

**“Livable Cities Investment Project for
Balanced Development” (Georgia)
Loan No. 4134-GEO**

Special Purpose Financial Statements

*For the year ended 31 December 2023
together with independent auditor’s report*

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR THE PREPARATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS**

The management of the Municipal Development Fund of Georgia LEPL ("MDF") is responsible for the preparation of the Special Purpose Financial Statements of the Loan No. 4134-GEO funded by Asian Bank of Development (ADB), that complies with the ADB requirements. The Special Purpose Financial Statements are referred as Project Financial Statements (APFS) according to the ADB requirements.

In preparing the Special Purpose Financial Statements the MDF management is responsible for ensuring:

- (i) That Special Purpose Financial Statements are free from material misstatements including omissions and errors and are fairly presented,
- (ii) That the borrower or executing agency has utilised the proceeds of the loan only for the purpose(s) of the Project,
- (iii) That the borrower or executing agency was in compliance with the financial covenants of the legal agreement(s) (where applicable),
- (iv) That the advance account procedure, where applicable, has been operated in accordance with the Asian Development Bank's (ADB) Loan Disbursement Handbook,
- (v) That adequate supporting documentation has been maintained to authenticate claims stated on the statement of expenditures (SOE), where applicable, 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.

The Special Purpose Financial Statements as of and for the year ended 31 December 2023 were authorized for issue on 28 June 2024 by the MDF management.



Davit Tabidze

Executive Director of the Municipal
Development Fund of Georgia

28 June 2024





Levan Sharvadze

Deputy Director of the Municipal
Development Fund of Georgia, CFO

28 June 2024



EY LLC
Kote Abkhazi Street, 44
Tbilisi, 0105, Georgia
Tel: +995 (32) 215 8811
Fax: +995 (32) 215 8822
www.ey.com/ge

შპს იუაი
საქართველო, 0105 თბილისი
კოტე აფხაზის ქუჩა 44
ტელ: +995 (32) 215 8811
ფაქსი: +995 (32) 215 8822

Independent auditor's report

To the management of Municipal Development Fund of Georgia LEPL

Opinion

We have audited the Special Purpose Financial Statements of Project “Livable Cities Investment Project for Balanced Development” (Georgia) (the “Project”) implemented by Municipal Development Fund of Georgia LEPL (the “Fund”) and financed by the loan received from the Asian Development Bank, Loan No. 4134-GEO (the “Loan”), which comprise statement of financial position as of 31 December 2023, statement of cash receipts and payments, statement of advance account, statement of expenditures and withdrawal schedules and statement of budgeted versus actual expenditures for the year then ended, and notes to the Special Purpose Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Special Purpose Financial Statements present fairly, in all material respects, the cash receipts and payments of the Project for the year ended 31 December 2023 in accordance with the cash receipts and payments basis of accounting described in Note 2 of the Special Purpose Financial Statements.

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 Statements* section of our report. We are independent of the Fund 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 Statements, which describes the basis of accounting. The Special Purpose Financial Statements have been prepared by the management of the Fund based on the requirements of the Loan Agreement No. 4134-GEO dated 10 December 2021 (the “Loan Agreement”) as described in Note 2 of the Special Purpose Financial Statements. The Special Purpose Financial Statements are prepared to provide information to the Asian Development Bank and the Government of Georgia. As a result of the Special Purpose Financial Statements 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 Statements

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statements in accordance with cash receipts and payments basis of accounting described in Note 2. This includes determining that the cash receipts and payments basis of accounting is an acceptable basis for the preparation of the Special Purpose Financial Statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the Special Purpose Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statements as a whole are 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 these Special Purpose 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 Special Purpose 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 Fund'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 Statements, including the disclosures, and whether the Special Purpose Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Other matters on which we are required to report

The Fund 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 paragraph 6 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 Fund's compliance with the financial covenants contained in paragraph 6 of Schedule 3 to the Loan Agreement, described in Notes 8.1 and 8.2 of the Special Purpose Financial Statements. In our opinion, the Fund 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 Fund is compliant with financial covenants contained in paragraph 6 of Schedule 3 to the Loan Agreement.

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.

A handwritten signature in blue ink, appearing to read 'R. Khoroshvili', is written over a faint, light blue circular watermark.

Ruslan Khoroshvili (SARAS-A-615243)
On behalf of EY LLC (SARAS-F-855308)
28 June 2024

Statement of Cash Receipts and Payments

For the year ended 31 December 2023

<i>In Euro</i>	2023		2022	
	For the year	Cumulative	For the year	Cumulative
Cash receipts				
Cash receipts from the Asian Development Bank	20,639,971	54,700,738	34,060,767	34,060,767
Cash receipts from the Government of Georgia	3,358,444	5,393,280	588,162	2,034,836
Total cash receipts	23,998,415	60,094,018	34,648,929	36,095,603
Cash payments				
Works, goods, consulting, and non-consulting services	22,087,452	53,835,685	30,301,559	31,748,233
Interest and commitment charges	1,077,908	1,157,527	79,619	79,619
Administrative expenses	—	62,732	62,732	62,732
Total cash payments	23,165,360	55,055,944	30,443,910	31,890,584
Foreign exchange differences	70,671	70,671		
Net flow of funds	903,726	5,108,745	4,205,019	4,205,019

Signed and authorized for issue on 28 June 2024:

Davit Tabidze, Executive Director

Levan Sharvadze, Deputy Director, CFO

Statement of Financial Position

For the year ended 31 December 2023

<i>In Euro</i>	<u>2023</u>	<u>2022</u>
Assets and expenses		
Advance account	5,108,745	4,205,019
Accumulated project expenses, net of related foreign exchange differences	54,985,273	31,890,584
Total assets and expenses	<u>60,094,018</u>	<u>36,095,603</u>
Financing		
Accumulated project financing from the Asian Development Bank	54,700,738	34,060,767
Accumulated project financing from the Government of Georgia	5,393,280	2,034,836
Total cash disbursements	<u>60,094,018</u>	<u>36,095,603</u>

Signed and authorized for issue on 28 June 2024:

Davit Tabidze, Executive Director

Levan Sharvadze, Deputy Director, CFO



The image shows two handwritten signatures in blue ink over horizontal lines. To the right is a circular official stamp in blue ink. The stamp contains the text "LEPL MUNICIPAL DEVELOPMENT FUND OF GEORGIA" around the top edge and "საქართველოს მუნიციპალიტეტის განვითარების ფონდი" around the bottom edge. In the center of the stamp is a stylized map of Georgia. Below the map, the identification number "206014493" is visible.

Statement of Advance Account
For the year ended 31 December 2023

<i>In Euro</i>	<u>2023</u>	<u>2022</u>
Opening balance as of 1 January	4,205,019	-
<i>Add:</i> The Asian Development Bank loan replenishment during the year	15,557,792	14,612,545
<i>Less:</i> Eligible expenditures during the year	(14,654,066)	(10,407,526)
Closing balance as of 31 December	5,108,745	4,205,019

Signed and authorized for issue on 28 June 2024:

Davit Tabidze, Executive Director

Levan Sharvadze, Deputy Director, CFO



Statement of Expenditures and Withdrawal Schedules

For the year ended 31 December 2023

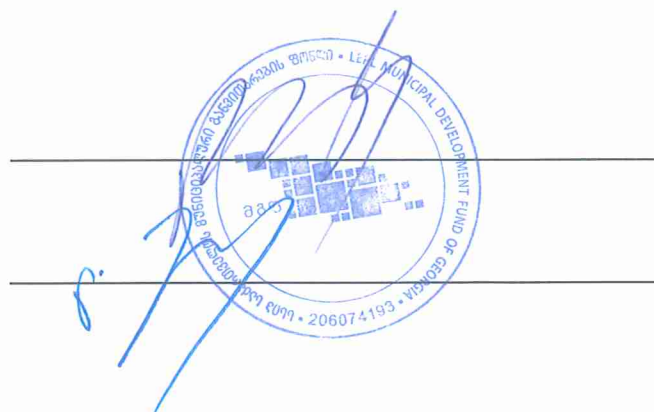
Disbursement type	Withdrawal application No.	Value Date	Application amount	The Fund (in Euro)	ADB (in Euro)
Direct payment	00011	7-Mar-2023	GEL 844,059	308,614	308,614
Direct payment	00012	13-Mar-2023	GEL 219,437	81,234	81,234
Direct payment	00013	13-Mar-2023	GEL 254,457	94,197	94,197
Replenishment	00014	5-Apr-2023	EUR 5,067,440	5,067,440	5,067,440
Direct payment	00015	23-Mar-2023	GEL 105,057	38,536	38,536
Direct payment	00016	28-Mar-2023	GEL 338,476.01	122,826	122,826
Direct payment	00017	11-May-2023	GEL 4,119,786	1,524,004	1,524,004
Direct payment	00018	2-Jun-2023	GEL 133,041	48,403	48,403
Direct payment	00019	15-Jun-2023	GEL 419,622	151,015	151,015
Direct payment	00020	13-Jun-2023	GEL 197,614	70,948	70,948
Direct payment	00021	13-Jun-2023	GEL 271,557	97,495	97,495
Direct payment	00022	13-Jun-2023	GEL 196,471	70,538	70,538
Direct payment	00023	15-Jun-2023	GEL 336,042	120,936	120,936
Direct payment	00024	15-Jun-2023	GEL 107,045	38,524	38,524
Direct payment	00025	15-Jun-2023	GEL 193,477	69,629	69,629
Direct payment	00026	20-Jun-2023	GEL 201,408	72,089	72,089
Direct payment	00027	29-Jun-2023	GEL 636,805	224,126	224,126
Direct payment	00028	14-Jul-2023	GEL 245,130	87,161	87,161
Direct payment	00029	24-Jul-2023	GEL 226,303	79,450	79,450
Direct payment	00030	28-Jul-2023	GEL 339,880	119,014	119,014
Direct payment	00031	1-Sep-2023	GEL 830,006	293,570	293,570
Direct payment	00032	13-Sep-2023	GEL 436,023	156,895	156,895
Direct payment	00033	20-Sep-2023	GEL 374,271	135,067	135,067
Replenishment	00034	16-Nov-2023	EUR 5,574,784	5,353,427	5,353,427
Replenishment	00035	19-Dec-2023	EUR 5,136,925	5,136,925	5,136,925
Interest expense		15-Feb-2023	EUR 271,632	271,632	271,632
Interest expense		15-Aug-2023	EUR 806,276	806,276	806,276
Total for the year ended 31 December 2023					20,639,971

Disbursement type	Withdrawal application No.	Value Date	Application amount	The Fund (in Euro)	ADB (in Euro)
Direct payment	00001	22-Jun-2022	GEL 2,428,524	796,949	796,949
Reimbursement	00002	12-Aug-2022	GEL 41,490,795	15,245,572	15,245,572
Reimbursement	00003	12-Aug-2022	GEL 6,287,230	2,310,209	2,310,209
Advance	00004	20-Jul-2022	EUR 6,958,452	6,958,452	6,958,452
Direct payment	00005	7-Sep-2022	GEL 288,972	102,102	102,102
Direct payment	00006	12-Sep-2022	GEL 517,782	185,348	185,348
Direct payment	00007	12-Sep-2022	GEL 493,855	176,783	176,783
Replenishment	00008	1-Nov-2022	EUR 5,579,925	5,579,925	5,579,925
Replenishment	00009	8-Dec-2022	EUR 2,074,169	2,074,169	2,074,169
Direct payment	00010	8-Dec-2022	GEL 1,532,346	551,639	551,639
Interest expense				79,619	79,619
Total for the year ended 31 December 2022				34,060,767	34,060,767

Signed and authorized for issue on 28 June 2024:

Davit Tabidze, Executive Director

Levan Sharvadze, Deputy Director, CFO



Statement of Budgeted versus Actual Expenditures

For the year ended 31 December 2023

<i>In Euro</i>	Budget as of 31 December 2023		Actual as of 31 December 2023		Variance as of 31 December 2023	
	<i>For the year unaudited</i>	<i>Cumulative unaudited</i>	<i>For the year</i>	<i>Cumulative</i>	<i>For the year unaudited</i>	<i>Cumulative unaudited</i>
The Asian Development Bank funding						
Works, goods, consulting, and non-consulting services	18,102,731	42,892,226	18,974,858	48,688,254	(872,127)	(5,796,028)
Interest and commitment charges	201,977	574,026	1,077,908	1,157,527	(875,931)	(583,501)
Administrative expenses	–	115,276	–	62,732	–	52,544
	18,304,708	43,581,528	20,052,766	49,908,513	(1,748,058)	(6,326,985)
The Government of Georgia funding						
Works, goods, consulting, and non-consulting services	3,164,437	7,637,493	3,112,594	5,136,139	51,843	2,501,354
Administrative expenses	44,315	65,065	–	11,292	44,315	53,773
	3,208,752	7,702,558	3,112,594	5,147,431	96,158	2,555,127

<i>In Euro</i>	Budget as of 31 December 2022		Actual as of 31 December 2022		Variance as of 31 December 2022	
	<i>For the year unaudited</i>	<i>Cumulative unaudited</i>	<i>For the year</i>	<i>Cumulative</i>	<i>For the year unaudited</i>	<i>Cumulative unaudited</i>
The Asian Development Bank funding						
Works, goods, consulting, and non-consulting services	16,699,312	24,789,495	29,713,397	29,713,397	(13,014,085)	(4,923,902)
Interest and commitment charges	372,049	372,049	79,619	79,619	292,430	292,430
Administrative expenses	115,276	115,276	62,732	62,732	52,544	52,544
	17,186,637	25,276,820	29,855,748	29,855,748	(12,669,111)	(4,578,928)
The Government of Georgia funding						
Works, goods, consulting, and non-consulting services	3,005,876	4,473,056	576,870	2,023,544	2,429,006	2,449,512
Administrative expenses	20,750	20,750	11,292	11,292	9,458	9,458
	3,026,626	4,493,806	588,162	2,034,836	2,438,464	2,458,970

Signed and authorized for issue on 28 June 2024:

Davit Tabidze, Executive Director

Levan Sharvadze, Deputy Director, CFO

Special Purpose Financial Statements for Loan No. 4134-GEO
31 December 2023

1. General

In accordance with Loan No. 4134-GEO (the “Loan”) between Georgia and the Asian Development Bank (the “ADB”) signed on 10 December 2021, Georgia received a loan totaling EUR 101,000,000 from ADB to finance the Livable Cities Investment Project for Balanced Development (the “Project”).

Municipal Development Fund of Georgia is a legal entity under Public Law (LEPL). The legal address of the Fund is 150 Aghmashenebeli Avenue, 0112, Tbilisi, Georgia.

The Project’s purpose

The objective of the Project is to improve livability and inclusive economic growth in Georgia.

The Project consists of the following components:

Component 1: Inclusive and climate-resilient urban infrastructure rehabilitated and constructed and services improved

This component will support subprojects including the upgrading of urban centers and other settlements and neighborhoods, construction of community facilities, and improvement of parks and public spaces incorporating universal design and accessibility standards.

Component 2: Accessibility, connectivity, and mobility in tourism clusters across Georgia improved.

This component will support subprojects including the rehabilitation and improvement of cultural sites, historical town centres and places of interest, along with the improvement of streetscapes and urban transport systems.

Component 3: Institutional capacity for sustainable urban and regional development enhanced

Under this component, institutional capacity building training and workshops will be provided to participants from the project executing agencies, project implementing agencies, municipalities and civil servants, and financing support will be provided to micro, small and medium-sized enterprises and entrepreneurs in the project areas.

The table below sets forth the categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the loan proceeds to each such category.

Item	Total amount allocated for ADB financing (in Euro)	Basis for Withdrawal from the Loan Account
Works, goods, consulting, and non-consulting services	95,600,000	100% of total expenditure claimed*
Environment and social mitigation	500,000	100% of total expenditure claimed*
Interest and commitment charges	4,300,000	
Administrative expenses	600,000	100% of total expenditure claimed*
Total	101,000,000	

* Exclusive of taxes and duties imposed within the territory of Georgia

The Project is expected to be completed by 30 December 2027.

2. Basis of preparation

The Special Purpose Financial Statements have been prepared by the Fund management 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 4.02 of the Loan Agreement and Section C of the Operations Manual Section J7 (OM Section J7).

Special Purpose Financial Statements for Loan No. 4134-GEO
31 December 2023

2. Basis of preparation (continued)

Notes 8.1 and 8.2 to the Special Purpose Financial Statements have been added specifically to address the requirement of Sections 3.02, 3.03 and 3.04; and paragraph 6 of Schedule 3 to the Loan Agreement, respectively.

The reporting currency of these Special Purpose Financial Statements is Euro, and all values are rounded to the nearest Euro.

3. Summary of significant accounting policies

(i) Cash basis of accounting

The Special Purpose Financial Statements were 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 Fund are recognized only at the time when cash is paid or obtained.

The Special Purpose 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 Special Purpose Financial Statements 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 Statements are prepared in Euro for the purposes of reporting to 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. For financing received from the Government of Georgia (GOG), the rate published by the National Bank of Georgia (NBG) is used as actual rate; since this is the reference rate commonly used for foreign currency denominated contracts in Georgia.

(iii) Cash

Cash represent balances with the State Treasury of Ministry of Finance of Georgia.

(iv) Advance account

Advance account is a designated disbursement account of the Project that is maintained in Euro at the State Treasury of Ministry of Finance of Georgia to ensure smooth payment of eligible expenditures under the Project.

4. The ADB Financing

To finance eligible expenses under the Loan Agreement, ADB disburses proceeds from the Loan accounts using one or more of the disbursement methods described below:

- (a) Direct payment procedure, where ADB, at the borrower's request, pays a designated beneficiary directly,
- (b) Commitment procedure, where ADB, at the borrower's request, provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a Letter of Credit financed from the loan account,
- (c) Reimbursement procedure, where ADB pays from the loan account to the borrower's account or to the project account for eligible expenditures, which have been incurred and paid for by the project out of its budget allocation or its own resources, and
- (d) Advance fund procedure, where ADB makes an advance disbursement from the loan account for deposit to an advance account to be used exclusively for ADB's share of eligible expenditures.

Special Purpose Financial Statements for Loan No. 4134-GEO
31 December 2023

5. The GOG Financing

The Project maintains a separate account for co-financing provided by the Government of Georgia. The funds envisaged under the State budget are further distributed to contractors based on the share of expenditures to be incurred.

6. Project implementation

As at 31 December 2023 and 2022, the Project was implemented in terms of incurred project expenditures financed by ADB by 49.2% and 29.6%, respectively.

In Euro	2023			2022		
	Total amount allocated for ADB financing	Project expenditure incurred to 31 December	Amounts disbursed, %	Total amount allocated for ADB financing	Project expenditure incurred to 31 December	Amounts disbursed, %
Works, goods, consulting, and non-consulting services	95,600,000	48,688,254	50.9%	95,600,000	29,713,397	31.1%
Environment and social mitigation	500,000	–	0.0%	500,000	–	0.0%
Interest and commitment charges	4,300,000	1,157,527	26.9%	4,300,000	79,619	1.9%
Administrative expenses	600,000	62,732	10.5%	600,000	62,732	10.5%
Total	101,000,000	49,908,513	49.4%	101,000,000	29,855,748	29.6%

7. Loan No. 4134-GEO from ADB

The Loan bears an interest rate of Euribor plus fixed rate of 0.6% per annum and maturity premium of 0.2% per annum. In addition, commitment charge of 0.15% per annum shall be accrued on full amount of the Loan. The Loan has a maturity of 15 years. The payments of principal are evenly scheduled for the period from 2033 to 2047. It is paid semi-annually in February and August according to Schedule 2 of Loan Agreement. The interest and any other charges on the Loan is payable semi-annually on 15 February and 15 August in each year, starting from 15 February 2033.

8. Compliance with the use of the Loan Proceeds and financial covenants

In accordance with the requirements of the Section C of the Operations Manual Section J7 (OM Section J7) of the Asian Development Bank, the Fund 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 8.1 and 8.2 below.

8.1. Use of Proceeds for the Purpose Intended

In 2023 and 2022, the Fund has utilized all funds received from ADB and GOG in accordance with Sections 3.02, 3.03 and 3.04 of the Loan Agreement exclusively in the carrying out of the Project.

8.2. Financial covenants

As at 31 December 2023 and 2022, the Fund was in compliance with the following financial covenant related to the Project contained in paragraph 6 of Schedule 3 to the Loan Agreement i.e., 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 20 months before the date of the Loan Agreement in connection with works, goods, and non-consulting and consulting services.