

MUNICIPAL DEVELOPMENT FUND OF GEORGIA
LOAN NO. NEFCO-2018-149 E5P
(REHABILITATION & ENERGY EFFICIENCY IMPROVEMENTS IN PUBLIC SCHOOLS IN
MOUNTAINOUS REGIONS IN GEORGIA)
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023

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**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPERATION AND APPROVAL
OF THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

Management of Rehabilitation & Energy Efficiency Improvements in Public Schools in Mountainous Regions in Georgia (the "Project") implemented by the Municipal Development Fund of Georgia (MDF) is responsible for the preparation of the special purpose project financial statements that present fairly the Project's statement of financial position as at 31 December 2023, the summary of sources and uses of funds, summary of expenditure by activity, statement of expenditure ("SOE") and statements of Special account, in compliance with the basis of accounting described in Note 2 the accompanying special purpose project financial statements.

In preparing the special purpose project financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures that enable users to understand the impact of particular transactions, other events and conditions on the Project, financial position and its sources and uses of funds and movements in Special accounts.

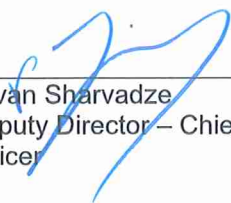
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions and disclose with reasonable accuracy at any time the financial position of the Project;
- Maintaining statutory accounting records in compliance with Georgian legislation;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project; and
- Preventing and detecting fraud and other irregularities.

The special purpose project financial statements for the year ended 31 December 2023 were authorized for issue on 30 June 2024 by the Management.

On behalf of Management:


Davit Tabidze
Executive Director


Levan Sharvadze
Deputy Director – Chief Financial
Officer

INDEPENDENT AUDITOR'S REPORT

To the management of the Municipal Development Fund of Georgia

Opinion

We have audited the accompanying special purpose project financial statements of the Rehabilitation & Energy Efficiency Improvements in Public Schools in Mountainous Regions in Georgia (the "Project") financed under the Loan NEFCO-2018-149 E5P and Grant NEFCO-2020-149 E5P Agreements dated 4 May 2022 (the "Agreements"), implemented by the Municipal Development Fund of Georgia, which comprise the Project's summary of sources and uses of funds for the year ended 31 December 2023, statement of financial position as at 31 December 2023, summary of expenditure by activity, statement of expenditure ("SOE") and statements of Special account for the year ended 31 December 2023 and a summary of significant accounting policies and other explanatory notes (collectively referred to as the "special purpose project financial statements").

In our opinion, the accompanying special purpose project financial statements for the year ended 31 December 2023 are prepared, in all material respects, in accordance with Loan and Grant Agreements No. NEFCO-2018-149 dated 4 May 2022, as further detailed in Note 2.

Basis for opinion

We conducted our audit in accordance with International Standards of 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 Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Georgia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

Data included on pages 6 to 14 of the accompanying special purpose project financial statements that are marked as "Unaudited" have not been audited.

Emphasis of matter

Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the special purpose project financial statements, which describes the basis of accounting. The special purpose project financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreements. As a result, the special purpose project financial statements may not be suitable for another purpose.

This report is intended solely for use by the Project's management in reporting the information to the Government of Georgia and Nordic Environment Finance Corporation (NEFCO). This report is not intended

for the benefit of any other third parties and we accept no responsibility or liability to any party other than the Project's management in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties. Our opinion is not modified in respect of this matter.

Responsibility of management and those charged with governance for the special purpose project financial statements

Management is responsible for the preparation of these special purpose project financial statements in accordance with the basis of accounting described in Note 2 and in conformity with the financial reporting provisions of the Agreement and for such internal control as management determines is necessary to enable the preparation of special purpose project financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's responsibilities for the audit of the special purpose project financial statements

Our objectives are to obtain reasonable assurance about whether the special purpose project 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 project financial statements.

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

- Identify and access the risks of material misstatement of the special purposes project 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; and
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, 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.

Moore Azerbaijan



30 June 2024

**MUNICIPAL DEVELOPMENT FUND
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2023
(In EUR)**

	Actual		Planned		Variance		Project appraisal document
	Year ended	Cumulative as at	Year ended	Cumulative as at	Year ended	Cumulative as at	
	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	
Opening Working Capital	-	-	-	-	-	-	
Loan NEFCO-2018-149	-	-	-	-	-	-	
Total							
Sources of Funds							
Loan NEFCO-2018-149 E5P	200,000	200,000					3,900,000
Grant NEFCO-2020-149 E5P	-	-					2,600,000
Government of Georgia	9,398	9,398					1,170,000
Total sources of funds	209,398	209,398					7,670,000
(LESS): EXPENDITURE							
Loan NEFCO-2018-149 E5P							
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	52,007	52,007	200,000	200,000	147,993	147,993	
Sub-total	52,007	52,007	200,000	200,000	147,993	147,993	
Government of Georgia							
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	8,669	8,669	36,000	36,000	27,331	27,331	
Sub-total	8,669	8,669	36,000	36,000	27,331	27,331	
Total expenditures	60,676	60,676	236,000	236,000	175,324	175,324	
Foreign exchange loss, net	(88)	(88)					
Closing Working Capital							
Loan NEFCO-2018-149 E5P	148,634	-					
Total	148,634	-					

On behalf of Management:

Davit Tabidze
Executive Director

Levan Sharvadze
Deputy Director – Chief Financial Officer

Notes on pages 11-14 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND
 NORDIC ENVIRONMENT FINANCE CORPORATION
 LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
 STATEMENT OF FINANCIAL POSITION
 FOR THE YEAR ENDED 31 DECEMBER 2023
 (In EURO)**

	<u>Note</u>	<u>31 December 2023</u>
ASSETS		
Loan NEFCO-2018-149 E5P – Cash	3,9	148,634
Total assets		148,634
NET ASSETS		
		148,634
Funds received:		
Loan NEFCO-2018-149 E5P		200,000
Government of Georgia		9,398
Total funds received		209,398
Expenditure:		
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency		60,676
Total Expenditures		60,676
Foreign exchange loss, net		(88)
TOTAL NET ASSETS		148,634

On behalf of Management:


 Davit Tabidze
 Executive Director

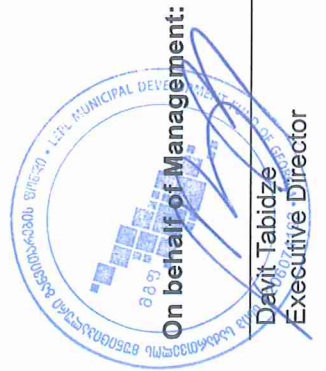

 Levan Sharvadze
 Deputy Director – Chief Financial Officer

Notes on pages 11-14 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
STATEMENT OF EXPENDITURE BY ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2023
(In EURO)**

Project activities	Actual		Planned		Variance	
	Year ended 31.12.2023	Cumulative as at 31.12.2023	Year ended 31.12.2023	Cumulative as at 31.12.2023	Year ended 31.12.2023	Cumulative as at 31.12.2023
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	60,676	60,676	236,000	236,000	175,324	175,324
TOTAL EXPENDITURE	60,676	60,676	236,000	236,000	175,324	175,324

On behalf of Management:



David Tabidze
Executive Director


Levan Sharvadze
Deputy Director – Chief Financial Officer

MUNICIPAL DEVELOPMENT FUND
 NORDIC ENVIRONMENT FINANCE CORPORATION
 LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
 STATEMENT OF EXPENDITURE (SOE) / Disbursement Request
 FOR THE YEAR ENDED 31 DECEMBER 2023
 (In EURO)

Withdrawal applications for Loan No. NEFCO-2018-149

<u>Withdrawal No.</u>	<u>Withdrawal Application Date</u>	<u>Total</u>	<u>Advance</u>
Tranche No. 1	06.02.2023	200,000	200,000
Total:		200,000	200,000

On behalf of Management:



 Davit Tabidze
 Executive Director

 Levan Sharvadze
 Deputy Director – Chief
 Financial Officer

Notes on pages 11-14 are integral part of these financial statements

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
 NORDIC ENVIRONMENT FINANCE CORPORATION
 LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
 STATEMENT OF SPECIAL ACCOUNT
 FOR THE YEAR ENDED 31 DECEMBER 2023
 (In EURO)**

Account No.
 Depository Bank
 Address

299259954
 State Treasury
 16 V. Gorgasali street
 Tbilisi, 0114 Georgia

Note **31 December 2023**

Opening balance	-
Fund received from Loan NEFCO-2018-149	200,000
Present outstanding amount advanced to SPECIAL Account ("SA")	200,000
SA closing balance	157,303
Add: Amount of eligible expenditures paid	42,697
Total advance accounted for	200,000

On behalf of Management:

 Davit Tabidze
 Executive Director


 Levan Sharvadze
 Deputy Director – Chief Financial Officer

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
(In EURO)**

1. BACKGROUND

Municipal Development Fund of Georgia (the "Fund" or "MDF") was established on 7 June 1997 by the Presidential Decree No. 294 "On management of funds for the development of municipal sector in Georgia".

The Fund is a legal Fund of public law, the objective of which is to support strengthening institutional and financial capacity of local government units, investing financial resources in local infrastructure and services, improving on sustainable basis the primary economic and social services for the local population and the provision of low-interest loans to legal entities and physical persons of Georgia in the framework of the Government Program.

The founder and governing body of the Fund is the Government of Georgia. The Fund is cooperating with majority of large investment banks and financial institutions operating in Georgia.

The Nordic Environment Finance Corporation Loan No. NEFCO-2018-149 E5P and Grant NEFCO-2020-149 E5P Agreements (the "Agreements") in the amount of 3.9 and 2.6 million EUR was signed between the Government of Georgia ("GoG") and the Nordic Environment Finance Corporation ("NEFCO") on 4 May 2022 ("inception").

The main objectives of the project are: The full rehabilitation and /or reconstruction of existing schools will consist of two components – a structural component and an energy efficiency component to be implemented in all the selected school buildings. Depending on the specific need of each particular building. The structural component may, in addition to works in the building's envelope, also include issues such as landscaping and similar measures at adjacent areas. The aim of energy efficiency measures to be included in all buildings is to obtain a min 30% calculated energy efficiency (reduction in energy demand) as measured in KWh and compared to the building's baseline.

2. ACCOUNTING POLICIES

Basis of accounting – These special purpose project financial statements have been prepared in accordance with the provisions of the Loan No. NEFCO-2018-149 E5P and Grant No. NEFCO-2020-149 E5P Agreements dated 4 May 2022 to the extent applicable to these special purposes financial statements and as agreed by the Fund, Government of Georgia and the Nordic Environment Finance Corporation (NEFCO).

The special purpose project financial statements have been prepared on the accrual basis of accounting.

These special purpose project financial statements, in accordance with the provisions of the Agreement, are prepared to report the information to the Government of Georgia and the Nordic Environment Finance Corporation (NEFCO). As a result, these special purpose project financial statements may not be suitable for another purpose.

Sources of funds – Project financing is recognized as sources of funds in the period when the cash inflow can be reasonably estimated and they become available and measurable. The accumulated project financing is disclosed under "Funds" in the statement of financial position. In addition, current year funds received is disclosed in the Statement of Sources and Uses of Funds, showing under sources funds and expenditures respectively.

Expenditure - is recognized on an accruals basis as a use of project funds when liabilities are incurred. The accumulated project expenditures are disclosed under "Expenditure" in the statement of financial position.

Functional currency – The functional currency of the project and its presentational currency is Euro ("EUR").

2. ACCOUNTING POLICIES (CONTINUED)

Transactions in other currencies – Transactions in currencies other than the reporting currency are converted to Euro at the exchange rate prevailing at the date of the transaction. Monetary items are translated into Euro at the National Bank of Georgia (NBG) official exchange rate at the reporting date.

Cash – Cash comprises of balances with State Treasury.

3. SPECIAL ACCOUNT

SPECIAL account is a special disbursement account of the Project maintained in Euro at the State Treasury to ensure the payment of eligible expenditures, within defined limits, which do not require individual authorization from NEFCO in accordance with the Agreement.

4. BASIS OF FUNDING

The total investment sum of the Project is budgeted for EUR 6,500,000. The sources of financing are as follows: a loan from NEFCO up to EUR 3,900,000 and an investment grant from E5P of up to EUR 2,600,000. VAT and Project overrun costs, if any, are to be borne by the Ministry of Finance as the Borrower/Grantee.

5 METHODS OF WITHDRAWAL

The methods of withdrawal used from the inception of the loan to 31 December 2023 were as follows:

(a) SPECIAL Account

Municipal Development Fund withdraws the eligible amounts from the special account and prepares and sends Disbursement requests for next tranche to the Nordic Environment Finance Corporation with authorized signatures. The Disbursement requests and respective documentation are reviewed by the NIRAS – PIU Support Consultant and Nordic Environment Finance Corporation and an approved amount is transferred to the Special account.

(b) GoG Current Account

The Project maintains a separate account where funds from the Government of Georgia are accumulated. The funds are further disbursed to sub-contractors based on the share of expenditures to be incurred.

6. STATEMENT OF EXPENDITURE/DISBURSEMENT REQUEST

Withdrawals are to be made on the basis of Disbursement Requests based on tranches received from the Nordic Environment Finance Corporation.

**MUNICIPAL DEVELOPMENT FUND OF GEORGIA
NORDIC ENVIRONMENT FINANCE CORPORATION
LOAN NEFCO-2018-149 E5P AND GRANT NO. NEFCO-2020-149 E5P
NOTES TO THE SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023
(In EURO)**

7. PROJECT EXPENDITURE BY FUND

Project activities	Actual	
	Year to date	Cumulative to date
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	52,007	52,007
Total Loan NEFCO-2018-149 E5P	52,007	52,007
Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency	8,669	8,669
Total GoG	8,669	8,669
TOTAL PROJECT EXPENDITURE	60,676	60,676

The Project consists of the following main component:

Rehabilitation of public schools in mountainous regions of Georgia and improvement of energy efficiency - The full rehabilitation and/or reconstruction of existing schools will consist of two components - a structural component and an energy efficiency component to be implemented in all the selected school buildings, depending on the specific need of each particular building. The structural component may, in addition to works on the building's envelope, also include issues such as landscaping and similar measures at adjacent areas. The aim of the energy efficiency measures to be included in all buildings is to obtain a min of 30% calculated energy efficiency (reduction in energy demand) as measured in KWh and compared to the building's baseline.

8. COMMITMENTS AND CONTINGENCIES

Management is not aware of any commitments and contingencies which would have a material impact on the financial position of the Project and the Special Account Statement as at 31 December 2023 and on the funds received and disbursed during the year then ended.

9. OPERATING ENVIRONMENT

Emerging markets such as Georgia are subject to different risks than more developed markets; these include economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Georgia continue to evolve rapidly with tax and regulatory frameworks subject to varying interpretations. The future direction of Georgia's economy is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

For the last few years Georgia has experienced a number of legislative changes, which have been largely related to Georgia's accession plan to the European Union. Whilst the legislative changes implemented during the years paved the way, more can be expected as Georgia's action plan for achieving accession to the European Union continues to develop.

In 2023, Georgia's government continued supporting businesses through various initiatives. Programs like tax breaks, loan restructuring, and helping with interest payments have continued in 2023. These programs helped businesses free up resources for investment.

Management is unable to predict all developments which could have an impact on the Georgian economy and consequently what effect, if any, they could have on the future financial position of the Project. Management believes it is taking all the necessary measures to support the sustainability and development of the Project's operations.

10. SUBSEQUENT EVENTS

Based on preliminary estimates, the total cost of construction and installation work, including strengthening the building structure, implementing energy-efficient measures and renovating the interiors of all 12 school buildings, is approximately 13,240,726 EUR. (excl. VAT), which is above the funds available for project implementation. The provision of the additional financing or decrease the number of rehabilitated schools will be decided by the end of 2024 based on consultation with donor and MOF.