

Audited Project Financial Statements

Project Number: 51410-001

Loan/Grant Number: 3936

Period covered: 21 August 2020 to 31 December 2021

Mongolia: Developing the Economic Cooperation Zone Project

Prepared by The Office of the Deputy Prime Minister, Mongolia

For the Asian Development Bank

Date accepted by ADB: 10 June 2022

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 Access to Information Policy and as agreed between ADB and the Office of the Deputy Prime Minister, Mongolia.



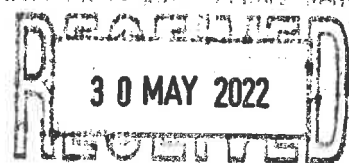
BAKER TILLY DALAIVAN AUDIT

AUDITOR'S REPORT

**Developing the Economic Cooperation Zone project
Loan number 3936-MON**

Financial statement as of
December 31, 2021

ASIAN DEVELOPMENT BANK



MONGOLIA RESIDENT MISSION

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To: BAKER TILLY
DALAIVAN AUDIT LLC

**L3936-MON: DEVELOPING THE ECONOMIC
COOPERATION ZONE PROJECT**

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Date 9 May 2022
Ref 22/057

**PIU Management Responsibility Letter
for preparation and approval of the financial statements
as of December 31, 2021**

We, the signed as PIU Management of **“Developing the Economic Cooperation Zone project” (Loan 3936-MON)**, are responsible for preparing the financial statements in accordance with International Public Sector Accounting Standards (IPSAS), monitoring project operations are held for intended purposes, safeguarding project assets and preventing and detecting fraud and other violations.

At the end of the reporting period, the management is responsible for assessing the project unit's ability to continue as a going concern and disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the project unit or to cease operations, or has no realistic alternative but to do so.

The management is responsible for regular monitoring of potential contingent liabilities that may arise in the future as a result of the past events from legal or assumed constructive obligations and for disclosing contingent liabilities arising from such legal or constructive obligations in the financial statements.

We confirm we fulfilled our responsibilities as mentioned above, and the financial statements as of December 31, 2021 have been prepared fairly under International Public Sector Accounting Standards (IPSAS).

Also, we comply with the following ADB's requirements:

- (i) That project financial statements are free from material misstatements including omissions and errors, and are fairly presented;
- (ii) That the executing agency has utilized the proceeds of the loan only for the purposes of the project;
- (iii) That the executing agency was in compliance with the financial covenants of the loan agreement (where applicable);
- (iv) That the advance (imprest account) fund procedure has been operated in accordance with the ADB's Loan Disbursement Handbook;
- (v) That adequate supporting documentation has been maintained to authenticate claims stated on the statement of expenditures (SOE) for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account; and

(vi) That effective internal control, including over the procurement process, was maintained.

We authorized and approved the audited financial statements of **“Developing the Economic Cooperation Zone project” (Loan 3936-MON)** as of December 31, 2021.



Enkhbaatar.B
Project Coordinator



Undrakh.D
Financial specialist



BAKER TILLY
DALAIVAN AUDIT

Audit assurance, property and business
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INDEPENDENT AUDITOR'S REPORT

TO: ENKHBAATAR.B
PROJECT COORDINATOR

DEVELOPING THE ECONOMIC COOPERATION ZONE PROJECT
(LOAN NUMBER 3936-MON)

Unqualified Opinion

We have audited the financial statements of **“Developing the Economic Cooperation Zone project (Loan number 3936-MON)”**, which comprise the statement of financial position as of December 31, 2021, and the statement of financial performance, statement of changes in net assets/equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements were presented fairly, in all material respects, the financial position of **“Developing the Economic Cooperation Zone project (Loan number 3936-MON)”**, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis of 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 Financial Statements section of our report. We are independent of the project unit in accordance with the International Ethics Standards Board for Accountants' Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have determined that there are no key audit matter to communicate in our report.

Emphasis of Matters

The project was approved on July 2, 2020, and the financial statements were prepared as of December 31, 2021.

Other information

Management is responsible for the other information. The other information comprises the information included in the Project's Annual Report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT
(continued)

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Financial Statements

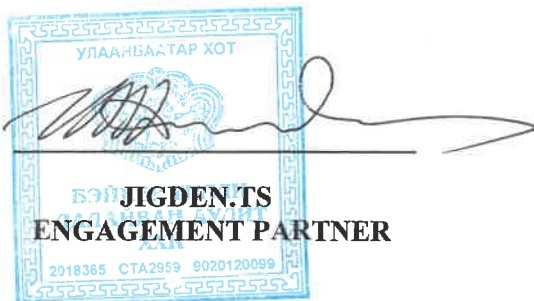
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 financial statements, 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 project unit's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Use of the report

This report is prepared solely for the uses of PIU and ADB. We do not assume responsibility to any other person for the content of this report.



MAY 13, 2022

The Government of Mongolia
Asian Development Bank
Loan 3936-MON
Developing the Economic Cooperation Zone Project
AUDITED STATEMENT OF FINANCIAL POSITION
As of December 31, 2021

			/in USD/
Items	Notes	2020.12.31	2021.12.31
CURRENT ASSETS			
Cash and cash equivalents	4.1	-	339,278.16
Imprest account /Treasury fund 201900011991/		-	335,613.99
Sub-account /Treasury fund 100900011991/		-	3,664.17
Sub-account /Treasury fund 100900011994/		-	-
Pass-through account /State bank 106000079118/		-	-
Prepaid expenses	4.2	-	1,042.26
Prepaid expenses		-	1,042.26
TOTAL CURRENT ASSETS		-	340,320.42
NON-CURRENT ASSETS			
Fixed assets	4.3	-	29,631.00
Furniture and fixtures		-	6,825.91
Accumulated depreciation		-	(341.30)
Computer and spare parts		-	23,538.70
Accumulated depreciation		-	(392.31)
Intangible assets	4.3	-	1,146.60
Accounting software		-	1,228.50
Accumulated amortization		-	(81.90)
TOTAL NON-CURRENT ASSETS		-	30,777.60
TOTAL ASSETS		-	371,098.02
LIABILITIES			
Long-term liabilities	4.4	-	504,124.26
ADB Loan		-	504,124.26
TOTAL LIABILITIES		-	504,124.26
NET ASSETS/EQUITY			
Counterpart contributions	4.5	-	5,193.39
Accumulated surplus/(deficit)		-	(138,219.63)
Previous period		-	-
Current period		-	(138,219.63)
TOTAL NET ASSETS/EQUITY		-	(133,026.24)
TOTAL LIABILITIES AND EQUITY		-	371,098.02

Prepared and Reviewed by:

Undrakh.D
Financial specialist



Enkhbatar.B
Project coordinator



Enkhzul.A
Project director

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Asian Development Bank
Loan 3936-MON
Developing the Economic Cooperation Zone Project
AUDITED STATEMENT OF FINANCIAL PERFORMANCE
As of December 31, 2021

			/in USD/	
Items	Notes	2020.12.31	2021.12.31	
OPERATING REVENUE				
TOTAL OPERATING REVENUE		-	-	
OPERATING EXPENSES	4.6			
1. Works		-	-	
2. Goods		-	19,801.76	
3. Services, project management, and recurrent cost		-	113,801.96	
4. Interest charge		-	3,800.40	
Depreciation		-	815.51	
TOTAL OPERATING EXPENSES		-	138,219.63	
NET SURPLUS/(DEFICIT) FOR THE PERIOD		-	(138,219.63)	

Prepared and Reviewed by:

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Financial specialist



Enkhbaatar.B
Project coordinator



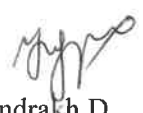
Enkhzul.A
Project director

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Asian Development Bank
Loan 3936-MON
Developing the Economic Cooperation Zone Project**

**AUDITED STATEMENT OF CHANGES IN NET ASSETS/EQUITY
As of December 31, 2021**

				/in USD/
Items	Government's capital	Revaluation reserve	Accumulated surplus/(deficit)	Total
Balance as of December 31, 2020	-	-	-	-
Changes in accounting policies				
Restated balance	-	-	-	-
Increase in the revaluation of property, plant, and equipment				
Decrease in the revaluation of property, plant, and equipment				
Unrealized gains and losses on the income statement				
Total surplus/(deficit) for the period	5,193.39	-	(138,219.63)	(133,026.24)
Balance as of December 31, 2021	5,193.39	-	(138,219.63)	(133,026.24)

Prepared and Reviewed by:


Undrakh.D
Financial specialist




The Government of Mongolia
Asian Development Bank
Loan 3936-MON
Developing the Economic Cooperation Zone Project

AUDITED STATEMENT OF CASH FLOW
As of December 31, 2021

	/in USD/	
Items	2020.12.31	2021.12.31
CASH FLOW FROM OPERATING ACTIVITIES		
1. Works	-	-
2. Goods	-	18,001.59
3. Services, project management, and recurrent cost	-	114,323.09
PIU staff salary	-	65,423.57
Social insurance contributions	-	8,436.66
Consulting services	-	22,171.66
Office rental fee	-	9,693.53
Field trip	-	2,328.63
Advertising expenses	-	2,191.26
Office supplies	-	1,649.64
Stationary	-	1,337.20
Postal and communication expenses	-	697.40
Office cleaning service fee	-	368.54
Commitment bank charges	-	25.00
Total cash expenses	-	132,324.68
NET CASH FLOW FROM OPERATING ACTIVITIES	=	(132,324.68)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	-	28,721.02
Total cash expenses	-	28,721.02
NET CASH FLOW FROM INVESTING ACTIVITIES	=	(28,721.02)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans received	-	500,323.86
Total cash income	-	500,323.86
NET CASH FLOW FROM FINANCING ACTIVITIES	=	500,323.86
Foreign exchange loss	-	-
TOTAL CASH FLOWS	=	339,278.16
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	339,278.16

Prepared and Reviewed by:


 Undrakh.D
 Financial specialist



NOTES TO THE FINANCIAL STATEMENTS

1. PROJECT BACKGROUND

By the loan agreement dated July 02, 2020, between the Government of Mongolia and the Asian Development Bank, it was agreed to provide a concessional loan in various currencies equivalent to SDR 21,996,000 (USD 30,000,000 equivalent) from ADB's ordinary capital resources to help finance Loan 3936-MON: Developing the Economic Cooperation Zone Project.

The project is estimated to cost USD 35,760,000 million. ADB will finance the expenditures in relation to civil works, goods, project management, and consulting services equivalent to USD 30,000,000 million. The government will finance a total of USD 5,760,000 million equivalent of in-kind contribution for border security for the free zone, exemptions of value-added taxes on goods and civil works, and customs duties on imported goods.

The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter.

The project completion date is December 31, 2025.

The objective of the Project:

The project will serve as a catalyst for diversifying Mongolia's economy, integrating it into regional and global value chains, and increasing employment opportunities for the country's people by focusing on the Zamyn-Uud free zone, which is a strategic point of Mongolia along corridor 4 under the Central Asia Regional Economic Cooperation (CAREC) program. CAREC corridors link the region's key economic hubs and connect landlocked countries such as Mongolia with markets in Asia, Europe, and the rest of the world.

The project will have the following outputs.

Output 1: Zamyn-Uud free zone infrastructure and facilities constructed and operational. The project will address infrastructure gaps in the Zamyn-Uud free zone.

- a) Construction within the project area of:
 - i. primary four-lane and secondary two-lane roads with sidewalks and streetlights;
 - ii. underground pipes for heating, water supply, and wastewater collection as well as power supply transmission lines;
 - iii. a solid waste management transfer station and a recycling center;
 - iv. a security fence in accordance with the specifications of the General Authority of Border Protection; and
 - v. a gateway complex with a warehouse, a controlled space shed, gender-specific washrooms, and an inspection platform; and
- b) installation of the necessary equipment in the gateway complex, such as cargo and passenger automatic x-ray and radiation detection equipment.

Output 2: Sustainable operations and management of Zamyn-Uud free zone promoted.

- a) Design of an appropriate public-private partnership model to support efficient zone operation and sustainable maintenance arrangements in the Zamyn-Uud free zone;
- b) Development of business and market strategies and guidelines with gender equality provisions;
- c) Gender awareness and promotion economic opportunities for women traders in Zamyn-Uud; and
- d) Capacity development of the executing and implementing agencies for project implementation, monitoring, and evaluation.

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Output 3: Zamyn-Uud free zone port of entry system established. This output will be delivered by using information technology solutions to promote trade while ensuring border security, social safety, and improved traceability to mitigate transboundary health risks. This output comprises the development of:

- a) a passenger and vehicle inspection system that uses digital surveillance and facial biometric recognition;
- b) an integrated border management database. The database will promote interagency coordination by linking with the CAIS of MCGA, the Inspection Management System of the General Agency of Specialized Inspection, and the Immigration System, which is a joint platform shared between the General Authority of Border Protection and the Mongolia Immigration Agency.

The Office of the Deputy Prime Minister (ODPM), as the executing agency (EA), shall closely coordinate with other government agencies and ADB to timely resolve any issue, expedite the procurement process, ensure adequate budgetary and staff resources as needed, and complete the project within the target date. The project has two implementing agencies (IA): the Ministry of Construction and Urban Development (MCUD) and the Zamyn-Uud Free Zone Governor's Office (ZUFZGO).

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& APPRAISAL

The overall financing plan of the project is compared to the cumulative project expenditures as of December 31, 2021.

Sources	Total amount allocated for ADB financing		Total expenditures cumulative to Dec 31, 2021	Disbursement percentage
	SDR	USD		
ADB Loan Fund	21,996,000.00	30,800,153.76*	164,846.10	0.54
Government of Mongolia's contribution	-	5,760,000.00	5,193.39	0.09
Total		36,560,153.76	170,039.49	0.47

*LFIS data as of December 31, 2021.

The below table shows the comparison between ADB Loan financing and cumulative project expenditures as of December 31, 2021, as per cost category.

Items	Total amount allocated for ADB financing		Total expenditures cumulative to Dec 31, 2021	Disbursement percentage
	SDR	USD		
1. Works	9,158,000.00	12,817,354.79	-	-
2. Goods	5,645,000.00	7,900,629.81	46,722.61	0.59
3. Services, project management, recurrent costs	3,329,000.00	4,659,202.24	114,323.09	2.45
4. Interest charges	469,000.00	656,428.46	3,800.40	0.58
5. Unallocated	3,395,000.00	4,751,574.53	-	-
99. Advance account	-	14,963.93	-	-
Total	21,996,000.00	30,800,153.76	164,846.10	0.54

The below table shows the GoM's counterpart financing cumulative as of December 31, 2021.

Items	Contribution by Government of Mongolia		Total expenditures cumulative to Dec 31, 2021	Disbursement %
	GoM's financing			
1. Works	3,175,000.00	-	-	-
2. Goods	1,685,000.00	4,672.26	0.28	
3. Services, project management, recurrent costs	-	521.13	-	
4. Interest charges	-	-	-	
5. Unallocated	900,000.00	-	-	
Total	5,760,000.00	5,193.39	0.09	

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Project Implementation Unit (PIU)

The project implementation unit was approved by the Minister of Finance's Order No. 221 in 2020 with 6 staff members. During the reporting period, the PIU is operating with 5 staff.

№	Position	Type of contract	Method of selection	Date of contract		Funding source
				Start	End	
1	Project coordinator	Contracted worker	ICS	2021.04.28	2021.12.31	ADB
2	Financial specialist	Contracted worker	ICS	2021.01.07	2021.12.31	ADB
3	Procurement specialist	Contracted worker	ICS	2021.01.07	2021.12.31	ADB
4	Civil engineer	Contracted worker	ICS	2021.04.28	2021.12.31	ADB
5	Translator and assistant	Contracted worker	ICS	2021.01.20	2021.12.31	ADB

Project Steering Committee

The Project Steering Committee (PSC) is responsible for approving the project's annual budget and work plan, overseeing project implementation, guiding and supporting project implementation, and coordinating the work of the ministries and agencies involved in project implementation.

Project Steering Committee was established under Order no.12 issued by the Deputy Prime Minister of Mongolia in 2020 with 16 members. The PSC was reorganized under Order no.49 issued by the Deputy Prime Minister of Mongolia on May 14, 2021, with 11 members representing ODPM, Cabinet Secretariat of Government, MOF, MCUD, Ministry of Foreign Affairs, ZUFZGO, Mongolian National Chamber of Commerce and Industry, and PIU.

During the reporting period, PSC held two meetings and approved the project's annual work plan, procurement plan, financial plan, and performance evaluation of the PIU's specialists.

2. PROJECT IMPLEMENTATION PROGRESS

As of December 31, 2021, 25% (1.4 years) of the total project period elapsed, and an overall plan implementation progress is assessed at 2%. Out of 17 contracts planned to be awarded in 2021, 14 have been successfully concluded including five consultancy services, five PIU staff engagements, one work, and three goods.

The main achievements and progress of the outputs are provided below.

Output 1: Zamyn-Uud free zone infrastructure and facilities constructed and operational.

The master plan update and partial plan for Phase 1 for the Zamyn-Uud Free Zone have been developed under the technical assistance project financed by ADB. However, the approval process is taking longer than expected. The master plan update and partial plan for Phase 1 development is pending discussion and approval from a meeting of the Council under the Minister of Construction and Urban Development as of December 31, 2021.

Within the framework of Output 1, the Detailed Engineering Design for Civil Works shall be prepared by a consulting firm selected under the package CS-01. A draft Terms of Reference (TOR) of the package was prepared under the TA project. PIU updated the TOR together with EA and IAs and got approved by ADB. Based on the updated TOR, the package CS-01 was advertised in Q3 of 2021. The expressions of interest were evaluated and the requests for technical and financial proposals were issued to the shortlisted firms. Technical and financial proposals of the shortlisted firms were received on October 30, 2021. The CSC submitted an evaluation report of technical proposals to ADB on December 08, 2021.

Based on the master plan update and partial master plan, the location of the gateway facility was agreed by the GOM and ADB in the north of the Zamyn-Uud Free Zone where there was disposal sewage of the Zamyn-Uud soum. General Authority of Specialized Inspection had issued a report that the area had soil pollution. ZUFZGO requested EA to explore suspended underground water and soil pollution in that area, where the construction of the gateway facility is planned. Thus, the package RFQ-03 was added to the project procurement plan based on the discussion during the Inception Mission. Mintores LLC was selected as the contractor for the package RFQ-03: Engineering-Geological Inspection, Detailed Analysis on Soil Pollution and Its Removal/Reduction and signed a USD 96,558.99 contract.

Output 2: Sustainable operations and management of Zamyn-Uud free zone promoted.

Proposed updates to the terms of reference of package CS-02: Free-Zone Management Advisory Firm were received from the Zamyn-Uud Free Zone Governor's Office and incorporated into the TOR. After issuance of no objection from ADB, the package was advertised on October 01, 2021. 13 companies submitted their expressions of interest. As of December 31, 2021, the expressions of interest are being evaluated by the CSC of EA. Within the framework of Output 2, five individual consultants of environmental safeguards, social and gender development, monitoring and evaluation, and legal experts were recruited in Q3 2021. The total value of the contracts awarded under the output is USD 115,788.

Output 3: Zamyn-Uud free zone port of entry system established.

In consultation with the ADB team, the EA created a new package of CS-12: Business and Data Analyst (National) to work with the package CS-05: Trade Facilitation, Border Management, and ICT Advisor (International). The consultants shall develop the TOR of the package CS-03: System Upgrade for Immigration System of Mongolia (ISM) and Development of Integrated Border Management (IBM) database. The total estimated amount of the contracts is USD 78,900 for package CS-05 and USD 24,350 for package CS-12. TORs of the packages were developed and updated by PIU. The positions were advertised in August 2021. The received applications were evaluated, and a selection report was approved by ADB. As of December 31, 2021, the contract negotiation is being carried out with selected candidates.

Baker Tilly Dalaivan Audit LLC
CERTIFIED ACCOUNTING, AUDITING
& APPRAISAL

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements comprise the statement of financial position, statement of financial performance, cash flow statement, statement of changes in net assets/equity for the year ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared on an accrual basis and comply with International Public Sector Accounting Standards (IPSAS). Moreover, the following reports have been prepared in compliance with ADB Loan Disbursement Handbook.

- Statement of Sources and Uses of Funds
- Statement of Expenditures
- Statement of Imprest account
- Statement of Sub-account

b) Basis of measurement

The financial statements have been presented in USD. Cash balances denominated in currencies other than USD are translated into USD at daily rates of cash transfer from imprest account to sub-account. Transactions denominated in currencies other than USD are translated at commercial bank exchange rates at the dates of cash receipts from ADB. According to ADB Loan Disbursement Handbook, the local currency transactions are translated on a first-in-first-out basis.

c) Basis of presentation

As the project commenced in May 2021, the balance of financial statement items is presented as of December 31, 2021.

d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at the bank.

e) Receivables

Receivables are measured at the fair value plus transaction costs.

f) Prepaid expenses/prepayments

Payments for goods, works, and services are recognized as prepaid expenses/prepayments, adjusted by the amount of goods, works and services received and recorded as expenses for the period.

g) Inventories

Inventories are assets in the form of materials or supplies to be consumed in the project implementation process and in the rendering of services.

h) Fixed assets

Fixed assets are used for the project activities and are stated at historical cost less depreciation. Depreciation is charged on a straight-line basis and recognized in the statement of financial performance as an expense for the current period. The useful life of tangible assets:

Furniture and fixtures	10 years
Computer and spare parts	5 years

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CERTIFIED ACCOUNTING, AUDITING
& APPRAISAL

i) Intangible assets

Intangible assets are stated at historical cost less accumulated amortization. Amortization is provided over the estimated useful life using the straight-line method and recognized in the statement of financial performance as an expense for the current period. The useful life of intangible assets:

Accounting software	5 years
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j) Liabilities

Liabilities are measured initially at fair value. Liability is categorized into either short-term liability or long-term liability depending on due date and nature of the contractual obligation. Consequently, liability is measured at an amortized cost using the effective interest rate. Liability is derecognized when the relevant obligation is expired or terminated.

k) Net assets/equity

Net assets are defined as the total assets of an entity, minus its total liabilities. Net assets comprise the government contribution and accumulated surplus or deficit.

l) Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners. Revenue is measured at the fair value of the consideration received or receivable.

m) Expenses

Expenses are recorded on an accrual basis. By an accrual basis, expenses are recognized when transactions are occurred and the amount can be measured, regardless of when cash is exchanged. Expenses are recorded in the statement of financial performance based on the accepted budget, approvals for expenditure, and resolutions by authorized entities, contracts, and source documents.

n) Taxation

- The Law on Corporate Income Tax was revised in 2019 and the revised version is effective from January 1, 2020. According to the law, the PIU is obligated to pay income tax if it earns taxable income in a tax year, and to impose and pay tax on taxable income earned in a given tax year in accordance with the law.
- Article 13.1.3 of Value-added tax defines exemption from the tax including "goods received through humanitarian and grant aid or discounted loan from foreign governments or international or humanitarian organizations." Every year, the finance ministerial resolution defines goods, works, and services supplied through loan and grant projects shall exempt from value-added tax and excise tax.
- According to Personal Income Tax Law, project employees' wages and salaries are subject to Personal Income Tax at 10% and transferred to tax authority.

o) Social insurance contribution

According to Article 15 of the Law on Social Insurance, until June 30, 2021, social insurance contributions are paid at the rate of 13.5 percent from the employer and 12.5 percent from the employee. In June 2021, the law was amended to reduce pension insurance by 1 percent, and the PIU required to pay social insurance premiums at 12.5 percent from the employer and 11.5 percent from the employee after July 1, 2021. Employers' social insurance contributions are funded by ADB.

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4. ITEMS OF THE FINANCIAL STATEMENTS

4.1 Cash and cash equivalents

Accounts	/in USD/	
	2020.12.31	2021.12.31
Cash in bank:		
Imprest account /Treasury fund 201900011991 - USD/	-	335,613.99
Sub-account /Treasury fund 100900011991 - MNT/	-	3,664.17
Sub-account /Treasury fund 100900011994 - MNT/	-	-
Pass-through account /State bank 106000079118 - USD/	-	-
Total	-	339,278.16

Transactions from the imprest account /Treasury fund 201900011991 - USD/ and operation sub-account /Treasury fund 100900011994 - MNT/ were approved by the first signatures of the MoF's Director of Development Financing Department, and the second signatures of the Project director. The transactions from the project management sub-account /Treasury fund 100900011991 - MNT/ were approved by the signatures of the Project coordinator and financial specialist.

Cash and cash equivalents balance as of December 31, 2021, was reconciled with the bank confirmation.

Accounts	/in USD/	
	Balance as at Dec 31, 2021	Balance as at Dec 31, 2021 per bank confirmation
Imprest account /Treasury fund 201900011991 - USD/	335,613.99	335,613.99
Sub-account /Treasury fund 100900011991 - MNT/	3,664.17	3,664.17
Sub-account /Treasury fund 100900011994 - MNT/	-	-
Total	339,278.16	339,278.16

4.2 Prepaid expenses

In the reporting period, the office rent collateral was reported as prepaid expenses of USD 1,042.26.

4.3 Non-current assets

Accounts	/in USD/	
	2020.12.31	2021.12.31
Fixed assets		
<u>Initial cost</u>		
Furniture and fixtures	-	6,825.91
Computer and spare parts	-	23,538.70
Total	-	30,364.61
<u>Accumulated depreciation</u>		
Furniture and fixtures	-	341.30
Computer and spare parts	-	392.31

Total	-	733.61
<u>Residual cost</u>		
Furniture and fixtures	-	6,484.61
Computer and spare parts	-	23,146.39
Total amount	-	29,631.00
Accounting software		
<u>Initial cost</u>	-	1,228.50
<u>Accumulated depreciation</u>	-	81.90
<u>Residual cost</u>	-	1,146.60
Total non-current assets	-	30,777.60

4.4 Long-term liabilities – ADB loan

	/in USD/	
Withdrawal applications	2020.12.31	2021.12.31
WA00001 – Initial advance	-	500,323.86
CAP1 – Interest charge	-	3,800.40
Total	-	504,124.26

4.5 Counterpart contributions

	/in USD/	
Accounts	2020.12.31	2021.12.31
Financing by Government of Mongolia:		
Border security for the Zamyn-Uud free zone	-	-
VAT exemption on the purchase of goods from the domestic market	-	5,193.39
Exemption on VAT and customs duty on delivered goods from abroad	-	-
Total	-	5,193.39

4.6 Operating expenses

	/in USD/	
Accounts	2020.12.31	2021.12.31
1. Works	-	-
2. Goods	-	19,801.76
3. Services, project management, and recurrent cost	-	113,801.96
4. Interest charge	-	3,800.40
Depreciation	-	815.51
Total	-	138,219.63

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Goods

During the reporting period, PIU purchased and handed over furniture that amounted to USD 2,750.25, and computer equipment amounted to USD 17,051.50 at the request of the Zamyn-Uud Free Zone Governor's Office.

Services, project management, and recurrent cost

Expenses	/in USD/	
	2020.12.31	2021.12.31
PIU staff salary	-	65,423.57
Social insurance contributions	-	8,436.66
Consulting services*	-	22,171.66
Office rental fee	-	9,172.40
Field trip	-	2,328.63
Advertising expenses	-	2,191.26
Office supplies	-	1,649.64
Stationary	-	1,337.20
Postal and communication expenses	-	697.40
Office cleaning service fee	-	368.54
Commitment bank charges	-	25.00
Total	-	113,801.96

*During the reporting period, 6 consulting services were contracted, the details of which are shown in the table below.

Package number	Contract date	Consultant	Contract amount		Paid amount
			MNT	USD	
CS-10	2021/08/17	Senior Legal Expert	31,341,640	11,010.20	Canceled
CS-11	2021/08/17	Legal Expert	25,643,160	9,008.35	4,000.66
FRQ-03	2021/09/08	Mintores LLC	275,000,000	96,606.48	14,481.36
CS-06	2021/10/07	Environment safeguards specialist	102,292,149	35,916.68	1,868.99
CS-07	2021/10/07	Social and Gender Development Specialist	102,292,149	35,916.68	1,820.65
CS-08	2021/10/07	Monitoring and Evaluation Specialist	68,194,766	23,944.46	-
Total			604,763,864	212,402.85	22,171.66

Interest charge

According to the loan agreement, interest payments will be made on April 15 and October 15 of each year. During the reporting period, a total of USD 3,800.46 was spent on interest payments.

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Depreciation

Expenses	/in USD/	
	2020.12.31	2021.12.31
Furniture and fixtures	-	341.30
Computer and spare parts	-	392.31
Financial software	-	81.90
Total	-	815.51

5. CONTINGENT LIABILITIES

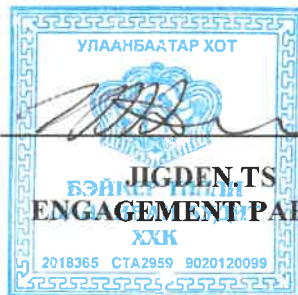
At the end of 2021, the PIU did not have any legal or constructive obligation as a result of past events.

6. EVENTS AFTER THE REPORTING DATE

The auditor's report, including the financial statements as of December 31, 2021, was prepared by May 13, 2022. There were no events that occurred after the reporting date, which would have affected the financial statements for the year-end.

7. TRANSLATION OF THE REPORT

These financial statements have been prepared in Mongolian and English languages, and the report in the Mongolian language prevails in case of misunderstanding between those versions.



JIGDEN.TS
ENGAGEMENT PARTNER

MAY 13, 2022