

Municipal Development and Lending Fund

Gaza Solid Waste Management Project (GSWMP)
(Grant No. TF 016835)

Co-funded by the International Development Association (IDA)

Financial Statements

For the Year Ended December 31, 2015

Together With Independent Auditors' Report

El Wafa Company

For Financial Consulting & Accounting Services

Correspondents of the International firm
"MAZARS"

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Gaza Solid Waste Management Project (GSWMP), (the Project), co-funded by the International Development Association (IDA), and managed by the Municipal Development and Lending Fund (MDLF) which comprise the statement of financial position as at December 31, 2015, the statement of activities, cash flows statement, designated bank account statement for the year then ended, 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 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

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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.

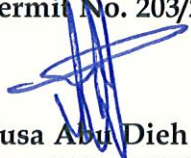
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Project as of December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards. In addition, in our opinion, the statements of expenditure submitted during the year 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 the Project.

Restriction on Distribution and Use

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

El Wafa Company
(Permit No. 203/2012)



Musa Abu Dieh
(Permit No. 223/1993)

Ramallah, Palestine
March 13, 2016

Municipal Development and Lending Fund
Gaza Solid Waste Management Project (GSWMP)
Co-funded by the International Development Association (IDA)
Statement of Financial Position
As at December 31, 2015
(Currency: USD)

	<u>Note</u>	<u>2015</u>	<u>2014</u> (Restated, Note 8)
<i>Assets</i>			
<i>Current Assets</i>			
Cash at bank	4	114,721	210,468
Pledges receivable	5	9,621,240	9,621,240
Total Current Assets		<u>9,735,961</u>	<u>9,831,708</u>
Total Assets		<u>9,735,961</u>	<u>9,831,708</u>
 <i>Liabilities and Net Assets</i>			
<i>Current Liabilities</i>			
Due to contractors		6,365	2,917
Total Liabilities		<u>6,365</u>	<u>2,917</u>
 <i>Net Assets</i>			
Unrestricted		(32,895)	(12,420)
Temporarily restricted	6	9,762,491	9,841,211
Total Net Assets		<u>9,729,596</u>	<u>9,828,791</u>
 Total Liabilities and Net Assets		<u>9,735,961</u>	<u>9,831,708</u>

- These financial statements were authorized for issuance by MDLF management on March 30, 2016 and were signed on its behalf.



 Mr. Muhammad Al Ramahi
 Finance and Administrative Manager



 Mr. Hazem Kawasmi
 Acting Director General

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund
Gaza Solid Waste Management Project (GSWMP)
Co-funded by the International Development Association (IDA)
Statement of Activities
For the Year Ended December 31, 2015
(Currency: USD)

	<u>Note</u>	<u>Year Ended December 31, 2015</u>	<u>Period from April 24, 2014 to December 31, 2014</u> (Restated, Note 8)
Changes in unrestricted net assets:			
Revenues			
Released from temporarily restricted net assets	6	78,720	158,789
Interest income		336	31
Total unrestricted revenues		<u>79,056</u>	<u>158,820</u>
Expenses			
Project's expenses	7	78,720	158,789
Transfer of interest revenue accumulated balance to MDLF general fund		242	-
Currency variance loss		20,569	12,451
Total Expenses		<u>99,531</u>	<u>171,240</u>
Net change in unrestricted net assets		<u>(20,475)</u>	<u>(12,420)</u>
Changes in temporarily restricted net assets:			
Grants and donations		-	10,000,000
Net assets released from restriction	6	(78,720)	(158,789)
Net change in temporarily restricted net assets		<u>(78,720)</u>	<u>9,841,211</u>
Change in net assets		<u>(99,195)</u>	<u>9,828,791</u>
Net assets, beginning of year/period		<u>9,828,791</u>	<u>-</u>
Net assets, end of year/period		<u>9,729,596</u>	<u>9,828,791</u>

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund
Gaza Solid Waste Management Project (GSWMP)
Co-funded by the International Development Association (IDA)

Cash Flows Statement
For the Year Ended December 31, 2015
(Currency: USD)

	<u>Year Ended December 31, 2015</u>	<u>Period from April 24, 2014 to December 31, 2014</u>
Cash Flow from Operating Activities		
Change in net assets	(99,195)	9,828,791
<i>Adjustments to reconcile change in net assets to net cash flow from operating activities:</i>		
(Increase) in pledges receivable	-	(9,621,240)
Increase in due to contractors	3,448	2,917
Net cash flow (used in) provided by operating activities	(95,747)	210,468
Net (decrease) increase in cash at bank	(95,747)	210,468
Cash at bank, beginning of year/period	210,468	-
Cash at bank, end of year/period	114,721	210,468

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund
Gaza Solid Waste Management Project (GSWMP)
Co-funded by the International Development Association (IDA)
Designated Bank Account Statement
For the Year Ended December 31, 2015

Account number 000/3301/033/0605588

Depository bank Bank of Palestine

Address Ramallah

Currency EUR

	Note	Year Ended December 31, 2015		Period from April 24, 2014 to December 31, 2014	
		EUR	Equivalent in USD	EUR	Equivalent in USD
Balance, beginning of year/ period		173,139	210,468	-	-
Add:					
Receipts during the year/ period	5	-	-	294,000	378,760
Interest income		305	336	25	31
		305	336	294,025	378,791
Deduct:					
Payments during the year/ period*		68,274	75,272	120,886	155,872
Transfer of interest revenue accumulated balance to MDLF general fund		220	242	-	-
Currency variance		-	20,569	-	12,451
		68,494	96,083	120,886	168,323
Balance, end of year/period		104,950	114,721	173,139	210,468

* Reconciliation of project's expenses presented in the designated bank account statement with project's expenses presented in the statement of activities:

	USD	
	Year Ended December 31, 2015	Period from April 24, 2014 to December 31, 2014
Project's expenses per the statement of activities	78,720	158,789
Change on due to contractors during the year/period	(3,448)	(2,917)
Project's expenses per designated bank account statement	75,272	155,872

The accompanying notes form an integral part of these financial statements

Municipal Development and Lending Fund
Gaza Solid Waste Management Project (GSWMP)
Co-funded by the International Development Association (IDA)
Notes to the Financial Statements
For the Year Ended December 31, 2015
(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. GSWMP and its Financing

Gaza Solid Waste Management Project (GSWMP) is co-financed by the following agreements:

1. Agreement signed between the Agence Francaise De Development (AFD) and the Palestinian National Authority (PNA) on August 24, 2013 to finance part of GSWMP in a maximum grant amount of EUR 14,750,000 (equivalent to USD 19,002,425) made of EUR 10,000,000 from AFD and EUR 4,750,000 from the European Union (EU).
2. Agreement signed between the International Development Association (IDA) and MDLF on April 24, 2014 to finance part of GSWMP in a maximum grant amount of USD 10,000,000.

GSWMP aims to improve solid waste management services in the Gaza Strip through the provision of efficient and environmentally and socially sound waste

disposal schemes, and initiating measures to improve overall solid waste management systems.

Specific Objectives of GSWMP:

- Increase the capacity and performance of municipal solid waste services through:
 - Waste treatment;
 - Waste collection and cleansing;
 - Waste recovery (recycling/composting).
- Optimize waste management through institutional strengthening of the joint services council.
- Create temporary local jobs during the construction and operation phases.
- Limit greenhouse gases (GHC) emissions in the atmosphere.

The table below describes the components to be financed by the donors:

Component	Total Budget in (USD)	Co-financiers	
		AFD	IDA
Solid Waste			
Component 1: Solid Waste Transfer and Disposal Facilities	15,913,986	9,113,986	6,800,000
Component 2: Institutional Strengthening	1,580,568	1,180,568	400,000
Component 3: Primary Collection and Resource Recovery	3,877,819	3,777,819	100,000
Component 4: Project Management	3,570,019	1,700,019	1,870,000
Contingencies	4,060,033	3,230,033	830,000
	29,002,425	19,002,425	10,000,000

The closing date of the Project is December 31, 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 activities.

Foreign currency exchange rates against USD at December 31, 2015 and 2014 were as follow:-

	<u>2015</u>	<u>2014</u>
One EUR	1.093	1.216

4. Cash at Bank

The Project's designated bank account showed the following balance as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
EUR	104,950	173,139
Equivalent in USD	114,721	210,468

5. Pledges Receivable

Pledges receivable as of December 31, 2015 and movement thereon during the Year follow:-

	USD			
	Balance, Beginning of Year	Addition During the Year	Amount Received During the Year	Balance, End of Year
Pledges receivable	9,621,240	-	-	9,621,240

6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2015 and movement thereon during the year follow:-

	USD			
	Balance, Beginning of Year	Additions (Grants and Donations)	Net Assets Released From Restriction	Balance, End of Year
Temporarily restricted net assets	9,841,211	-	(78,720)	9,762,491

7. Project's Expenses

Project's expenses and comparison with budget follow: -

	USD				
	IDA Budget	Actual			Remaining Budget
		Year Ended December 31, 2015	Period from April 24, 2014 to December 31, 2014	Cumulative up to December 31, 2015	
Component 1: Solid Waste Transfer and Disposal Facilities	6,800,000	2,279	-	2,279	6,797,721
Component 2: Institutional Strengthening	400,000	76,441	29,389	105,830	294,170
Component 3: Primary Collection and Resource Recovery	100,000	-	-	-	100,000
Component 4: Project Management	1,870,000	-	129,400	129,400	1,740,600
Contingencies	830,000	-	-	-	830,000
	10,000,000	78,720	158,789	237,509	9,762,491

8. Restatement of Prior Year Financial Statements

The temporarily restricted net assets was originally recorded in USD in MDLF's accounting system. Subsequently, MDLF released the amount equal to the total expenses incurred during the year from the temporarily restricted net assets using the EUR currency, which resulted in creating a contra account for the temporarily restricted net assets with a EUR balance; the accounting system incorrectly calculated a currency variance gain amounting to USD 7,934 on the temporarily restricted net assets contra account balance for the period from April 24, 2014 to December 31, 2014. Therefore, the comparative financial statements for the period from April 24, 2014 to December 31, 2014 have been restated as follow:

	USD		
	Balance, as previously reported	Restatement	Balance, as restated
Unrestricted net assets	(20,354)	7,934	(12,420)
Temporarily restricted net assets	9,849,145	(7,934)	9,841,211
Currency variance	20,385	(7,934)	12,451