

Municipal Development and Lending Fund

**Multi-Donor Trust Fund (TF018378) Additional Contribution into Municipal
Development Program Phase II (Cycle I) - Window 5, through the
International Development Association (IDA)**

Financial Statements

For the Period from December 7, 2014 to December 31, 2014

Together With Independent Auditors' Report

El Wafa Company

For Financial Consulting & Accounting Services

Correspondents of the International firm
"MAZARS"

Abu Shosheh bldg., 1st floor, Opposite of
Arab Bank Al Balad Branch, Ramallah
P.O. Box: 2056 Ramallah
Tel: (+970 2) 2966210/1
Fax: (+970 2) 2966212
E-mail: musa.abudieh@el-wafa.ps

Independent Auditors' Report

To: The Board of Directors
Municipal Development and Lending Fund
Ramallah

We have audited the accompanying financial statements representing Multi-Donor Trust Fund - TF018378 additional contribution into the funding of the **Municipal Development Program - Phase II Cycle I - Window 5 (MTDF Additional Contribution), (the Project)**, through the International Development Association (IDA) and managed by the Municipal Development and Lending Fund (MDLF) which comprise the statement of assets and liabilities and net assets as at December 31, 2014, the statement of revenues and expenses and changes in net assets, cash flows statement, designated bank account statement for the period from December 7, 2014 to December 31, 2014 (the Audit Period), and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MDLF's preparation and fair presentation of the financial statements in order to design audit procedures that are

El Wafa Company

For Financial Consulting & Accounting Services

Correspondents of the International firm
"MAZARS"

Abu Shosheh bldg., 1st floor, Opposite of
Arab Bank Al Balad Branch, Ramallah
P.O. Box: 2056 Ramallah
Tel: (+970 2) 2966210/1
Fax: (+970 2) 2966212
E-mail: musa.abudieh@el-wafa.ps

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MDLF's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the assets and liabilities and net assets of MTDF Additional Contribution as of December 31, 2014, and its revenues and expenses and its cash flows for the period then ended in accordance with International Financial Reporting Standards. In addition, in our opinion, the statements of expenditure submitted during the Audit Period together with the procedures and internal controls involved in their preparation can be relied upon to support related withdrawals. Further, in our opinion, the accompanying designated bank account statement is fairly presented and the disbursements made from this account were solely used for the purposes of MTDF Additional Contribution.

Restriction on Distribution and Use

The financial statements are prepared for the purpose of providing information to MDLF and MTDF. As a result, the financial statements may not be suitable for another purpose.

El Wafa Company
(Permit No. 203/2012)



Musa Abu Dieh

Ramallah, Palestine
March 18, 2015

Municipal Development and Lending Fund
MDTF Additional Contribution into Municipal Development Program -
Phase II (Cycle I) - Window 5

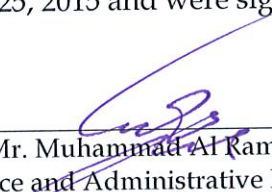
Statement of Assets and Liabilities and Net Assets

As at December 31, 2014


(Currency: USD)

	<u>Note</u>	<u>2014</u>
<i>Assets</i>		
Current Assets		
Pledges receivable	4	12,000,000
Total Assets		12,000,000
 <i>Liabilities and Net Assets</i>		
Current Liabilities		
Due to contractors		1,583,462
Total Liabilities		1,583,462
Net Assets		
Unrestricted		-
Temporarily restricted	5	10,416,538
Total Net Assets		10,416,538
Total Liabilities and Net Assets		12,000,000

- These financial statements were authorized for issuance by MDLF management on March 25, 2015 and were signed on its behalf.



 Mr. Muhammad Al Ramahi
 Finance and Administrative Manager



 Arch. Abdel Mughni Nofal
 Director General

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund
MDTF Additional Contribution into Municipal Development Program -
Phase II (Cycle I) - Window 5
Statement of Revenues and Expenses and Changes in Net Assets
For the Period from December 7, 2014 to December 31, 2014
(Currency: USD)

	<u>Note</u>	<u>Period from December 7, 2014 to December 31, 2014</u>
Changes in unrestricted net assets:		
Revenues		
Released from temporarily restricted net assets	5	1,583,462
Total unrestricted revenues		<u>1,583,462</u>
Expenses		
Project's expenses	6	1,583,462
Total expenses		<u>1,583,462</u>
Net change in unrestricted net assets		<u>-</u>
Changes in temporarily restricted net assets:		
Grants and donations	5	12,000,000
Net assets released from restriction	5	(1,583,462)
Net change in temporarily restricted net assets		<u>10,416,538</u>
Change in net assets		10,416,538
Net assets, beginning of period		<u>-</u>
Net assets, end of period		<u>10,416,538</u>

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund

**MDTF Additional Contribution into Municipal Development Program -
Phase II (Cycle I) - Window 5**

Cash Flows Statement

For the Period from December 7, 2014 to December 31, 2014

(Currency: USD)

	Period from December 7, 2014 to December 31, 2014
Cash Flow from Operating Activities	
Change in net assets	10,416,538
<i>Adjustments to reconcile change in net assets to net cash flow from operating activities:</i>	
(Increase) in pledges receivable	(12,000,000)
Increase in due to contractors	1,583,462
<i>Net cash flow from operating activities</i>	-
Net change in cash at bank	-
Cash at bank, beginning of period	-
Cash at bank, end of period	-

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund
MDTF Additional Contribution into Municipal Development Program -
Phase II (Cycle I) - Window 5
Designated Bank Account Statement
For the Period from December 7, 2014 to December 31, 2014

Account number 010/3001/033/0601954
Depository bank Bank of Palestine
Address Ramallah
Currency Euro

	Note	<u>Period from December 7, 2014 to December 31, 2014</u>	
		<u>Euro</u>	<u>Equivalent in USD</u>
Balance, beginning of period		-	-
Add:			
Receipts during the period	4	-	-
Interest income		-	-
		-	-
Deduct:			
Payments during the year*		-	-
Currency variance		-	-
		-	-
Balance, end of period		-	-

* Reconciliation of project's expenses presented in the designated bank account statement with project's expenses presented in the statement of revenues and expenses and changes in net assets:

	<u>USD</u>
Project's expenses per the statement of revenues and expenses and changes in net assets	1,583,462
Due to contractors as of December 31, 2014	(1,583,462)
Project's expenses per designated bank account statement	<u>-</u>

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund

MDTF Additional Contribution into Municipal Development Program - Phase II (Cycle I) - Window 5

Notes to the Financial Statements

For the Period from December 7, 2014 to December 31, 2014
(Currency: USD)

1. MDLF and its Activities

The Municipal Development and Lending Fund (MDLF) is a semi-governmental juridical entity established by Decree under the Council of Ministers, to accelerate Palestine's drive toward self-sustained, decentralized, prosperous and creditworthy local governments. The main objective of MDLF is to encourage the flow of financial resources to Local Government Units. According to Cabinet Decree No. 05/13/12 dated August 2007, MDLF shall undertake the following missions (Article 1 of the Decree):

- Management of funds received through support from the Palestinian National Authority (PNA) or provided by donor countries or any other sources in compliance with the terms and conditions specified in MDLF's internal bylaws.
- Assist local authorities develop their capacities in compliance with the bases of modern management practices to help them provide better services to the public.
- Guide assistance from donor countries and provide modern fiscal services to support and develop the services offered to local authorities and to improve their credit abilities.
- Encourage local authorities to adopt developmental projects to expand their geographic jurisdiction so as to serve their developmental plans.
- Facilitate and provide loans to local authorities and follow up the expenditures thereof from their revenues.

MDLF is structured to ensure an efficient, transparent, and professional institution capable of fulfilling its mission and objectives. MDLF comprises of Board of Directors, executive departments, and other advisory committees.

2. MDP II and its Financing

On December 7, 2014 an agreement was signed between the International Development Association (IDA), acting as an administrator of the Partnership for Infrastructure Development in the West Bank and Gaza Multi-Donor Trust Fund (MDTF), and the Palestinian Liberation Organization, for the benefit of Palestinian National Authority, to extend an additional grant (MDTF Additional Contribution), into the finance of Phase II (cycle I) of the Municipal Development Program (MDP II), (the Project), in the amount of **USD 12,000,000** to fund Window 5 - Gaza Municipal Emergency Grants.

MDP II is supported by the Palestinian National Authority along with the Danish International Development Assistance (DANIDA), the Swedish International

Development Cooperation Agency (SIDA), the World Bank, Kreditanstalt für Wiederaufbau (KfW), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Netherlands (through VNG International), the Switzerland (through SDC), and the Belgian Development Agency (BTC) through its ongoing program (Local Government Reform and Development Programme - LGRDP).

MDP II will be implemented over the period of 3 years (2013-2016) in two cycles of approximately 18 months each.

MDP II has five windows/components as follows:

Window 1 - Provides municipalities with performance-based grants for municipal service delivery per mandate of municipalities defined in the Local Councils Law No. 1 of 1997, for sectors described as eligible in the Operations Manual as well as for operating expenditures for municipalities in Gaza. The municipalities' allocation for this window will be calculated using the newly created Grant Allocation Mechanism. Municipalities decide on how to use the funds based on their Strategic Development and Investment Plans (SDIP) and consultation with citizens.

Window 2 - pilots learning and innovation for municipal development, including implementation of the Ministry of Local Government (MoLG) policy decisions. This window finances goods, works and consultant services for capacity building and capital investments, including:

- (a) Strengthening Newly Amalgamated Municipalities that will support newly amalgamated municipalities towards achieving service levels in existing municipalities through financing small-scale social infrastructure and demand driven municipal capacity building packages. It will finance goods, works and consultant services.
- (b) Piloting Innovations for improved municipal responsiveness that will support:
 - Introduction of E-governance in four selected municipalities for more responsive service provision.
 - Renewable Energy that will assist municipalities in piloting sub-projects with a focus on solar energy for public buildings.
 - Support to Local Economic Development initiatives that will develop a municipal approach to LED and pilot the approach in 12 municipalities (6 per each cycle).

Window 3 - Helps municipalities to improve their performance rankings in accordance to the new Grants Allocation Mechanism. It provides technical assistance to improve financial management, planning capacities and technical capabilities, particularly in operations and maintenance. This component would finance goods, works and consultants services and would be implemented in two cycles of approximately 18 months each.

Window 4 - This component will finance goods and consultants services for monitoring and evaluation, outreach and communication and local technical consultants for the engineering supervision of sub-projects under window 1 and the MDLF management fee.

Window 5 - This window was designed under MDP II in response to Gaza emergency needs following the 51-day war in the summer of 2014 to restore municipal services in the Gaza Strip.

The following table specifies the windows/ budget categories to be financed by IDA:

	Budget USD
Window 1: Municipal Grants for Capital Investments	-
Recurrent Expenditures for Gaza Municipalities	-
Window 2: Support to Municipal Innovations and Efficiency	-
Window 3: Capacity Building for (a) Municipalities	-
(b) MDLF	-
Window 4: Project Implementation Support and Management Costs	840,000
Window 5: Gaza Municipal Emergency Grants	11,160,000
	<u>12,000,000</u>

The closing date of the Agreement with IDA is February 28, 2018.

3. Summary of Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, the significant accounting policies follow:

a. General

Net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as unrestricted, temporarily restricted and permanently restricted. Unrestricted net assets are those whose use by MDLF is not subject to donor-imposed stipulations. Temporarily restricted net assets are those whose use by MDLF has been limited by donors specific time period or purpose. Permanently restricted net assets are those restricted by donors to be maintained by MDLF in perpetuity. During the Audit Period, MDLF had no permanently restricted net assets.

b. Temporarily Restricted Net Assets

Unconditional promises to give cash, with no donor-imposed restriction on use, are recognized as revenues at the date promises to give are made. Unconditional promises to give cash, with temporarily donor-imposed restriction on use, are recorded as temporarily restricted net assets at the date promises to give are made, and recognized as revenues when the related costs are incurred. Unconditional promises with temporarily donor-imposed restriction are promises that depend only on passage of time and certain performance requested by the promising donors. Conditional promises to give and indications of intention to give are recorded at the fair market value at the date contribution is received by MDLF.

c. Pledges Receivable

Pledges receivable are stated at the original amount of the signed agreement less the amount received, uncollectable amount (if any) and currency variances resulting from the fact that original agreements with the donors may be in currencies other than USD.

d. Revenue Recognition

Donations and contributions are recorded as pledges receivable and temporarily restricted net assets upon signing of the agreement with the donor. During the yearly close out process, the amount of expenses incurred is recognized as revenue under net assets released from restrictions and the temporarily restricted net assets account is reduced thereof.

e. Accruals and Other Current Liabilities

Accruals and other current liabilities are recognized for the amounts to be paid in the future for goods and services received, whether a bill is received from the supplier or not.

f. Expenses

Expenses are recorded by MDLF when incurred in accordance with the accrual basis of accounting, regardless of the date of actual payment.

g. Foreign Currencies

MDLF's basic functional currency is the U.S. Dollar (USD). Transactions which are expressed or denominated in other currencies were translated to USD using exchange rates in effect at the time of each transaction. Assets and liabilities which are denominated in other currencies are translated to USD using exchange rates prevailing at the date of the statement of financial position. Gains and losses arising from the translation are reflected in the statement of revenues and expenses and changes in net assets.

Foreign currency exchange rates against USD at December 31, 2014 were as follow: -

	<u>USD</u>
One Euro	1.216

4. Pledges Receivable

Pledges receivable as of December 31, 2014 and movement thereon during the Audit Period follow:-

	<u>USD</u>				
	<u>Balance, Beginning of Period</u>	<u>Addition During the Period</u>	<u>Received During the Period</u>	<u>Currency Variance</u>	<u>Balance, End of Period</u>
Pledges receivable	-	12,000,000	-	-	12,000,000

5. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2014 and movement thereon during the Audit Period follow:-

	<u>USD</u>				
	<u>Balance, Beginning of Period</u>	<u>Additions (Grants and Donations)</u>	<u>Net Assets Released From Restriction</u>	<u>Currency Variance</u>	<u>Balance, End of Period</u>
Temporarily restricted net assets	-	12,000,000	(1,583,462)	-	10,416,538

