150)</b>	<b>(10,002,259)</b>	<b>(24,474,066)</b>	<b>(11,701,506)</b>	<b>(28,725,216)</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 28 April 2017.

Giorgi Koberidze, Director

Amiran Gvazava, Advisor in Financial Issues



# STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 31 December 2015

In US Dollars

	2015					
	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
Opening cash balance:	-	-	-	-	-	-
Cash receipts from the Asian Development Bank	-	-	10,647,254	14,471,807	10,647,254	14,471,807
Cash receipts from the Government of Georgia	1,818,586	2,551,903	-	-	1,818,586	2,551,903
<b>Total cash receipts:</b>	<b>1,818,586</b>	<b>2,551,903</b>	<b>10,647,254</b>	<b>14,471,807</b>	<b>12,465,840</b>	<b>17,023,710</b>
Cash disbursements from the Asian Development Bank funding:						
Construction or civil works	-	-	(10,042,185)	(13,802,076)	(10,042,185)	(13,802,076)
Goods	-	-	(443,984)	(508,646)	(443,984)	(508,646)
Consulting Services	-	-	(10,969)	(10,969)	(10,969)	(10,969)
Interest Charge	-	-	(150,116)	(150,116)	(150,116)	(150,116)
Cash disbursements from the Government of Georgia funding:						
Construction or civil works	(1,784,084)	(2,447,590)	-	-	(1,784,084)	(2,447,590)
Goods	(32,598)	(102,409)	-	-	(32,598)	(102,409)
Consulting Services	(1,904)	(1,904)	-	-	(1,904)	(1,904)
<b>Total cash disbursements:</b>	<b>(1,818,586)</b>	<b>(2,551,903)</b>	<b>(10,647,254)</b>	<b>(14,471,807)</b>	<b>(12,465,840)</b>	<b>(17,023,710)</b>
Foreign exchange difference, net	-	-	-	-	-	-
<b>Closing cash balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The accompanying notes on 6-13 are an integrated part of these financial statement

## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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### 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 SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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### 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

This Special Purpose Financial Statement has been prepared by the management of the Entity based on the following requirements of the Project 3 Loan Agreement No. 3078-GEO (SF), dated 19 December 2013 (the Loan Agreement) and the ADB's Project Administration Instructions (PAI 5.07, revised in August 2015):

- ▶ The Special Purpose Financial Statement has been primarily 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 following the requirements set out in Section 4.03 of the Loan Agreement and Section B of the Project Administration Instructions (PAI 5.07, revised in August 2015);
- ▶ Notes 10.1 and 10.2 to the Special Purpose Statement have been added specifically to address the requirement of Sections 3.02, 3.03 and 3.04; and paragraphs 6 and 7 of Schedule 3 to the Loan Agreement, respectively.

The Special Purpose Financial Statement comprises:

- ▶ Statement of cash receipts and payments  
Notes to the Special Purpose Financial Statement, including the summary of significant accounting policies.

The reporting currency of this Special Purpose Financial Statement is US Dollars.

## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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### 3. Summary of significant accounting policies

#### (i) Cash basis of accounting

The Special Purpose 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.

The Special Purpose Financial Statement 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 Special Purpose Financial Statement is balances of cash and changes therein.

#### (ii) Foreign currency

Cash accounts of the Project are maintained in Georgian Lari (GEL); however the Special Purpose 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 the 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. In 2015 on this account was 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).



## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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

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

	2016		Cumulative	
	<i>In US Dollars</i>	<i>In Georgian Lari*</i>	<i>In US Dollars</i>	<i>In Georgian Lari*</i>
Cash receipts from the ADB	10,002,259	23,713,981	24,474,066	54,767,908
Cash receipts from the GOG	1,699,247	4,133,060	4,251,150	9,669,282
<b>Total cash receipts:</b>	<b>11,701,506</b>	<b>27,847,041</b>	<b>28,725,216</b>	<b>64,437,190</b>

	2015		Cumulative	
	<i>In US Dollars</i>	<i>In Georgian Lari*</i>	<i>In US Dollars</i>	<i>In Georgian Lari*</i>
Cash receipts from the ADB	10,647,254	24,376,230	14,471,807	31,053,927
Cash receipts from the GOG	1,818,586	4,225,887	2,551,903	5,536,222
<b>Total cash receipts:</b>	<b>12,465,840</b>	<b>28,602,117</b>	<b>17,023,710</b>	<b>36,590,149</b>

	2016		Cumulative	
	<i>In US Dollars</i>	<i>In Georgian Lari*</i>	<i>In US Dollars</i>	<i>In Georgian Lari*</i>
Construction or Civil Works	11,257,645	26,790,766	27,507,311	61,666,386
Goods	-	-	611,055	1,325,455
Consulting Services	112,330	272,358	125,203	302,358
Interest Charge	331,531	783,917	481,647	1,142,991
<b>Total cash disbursements:</b>	<b>11,701,506</b>	<b>27,847,041</b>	<b>28,725,216</b>	<b>64,437,190</b>

	2015		Cumulative	
	<i>In US Dollars</i>	<i>In Georgian Lari*</i>	<i>In US Dollars</i>	<i>In Georgian Lari*</i>
Construction or Civil Works	11,826,269	27,140,671	16,249,666	34,875,620
Goods	476,582	1,072,372	611,055	1,325,455
Consulting Services	12,873	30,000	12,873	30,000
Interest Charge	150,116	359,074	150,116	359,074
<b>Total cash disbursements:</b>	<b>12,465,840</b>	<b>28,602,117</b>	<b>17,023,710</b>	<b>36,590,149</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.



## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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

The table below presents annual cash disbursements by components:

	2016		Cumulative	
	<i>In US Dollars</i>	<i>In Georgian Lari</i>	<i>In US Dollars</i>	<i>In Georgian Lari</i>
Component 1.1	5,856,213	13,922,276	14,709,055	34,260,421
Component 1.2	5,401,432	12,868,490	12,798,256	27,405,965
Component 1.3	-	-	611,055	1,325,455
Component 2.2	112,330	272,358	125,203	302,358
Interest	331,531	783,917	481,647	1,142,991
<b>Total cash disbursements:</b>	<b>11,701,506</b>	<b>27,847,041</b>	<b>28,725,216</b>	<b>64,437,190</b>

	2015		Cumulative	
	<i>In US Dollars</i>	<i>In Georgian Lari</i>	<i>In US Dollars</i>	<i>In Georgian Lari</i>
Component 1.1	8,852,842	20,338,146	8,852,842	20,338,145
Component 1.2	2,973,427	6,802,525	7,396,824	14,537,475
Component 1.3	476,582	1,072,372	611,055	1,325,455
Component 2.2	12,873	30,000	12,873	30,000
Interest	150,116	359,074	150,116	359,074
<b>Total cash disbursements:</b>	<b>12,465,840</b>	<b>28,602,117</b>	<b>17,023,710</b>	<b>36,590,149</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*

	2016		
	<b>Budget*</b>	<b>Actual Payments</b>	<b>Variance</b>
Construction or civil works	78,933,680	23,377,512	55,556,168
Goods	1,126,549	508,646	617,903
Consulting services	2,007,085	106,261	1,900,824
Interest charge	3,258,656	481,647	2,777,009
Unallocated	986,738	-	986,738
<b>Total cash disbursements:</b>	<b>86,312,708</b>	<b>24,474,066</b>	<b>61,838,642</b>

## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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

*Budget related to the ADB financing (continued)*

	2015		
	Budget*	Actual Payments	Variance
Construction or civil works	81,364,523	13,802,076	67,562,447
Goods	1,161,242	508,646	652,596
Consulting services	2,068,895	10,969	2,057,926
Interest charge	3,359,010	150,116	3,208,894
Unallocated	1,017,126	-	1,017,126
<b>Total cash disbursements:</b>	<b>88,970,796</b>	<b>14,471,807</b>	<b>74,498,989</b>

As at 31 December 2016 and at 31 December 2015, undrawn borrowing facilities comprised respectively USD 61,838,642 and USD 74,498,989.

*\*Budget figures originally presented in SDRs are converted to USD using the International Monetary Fund (IMF) exchange rate -1.3443 and 1.3857 as at 31 December 2016 and 31 December 2015, respectively.*

*Budget related to the GOG co-financing*

	2016		
	Budget**	Actual payments	Variance
Construction or civil works	14,203,406	4,129,799	10,073,607
Goods	202,712	102,409	100,303
Consulting services	361,157	18,942	342,215
Unallocated	1,083,632	-	1,083,632
<b>Total cash disbursements:</b>	<b>15,850,907</b>	<b>4,251,150</b>	<b>11,599,757</b>

	2015		
	Budget**	Actual payments	Variance
Construction or civil works	14,640,814	2,447,590	12,193,224
Goods	208,955	102,409	106,546
Consulting services	372,279	1,904	370,375
Unallocated	1,117,003	-	1,117,003
<b>Total cash disbursements:</b>	<b>16,339,051</b>	<b>2,551,903</b>	<b>13,787,148</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. Total cash disbursements amounted to USD 11,701,506 and USD 12,465,840 for 2016 and 2015 year respectively.



## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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### 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. The resolution of the GOG is issued each year to approve the GOG's financial contribution in the Project. 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 2016 the ADB made direct payment to the suppliers' accounts as reimbursements of expenses for work performed 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 beneficiaries. Under the resolution of the GOG No. 182, dated 4 February 2016, all financing made by the GOG into the Project are contributed into the capital of the Entity.

### 7. Cash Disbursements

Total cash disbursements during 2016, include civil works, consulting service fees and interest payments in amount of USD 11,701,506 (2015: USD 12,465,840) including letter of credit in the amount of USD 323,308 placed under the agreement signed with the contractor.

### 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 is payable semi-annually on 15 May and 15 November in each year, starting from 15 May 2015. The ADB withdraws interest payable from the loan account and pays itself the amounts due during the grace period. During 2016 two semi-annual interest payments were withdrawn by the ADB in amount of USD 331,531 (2015: USD 150,116). The interest charge will be covered by the GOG after the grace period.

### 9. Land acquisition and resettlement

During 2014 the GOG approved USD 274,935 (GEL 486,718) to finance land acquisition and resettlement in Ureki Region under the resolution of the GOG 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. During 2015, based on the resolution of the GOG No. 434 and no objection note received from the ADB, expenses related to the project Mestia Water Supply and Sewerage Networks Construction (MES-02), which is implemented by the UWSCG LLC under Project 2, with the total amount of GEL 15,751, was covered from residual cash balance from the GOG financing received for Ureki Region resettlement. During 2016, based on the resolution of the GOG No. 2586 and no objection note received from the ADB, expenses related to the project Zugdidi Water Supply and Sewerage Networks Construction (ZUG-01), which is implemented by the UWSCG LLC under Project 4, with the total amount of GEL 41,719.48, was covered from residual cash balance from the GOG financing received for Ureki Region resettlement.



## **NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT**

"Urban Services Improvement Investment Program" (Georgia)

Special Purpose Financial Statement for Loan No. 3078-GEO (SF) (Project 3) – 31 December 2016

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### **10. Compliance with the use of the Loan Proceeds and financial covenants**

In accordance with the requirements of the Section B of the Project Administration Instructions (PAI 5.07, revised in August 2015) of the Asian Development Bank, the Entity is required to report on the use of the proceeds of the Loan and compliance with the financial covenants, which is contained in the Notes 10.1 and 10.2 below.

#### **10.1 Use of Funds for the Purpose Intended**

For years 2016 and 2015, the Entity has utilised all funds received from the ADB and the GOG in accordance with Sections 3.02, 3.03 and 3.04 of the Loan Agreement exclusively in the carrying out of the Project.

#### **10.2 Financial covenants**

As at 31 December 2016 and 2015, the UWSCG LLC was in compliance with the following financial covenants related to the Project contained in paragraphs 6 and 7 of the Schedule 3 to the Loan Agreement:

- 1) No withdrawals were made from the Loan Account for reimbursement of eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of the Loan Agreement in connection with Works, Goods, and Consulting Services.;
- 2) No withdrawal was made from the Loan Account until the Subsidiary Loan Agreement was signed.