

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF

FINANCIAL STATEMENTS

For the year ended December 31, 2011

AND INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report
To the Board of Directors of Municipal Development and Lending Fund - MDLF
Ramallah - Palestine

Report on the financial statements

We have audited the accompanying financial statements of Municipal Development and Lending Fund ("MDLF") which comprise the statement of financial position as of December 31, 2011, the statement of activities and changes in net assets, and statement of cash flows 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 ("IFRS"). 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 about whether the financial statements are free of 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 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 accompanying financial statements present fairly, in all material respects, the financial position of MDLF as of December 31, 2011 and, the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

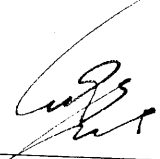
PricewaterhouseCoopers
June 24, 2012
Ramallah, Palestine

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF
 Financial statements for the year ended December 31, 2011

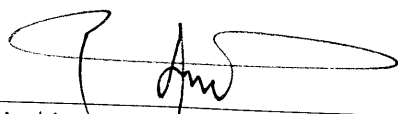
STATEMENT OF FINANCIAL POSITION
 (All amounts in U.S Dollars)

ASSETS	Note	2011	2010
Non-current assets			
Property and equipment	(4)	309,825	287,478
Total non-current assets		309,825	287,478
Current assets			
Pledges receivable	(5)	27,943,017	44,785,628
Prepaid expenses and other current assets	(6)	32,516	21,539
Cash and cash equivalents	(7)	12,253,757	15,574,453
Total current assets		40,229,290	60,381,620
Total assets		40,539,115	60,669,098
NET ASSETS AND LIABILITIES			
Net assets			
Temporarily restricted net assets	(8)	35,862,719	53,781,425
Unrestricted net assets		1,385,770	279,621
Total net assets		37,248,489	54,061,046
Non-current liabilities			
Provident fund	(9)	387,569	281,733
Provision for end-of-service indemnity	(10)	337,282	222,148
Total non-current liabilities		724,851	503,881
Current liabilities			
Accrued expenses and other current liabilities	(11)	2,565,775	6,104,171
Total current liabilities		2,565,775	6,104,171
Total liabilities		3,290,626	6,608,052
Total net assets and liabilities		40,539,115	60,669,098

- The notes on pages (from 6 to 37) form an integral part of these financial statements.
- The financial statements on pages (from 3 to 37) were authorized for issue by the Board of Directors on June 14, 2012 and were signed on its behalf.



 Mr. Mohammad Al Ramahi
 Finance and Admin. Manager



 Architect Abdel Mughni Nofal
 Director General

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF
 Financial statements for the year ended December 31, 2011

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

(All amounts in U.S Dollars)

	Note	2011	2010
Changes in unrestricted net assets			
MDLF management fees	(8)	2,595,009	1,683,176
Currency variance		398,676	(124)
Other revenues		45,351	57,289
Interest income		31,144	-
Total unrestricted revenues		3,070,180	1,740,341
Released from temporarily restricted net assets	(8)	40,402,057	28,542,332
Total unrestricted revenues		43,472,237	30,282,673
Expenses			
Projects' expenses	(12)	40,402,329	28,542,332
Depreciation	(4)	77,154	82,162
General and administrative expenses	(13)	1,867,537	1,498,411
Loss on sale of properties and equipment		19,068	(7,087)
Total expenses		42,366,088	30,115,818
Net change in unrestricted net assets		1,106,149	166,855
Changes in temporarily restricted net assets			
Grants and donations	(8)	24,476,807	28,662,380
Net assets released from restriction – management fees	(8,12)	(2,595,009)	(1,683,176)
Net assets released from restriction – projects' expenses	(8,12)	(40,402,057)	(28,542,332)
Grants written off during the year	(8)	-	(127,875)
Currency variances	(8)	601,553	(3,159,495)
Net change in temporarily restricted net assets		(17,918,706)	(4,850,498)
Net change in net assets for the year		(16,812,557)	(4,683,643)
Net assets, beginning of the year		54,061,046	58,744,689
Net assets, end of the year		37,248,489	54,061,046

- The notes on pages (from 6 to 37) form an integral part of these financial statements.

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF
 Financial statements for the year ended December 31, 2011

STATEMENT OF CASH FLOWS

(All amounts in U.S Dollars)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets for the year	(16,812,557)	(4,683,643)
Non-cash items:		
Depreciation	77,154	82,162
End-of-service indemnity expenses	158,941	74,847
Loss/Gain on sale of property and equipment	19,068	(7,087)
Adjustments to reconcile changes in net assets to net cash flows (used in)/provided by operating activities:		
Pledges receivable	16,842,611	4,096,911
Prepaid expenses and other current assets	(10,977)	144,474
Provident fund	105,836	60,903
Accrued expenses and other current liabilities	(3,538,396)	2,957,986
End-of-service indemnity paid	(43,807)	(40,852)
Net cash (used in)/provided by operating activities	<u>(3,202,127)</u>	<u>2,685,701</u>
Cash flows from investing activities		
Purchases of property and equipment	(149,297)	(20,284)
Proceeds from selling property and equipment	30,728	7,087
Net cash used in investing activities	<u>(118,569)</u>	<u>(13,197)</u>
Net (decrease)/increase in cash and cash equivalents	(3,320,696)	2,672,504
Cash and cash equivalents, beginning of the year	15,574,453	12,901,949
Cash and cash equivalents, end of the year	<u><u>12,253,757</u></u>	<u><u>15,574,453</u></u>

- The notes on pages (from 6 to 37) form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (1) GENERAL INFORMATION

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

1. 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.
2. Assist local authorities in developing their capacities in compliance with the bases of modern management practices to help them provide better services to the public.
3. 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.
4. Encourage local authorities to adopt developmental projects to expand their geographic jurisdiction so as to serve their developmental plans, and
5. 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. The fund consists of a Board of Directors, executive departments, and other advisory committees.

The Board of Directors is the policy and strategy setting authority responsible for the direction and performance of the Fund. The Board consists of eleven voting directors and includes representatives of the core ministries involved in utilizing the Fund including the Ministry of Local Government (the Minister is the Chairman of the Board), the Ministry of Finance, the Ministry of Planning, the Ministry of National Economy, and the Ministry of Public Works and Housing, in addition to the Association of Palestinian Local Authorities (APLA), the Engineering Association, the Association of Banks in Palestine and three members from the local authorities and the civic society.

NOTE (2) BASIS OF PREPARATION

The financial statements are prepared according to International Financial Reporting Standards based on the historical cost convention and presented in USD. Currently, International Financial Reporting Standards (“IFRS”) do not include any specific requirements regarding not-for-profit organizations in connection with the accounting policies or the presentation of the financial statements. The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the MDLF’s accounting policies.

Following is a summary of the MDLF’s significant accounting policies:

a) Property and equipment:

Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets based on the following annual rates:

	%
Vehicles	10-15%
Office equipment	10-20%
Furniture and fixtures	10-20%
Computers	7-20%

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

The cost of the property and equipment includes all necessary expenditures incurred so as to make the assets ready for use. Any subsequent expenditure is capitalized only when they increase the future economic benefits of the related asset.

b) 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.

c) Cash and cash equivalents:

Cash and cash equivalents includes cash at banks, cash on hand and short term deposits with a maturity of three months or less.

d) Net assets:

Net assets of MDLF and changes therein are classified and reported as follows:

- Unrestricted net assets - Net assets whose use by MDLF is not subject to donor-imposed restrictions.
- Temporarily restricted net assets - Net assets whose use by MDLF is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and released by actions of MDLF pursuant to those donor-imposed stipulations.

e) Impairment of assets:

The carrying values of the assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indications exist and when the carrying values exceed the estimated recoverable amounts the values of the assets are decreased to the recoverable amount, and the difference is recognized in the statement of activities and changes in net assets.

f) Temporarily restricted net assets:

As per International Accounting Standard number 8 paragraph 10, in the absence of a Standard and interpretation that specifically applies to a transaction, other event or condition, management can use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In doing so management can consider the standards set by other standard-setting bodies. Accordingly, the project's management elected to implement the Financial Accounting Standard Board pronouncement 116 and 117 to record the temporarily restricted grants.

The project's management has elected to record temporarily restricted grants as unrestricted if restrictions are met in the same period in accordance with Financial Accounting Standard Board Pronouncement number 116 or as temporarily restricted until restrictions are met. When donors' restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

g) Provident fund

Upon the Board of Directors decision, MDLF deducts five percent of the employee's base salary from each salary payment, and contributes an additional ten percent from its own funds to form the provident fund for employees.

The employee is entitled to receive the full amount of his or her contribution and MDLF's contribution to the fund, if and when the employee ceases work at MDLF.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

h) Provision for end of service indemnity:

Benefits payable to the employees of MDLF at the end of their services are provided for in accordance with the guidelines set by the local labour laws and MDLF's bylaw.

i) 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.

Interest income relates to interesting accumulating in time deposit bank accounts for some projects, recorded as cash and cash equivalents and recognized as interest income in the statement of activities and changes in the nets assets.

Other revenues relate to revenues that do not classify under any of the above.

j) Expense recognition:

Expenses are recognized when incurred based on the accrual basis of accounting.

k) Translation of foreign currencies:

The accompanying financial statements are measured and presented in US Dollars (hereinafter "USD"). Transactions in other currencies are recorded in USD at the exchange rate at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated into USD using the exchange rate at the statement of financial position date. All currency exchange differences are recognized in the statement of activities and changes in net assets.

Exchange rates against USD as at the statement of financial position date were as follows:

<u>Currency</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
NIS	0.263	0.282
EURO	1.295	1.324
GBP	1.546	1.552

l) Statement of sources and uses of funds:

Statement of sources and uses of funds was prepared according to the World Bank reporting procedures.

NOTE (3) FINANCIAL RISK MANAGEMENT

a. Credit risk:

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Analysis of this risk is presented in the following section by quality of credit.

<u>Item</u>	<u>Carrying amount 2011</u>	<u>Carrying amount 2010</u>
Pledges receivable	27,943,017	44,785,628
Cash and cash equivalents	12,253,757	15,574,453

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

b. Liquidity risk:

The risk is defined as the risk that the fund will encounter difficulty in meeting obligations associated with financial liabilities. The schedule below presents expected cash outflows resulting from financial liabilities broken down by time brackets:

Item	Expected timing of cash outflow		
	Carrying amounts	1-6 Month	7Months – 1Year
Accrued expenses and other current liabilities	<u>2,565,775</u>	<u>650,410</u>	<u>1,915,365</u>

c. Market risk:

The main market risk faced by MDLF is foreign exchange risk. Currency risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Fluctuations in the exchange rates resulted in a gain of USD 398,676.

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF
 Financial statements for the year ended December 31, 2011

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (4) – PROPERTY AND EQUIPMENT

Details-

<u>Cost</u>	<u>Vehicles</u>	<u>Office equipment</u>	<u>Furniture and fixtures</u>	<u>Computers</u>	<u>Total</u>
January 1, 2011	272,238	196,133	98,672	40,504	607,547
Additions	95,164	20,556	33,577	-	149,297
Disposals	(82,919)	-	(10,604)	-	(93,523)
December 31, 2011	284,483	216,689	121,645	40,504	663,321
<u>Accumulated depreciation</u>					
January 1, 2011	91,457	151,597	47,024	29,991	320,069
Additions	38,057	19,986	13,959	5,152	77,154
Disposals	(40,303)	-	(3,424)	-	(43,727)
December 31, 2011	89,211	171,583	57,559	35,143	353,496
Net book value December 31, 2011	195,272	45,106	64,086	5,361	309,825

<u>Cost</u>	<u>Vehicles</u>	<u>Office equipment</u>	<u>Furniture and fixtures</u>	<u>Computers</u>	<u>Total</u>
January 1, 2010	281,577	178,329	96,192	40,504	596,602
Additions	-	17,804	2,480	-	20,284
Disposals	(9,339)	-	-	-	(9,339)
December 31, 2010	272,238	196,133	98,672	40,504	607,547
<u>Accumulated depreciation</u>					
January 1, 2010	58,787	126,606	37,744	24,109	247,246
Additions	42,009	24,991	9,280	5,882	82,162
Disposals	(9,339)	-	-	-	(9,339)
December 31, 2010	91,457	151,597	47,024	29,991	320,069
Net book value December 31, 2010	180,781	44,536	51,648	10,513	287,478

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S. Dollars)

NOTE (5) PLEDGES RECEIVABLE

Details-

Project / Donor	Beginning balance	Pledged during the year	Received during the year	Currency variance	Ending balance
LGRDP	-	11,799,000	(537,510)	(158,915)	11,102,575
MDPII - AFD	-	7,866,000	(1,966,500)	(83,250)	5,816,250
MDPII - BTC	-	3,801,900	(1,181,080)	(36,978)	2,583,842
MDPI - PNA	3,087,849	-	(516,068)	(62,324)	2,509,457
LGCBP	3,212,350	-	(875,492)	-	2,336,858
MDPI - WB	4,802,658	-	(3,442,808)	-	1,359,850
MDPI - KfW	9,934,500	-	(9,916,013)	753,888	772,375
MDPI - Multi Donor Trust Fund	10,715,042	-	(10,201,152)	-	513,890
Danish LG Policy	-	862,940	(411,553)	-	451,387
MDPI - AFD	1,186,239	-	(1,018,234)	9,395	177,400
AFD II	-	146,967	(25,000)	(769)	121,198
MDPI - GIZ	267,229	-	(177,963)	11,374	100,640
KfW	7,045,234	-	(7,514,452)	566,513	97,295
Word Bank EMSRPII - additional financing	15,389	-	-	(15,389)	-
Danish Trust Fund	3,931,081	-	(3,811,455)	(119,626)	-
AFD	225,015	-	(232,557)	7,542	-
SIDA	363,042	-	(348,767)	(14,275)	-
	44,785,628	24,476,807	(42,176,604)	857,186	27,943,017

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF
 Financial statements for the year ended December 31, 2011

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (6) PREPAID EXPENSES AND OTHER CURRENT ASSETS

Details-

	<u>2011</u>	<u>2010</u>
Prepaid expenses	31,320	21,539
Other receivables	1,196	-
	<u>32,516</u>	<u>21,539</u>

NOTE (7) CASH AND CASH EQUIVALENTS

Details-

	<u>2011</u>	<u>2010</u>
Cash on hand	3,013	55
Cash at banks:		
MDPI - Multi Donor Trust Fund	2,401,043	1,610,603
MDPII - AFD	1,938,750	-
MDPII - BTC	1,164,408	-
MDPI - WB	1,148,384	4,495,815
LDP phase two	1,096,960	2,106,224
MDPI - KfW	985,992	-
MDLF	950,724	406,038
MDPI - AFD	863,835	3,012,743
LGRDP	452,375	-
Danish LG Policy	361,482	-
MDPI - GIZ	152,190	168,534
LGCBP	61,336	14,632
KfW	25,458	1,205,702
CDSF	7,020	7,020
MDPI - PNA	747	77,380
AFD	-	980,323
SIDA	-	679,557
LDP phase one	-	243,162
World Bank EMSRPII – additional financing	-	213,808
Danish Trust Fund	-	7,030
	<u>11,613,717</u>	<u>15,228,626</u>
Add: Assets limited to use*	640,040	345,827
	<u>12,253,757</u>	<u>15,574,453</u>

*To meet future obligations with respect to MDLF severance pay liability and employees' provident fund (notes 9 and 10), management elected to consider USD 640,040 and USD 345,827 as of December 31, 2011 and December 31, 2010 respectively, from the above cash and cash equivalents as assets limited to use in order to meet the obligations when they come due. These amounts cover 98% and 69% of the total liability for the years 2011 and 2010 respectively.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (8) TEMPORARILY RESTRICTED NET ASSETS

Details-

Project / Donor	Beginning balance	Grants and donations	Released from restriction - projects' expenses	Released from restriction - management fees	Currency variance	Ending balance
LGRDP	-	11,799,000	-	(78,660)	(165,390)	11,554,950
MDPII - AFD	-	7,866,000	-	-	(111,000)	7,755,000
MDPII - BTC	-	3,801,900	-	-	(53,650)	3,748,250
MDPI - Multi Donor Trust Fund	11,133,304	-	(7,661,753)	(508,473)	-	2,963,078
LGCBP	3,173,977	-	(691,859)	(60,048)	-	2,422,070
MDPI - WB	8,240,017	-	(5,693,748)	(414,215)	-	2,132,054
MDPI - KfW	9,386,537	-	(7,654,258)	(592,961)	512,868	1,652,186
LDP phase two	2,106,224	-	(978,057)	(72,000)	-	1,056,167
MDPI - AFD	4,133,198	-	(3,242,928)	(184,596)	184,591	890,265
Danish LG Policy	-	862,940	(47,490)	(3,200)	-	812,250
MDPI - PNA	2,665,658	-	(2,157,358)	(15,498)	112,041	604,843
MDPI - GIZ	433,850	-	(295,924)	(128)	5,510	143,308
KfW	6,910,880	-	(6,887,655)	(344,652)	444,180	122,753
AFD II	-	146,967	(117,391)	(25,000)	-	4,576
CDSF	969	-	-	-	-	969
Word Bank EMSRPII – additional financing	287,029	-	(220,920)	(136)	(65,973)	-
Danish Trust Fund	3,082,681	-	(2,656,089)	(268,133)	(158,459)	-
AFD	1,021,118	-	(1,064,500)	(1,370)	44,752	-
SIDA	963,093	-	(789,240)	(25,936)	(147,917)	-
LDP phase one	242,890	-	(242,887)	(3)	-	-
	53,781,425	24,476,807	(40,402,057)	(2,595,009)	601,553	35,862,719

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (9) PROVIDENT FUND

Upon the Board of Directors decision, MDLF deducts five percent of the employee's base salary from each salary payment, and contributes an additional ten percent from its own funds to form the provident fund for employees.

The employee is entitled to receive the full amount of his or her contribution and MDLF's contribution to the fund, if and when the employee ceases work at MDLF.

NOTE (10) PROVISION FOR END-OF-SERVICE INDEMNITY

Details-

	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	222,148	188,153
Add: provision made during the year	93,369	74,847
Less: payments made during the year	43,807	40,852
Add: currency variance*	65,572	-
Balance, end of the year	<u>337,282</u>	<u>222,148</u>

*This amount resulted from the revaluation of the provision of end-of-service indemnity from NIS to USD , due to the fact that MDLF started calculating the provision in NIS since all employee contracts were changed from USD to NIS starting February 2011.

NOTE (11) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Details-

	<u>2011</u>	<u>2010</u>
Due to contractors	2,474,639	6,049,485
Accrued expenses and other payables	91,136	24,677
Bank overdraft	-	30,009
	<u>2,565,775</u>	<u>6,104,171</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (12) PROJECTS' EXPENSES

Details-

Project / Donor	Note	2011			2010		
		Projects' expense	MDLF management fee	Total	Projects' expense	MDLF management fee	Total
MDPI - KfW	(12.a)	7,654,258	592,961	8,247,219	546,722	-	546,722
MDPI - Multi Donor Trust Fund	(12.b)	7,661,753	508,473	8,170,226	2,145,737	198,002	2,343,739
KfW	(12.c)	6,887,655	344,652	7,232,307	5,760,680	307,005	6,067,685
MDPI - WB	(12.d)	5,693,748	414,215	6,107,963	1,634,560	125,424	1,759,984
MDPI - AFD	(12.e)	3,242,928	184,596	3,427,524	65,754	39,690	105,444
Danish Trust Fund	(12.f)	2,656,089	268,136	2,924,225	2,035,310	100,075	2,135,385
MDPI - PNA	(12.g)	2,157,358	15,498	2,172,856	569,359	-	569,359
AFD	(12.h)	1,064,500	1,370	1,065,870	3,221,293	42,995	3,264,288
LDP phase two	(12.i)	978,057	72,000	1,050,057	-	-	-
SIDA	(12.j)	789,240	25,936	815,176	3,179,790	276,038	3,455,828
LGCBP	(12.k)	691,859	60,048	751,907	1,203,124	80,401	1,283,525
MDPI - GIZ	(12.l)	295,924	128	296,052	127,733	41,478	169,211
LDP phase one	(12.m)	243,159	-	243,159	1,191,805	12	1,191,817
World Bank EMSRPII – additional financing	(12.n)	220,920	136	221,056	2,186,449	179,044	2,365,493
Environmental and Social Impact Assessment (AFD II)	(12.o)	117,391	25,000	142,391	-	-	-
LGRDP	(12.p)	-	78,660	78,660	-	-	-
Danish LG Policy	(12.q)	47,490	3,200	50,690	-	-	-
World Bank EMSRPII	(12.r)	-	-	-	210,426	434	210,860
CDSF	(12.s)	-	-	-	4,358,693	292,578	4,651,271
PHRD	(12.t)	-	-	-	104,897	-	104,897
		40,402,329	2,595,009	42,997,338	28,542,332	1,683,176	30,225,508

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Note (12.a) Municipal Development Project for the support of Phase I of the Municipal Development Program funded by the Kreditanstalt für Wiederaufbau (“KfW”)

The objective of the project is to support phase I of the Municipal Development Program in improving municipal management practices for better transparency.

The Program consists of the following:

Window (1) Municipal Grants for Capital Investment

- Providing sub-grants for eligible Municipalities in the West Bank and Gaza, specifically performance-based grants for municipal service delivery. Municipalities decide on how to use the funds based on their Strategic Development and Investment Plans and consultation with citizens.

Window (2) Support to Municipal Innovation and Efficiency

- Strengthening newly amalgated local governments through small scale infrastructure improvements and capacity building services and training.
- Supporting activities to: (a) promote learning and innovation to facilitate municipal development; and (b) support existing customer service centres and establish pilots of new customer service centres and selected Municipals to create comprehensive citizen-responsive services and enhance revenue generation and planning capabilities of municipals, through the financing of goods, works, training and services.

Window (3) Capacity building for Municipalities and MDLF

- Capacity building services and training of Municipals in the west bank and Gaza selected in accordance with criteria set forth in the operational manual and grant allocation manual, including the areas of financial management, support to the development of strategic and investment plans, and technical assistance to improve management capacity.
- Capacity building services and training to the project implementing entity for the implementation of the municipal development program including the areas of human resource development and institutional capacity building, in accordance with annual capacity development plans submitted by the project implementation entity.

Window (4) Project implementation support and management costs

- Project implementation support through the funding of: (a) MDLF Management Fee (including the cost of financial audit fees); (b) costs of monitoring and evaluation including the cost of technical and institutional compliance audit fees and the cost of carrying out satisfactory surveys of citizens and client municipalities; and (c) the design and implementation of an outreach and communications campaign in relation to Municipal Development Program.
- Sub-project implementation support through the financing of Local Technical Consultants.

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The following table specifies the windows/categories of eligible expenditures that are financed out of the proceeds of the grant and the allocations of the amounts of the grant to each window/category:

	<u>Budget EUR</u>	<u>Budget USD</u>
Window 1: Municipal Grants for Capital Investments	6,280,000	9,021,848
Recurrent Expenditures for Gaza Municipalities	-	-
Window 2: Support to Municipal Innovations and Efficiency	-	-
Window 3: Capacity Building for (a) Municipalities	420,000	603,372
(b) MDLF	-	-
Window 4: (a) Local Technical Consultant	225,000	323,235
(b) MDLF Management Fee	525,000	754,215
(c) Monitoring and evaluation	50,000	71,830
(d) Outreach and communication	-	-
	<u>7,500,000</u>	<u>10,774,500</u>

Details of Project's expenses-

	<u>Actual 2011</u>	<u>Actual 2010</u>
Window 1: Municipal grants for capital investments	7,432,886	546,722
Recurrent expenditures for Gaza municipalities	-	-
Window 2: Support to municipal innovations and efficiency	-	-
Window 3: Capacity building for (a) Municipalities	183,283	-
(b) MDLF	-	-
Window 4: (a) Local technical consultant	38,089	-
(b) MDLF management fee	592,961	-
(c) Monitoring and evaluation	-	-
(d) Outreach and communication	-	-
	<u>8,247,219</u>	<u>546,722</u>

Note (12.b) Municipal Development Project for the support of Phase I of the Municipal Development Program funded by the Danish International Development Assistance ("DANIDA") and the Swedish International Development Cooperation Agency (SIDA) through the International Development Association ("IDA")

The project objectives and details are the same as those detailed in note (12.a).

The following table specifies the windows/categories of eligible expenditures that are financed out of the proceeds of the grant and the allocations of the amounts of the grant to each window/category:

	<u>Budget in EUR</u>	<u>Budget in USD</u>
Window 1: Municipal Grants for Capital Investments	7,365,361	10,493,535
Recurrent Expenditures for Gaza Municipalities	-	-
Window 2: Support to Municipal Innovations and Efficiency	699,094	996,009
Window 3: Capacity Building for (a) Municipalities	349,650	547,966
(b) MDLF	34,965	49,815
Window 4: Project implementation support and management costs	950,958	1,354,843
Total allocated	<u>9,400,028</u>	<u>13,442,168</u>
Un-allocated amount	24,477	34,873
	<u>9,424,505</u>	<u>13,477,041</u>

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During the year 2010, a re-allocation of the project's budget line items was approved by the donor as follows:

Component	Budget	
	in EUR	Equivalents to USD
1. Investment		
1.1 Construction works	14,092,975	19,904,918
Sub-Total 1	14,092,975	19,904,918
2. Further project measures		
2.1 Procurement audit and Screening	82,254	116,176
2.2 Local technical consultants	50,771	71,709
2.3 Consultants for development of technical MDLF manual	24,000	33,897
2.4 Management fees for MDLF	750,000	1,059,300
2.5 Contingencies	-	-
Sub Total 2	907,025	1,281,082
Total	15,000,000	21,186,000

Details of Project's expenses-

Component	Actual 2011	Actual 2010
1. Investment		
1.1 Construction works	6,875,443	5,721,172
Sub-Total 1	6,875,443	5,721,172
2. Further project measures		
2.1 Procurement audit and screening	9,745	-
2.2 Local technical consultants	-	24,407
2.3 Consultant for development of technical MDLF manual	-	15,099
2.4 Management fees of MDLF	344,652	307,007
Sub Total 2	354,397	346,513
Total	7,229,840	6,067,685
Bank charges	2,467	-
	7,232,307	6,067,685

(12.d) Municipal Development Project for the support of Phase I of the Municipal Development Program (TF095351) funded by the International Development Association (IDA)

The project objectives and details are the same as those detailed in note (12.a).

The following table specifies the windows/categories of eligible expenditures that are financed out of the proceeds of the grant and the allocations of the amounts of the grant to each window/category:

	Budget in EUR	Budget in USD
Window 1: Municipal Grants for Capital Investments	5,314,686	7,600,000
Recurrent Expenditures for Gaza Municipalities	-	-
Window 2: Support to Municipal Innovations and Efficiency	489,510	700,000
Window 3: Capacity Building for (a) Municipalities	384,615	550,000
(b) MDLF	34,965	50,000
Window 4: Project implementation support and management costs	769,231	1,100,000
	6,993,007	10,000,000

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(12.f) Danish Trust Fund Project (TF 096990) funded by the Government of the Kingdom of Denmark through International Development Association ("IDA")

On June 10, 2010 an agreement was signed between Kingdom of Denmark represented by International Development Association ("the donor") and Palestine Liberation Organization for the benefit of the Palestinian Authority to support Danish Trust Fund Project (TF 096990) by an amount of U.S Dollars 5,218,068.

The donor will finance the following categories:

	<u>Budget in USD</u>
Goods, works and consultancy services	3,071,075
Incremental operating costs	1,781,728
MDLF management fees and audit fees	365,265
	<u><u>5,218,068</u></u>

Project Objective:

The objectives of this project are to: (i) provide assistance for mitigating further deterioration in the delivery of essential municipal services in Gaza; and (ii) create temporary job opportunities at the local level.

The project consists of the following three parts:

Part one: Emergency Municipal Services Assistance

- (a) Rehabilitation, reconstruction and upgrading of deteriorating and damaged municipal infrastructure and facilities, and supply of equipment to sustain municipal service provision; and
- (b) Financing non-wage recurrent expenditures to sustain essential municipal services, including expenses for fuel, equipment spare parts, electricity bills for street lighting and other related direct costs for the provision of essential municipal services.

Part two: Labor- Intensive Employment Generation

Support for labor-intensive temporary employment sub-projects identified and implemented by municipalities in coordination with local community groups.

Part three: Project Management Costs

Provision of management fees for the MDLF in relation to the activities carried out under the Project.

The closing date for the project is December 31, 2011.

Details of Project's expenses-

	<u>Actual 2011</u>	<u>Actual 2010</u>
Goods, works and consultancy services	1,629,571	1,402,496
Incremental operating costs	1,026,518	632,814
MDLF management fees and audit fees	268,136	100,075
	<u><u>2,924,225</u></u>	<u><u>2,135,385</u></u>

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c. Reinforce the linkages between the newly created Municipal Development and Lending Fund (MDLF) and the municipalities.

The indicative budget break down, net of taxes for the project is as follows:

Component	Budget in EUR	Equivalent in USD
Municipal infrastructures	10,600,000	15,613,800
Technical audit, evaluation and other support studies	200,000	294,600
MDLF management fees (5%)	600,000	883,800
Contingencies (5%)	600,000	883,800
	12,000,000	17,676,000

During the year 2010, a re-allocation of the Project's budget line items were approved by the donor as follows:

Component	Budget in EUR	Equivalent in USD
Municipal infrastructures	11,200,000	16,497,600
Technical audit, evaluation and other support studies	200,000	294,600
MDLF management fees (5%)	600,000	883,800
	12,000,000	17,676,000

Details of Project's expenses-

Component	Actual 2011	Actual 2010
Municipal infrastructures	830,506	3,185,108
Technical audit, evaluation and other support studies	233,994	36,185
Management fees	1,370	42,995
	1,065,870	3,264,288

(12.i) Local Development Programme, Jenin Governorate (LDP) Phase II funded by The Government of Denmark

On December 2, 2009 an agreement was signed between the Government of Denmark referred to as the Ministry of Foreign Affairs, Danish International Development Assistance (DANIDA), represented by the Royal Danish Representative Office - Ramallah (DRO) and the Palestinian Authority referred to as the Ministry of Planning and Administrative Development (MoPAD) and the Ministry of Local Government (MoLG) to implement the project "Support to the Local Development Programme Jenin Governorate (LDP)-Phase II". The Municipal Development and Lending fund (MDLF) is granted the authority to manage the project.

Objectives of the project:

1. The overall development objective of the programme is sustainable improvement of living conditions in the Jenin district.
2. The immediate objective of the programme is improved delivery of services through increasingly integrated Local Government Units in the Jenin district.

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Outputs of the project:

In order to achieve the above-mentioned immediate objectives, the programme aims to produce the following:

1. A best practice model developed for assisting village councils and small municipalities in the amalgamation process.
2. Social and cultural projects implemented with a potential for sustainability.
3. Joint infrastructure projects implemented through labor intensive construction methods with a potential for sustainability.

The table below describes the grant description to be financed by the government of Denmark which should not to exceed Danish Kronor (DKK) 12,000,000 equivalent to approximately USD 2,106,224 as presented below:

	Original Budget in DKK	Original Budget in USD	Revised Budget in USD (2011)
Institutional Development	1,000,000	175,519	234,025
Social and Cultural Projects	3,000,000	526,556	508,660
Infrastructure Projects	5,550,000	974,129	1,100,000
Consultant	800,000	140,415	63,140
MDLF Management Fees	800,000	140,415	140,415
Reviews	300,000	52,655	-
Audits	50,000	8,776	-
Unallocated Funds	500,000	87,759	59,984
	12,000,000	2,106,224	2,106,224

The project has been approved for final extension by the donor up to March 31, 2012.

Details of Project's expenses-

	Actual 2011	Actual 2010
Institutional development	22,028	-
Social and cultural projects	160,422	-
Joint infrastructure projects	793,247	-
Consultant	2,360	-
MDLF management fees	72,000	-
Reviews	-	-
Audits	-	-
Unallocated funds	-	-
	1,050,057	-

(12.j) Emergency Municipal Rehabilitation II project (EMSRPII) funded by Sweden International Development Agency ("SIDA")

On March 14, 2008 an agreement was signed between the International Development Association (hereinafter "IDA" or "World Bank") which is the administrator of the Swedish Trust Fund for ESMRP II and the MDLF (the Project Implementing Entity) in connection with the Trust Fund Grant Agreement of the same date between the Palestinian Liberation Organization-PLO (for the benefit of the Palestinian Authority) have entered into an agreement to implement GZ-Second Emergency Municipal Service Rehabilitation project by MDLF. On October 15, 2009 MDLF has signed a new agreement for an additional financing agreement to the project for an amount of U.S Dollars 2,800,000.

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Project objectives:

- Help mitigating further deterioration in the delivery of essential municipal services in the West Bank and Gaza Strip, including solid waste collection, street lighting, provision of water, waste and electricity services, and street cleaning, through rehabilitation of damaged and deteriorating infrastructure and the provision of non-wage budgetary support for direct service cost input,
- Creating temporary job opportunities in the West Bank and Gaza Strip through the launching of labor-intensive employment generation schemes, proportionally located on the basis of unemployment index,
- Piloting innovative initiatives that foster Local Government-NGOs collaboration in response to urgent community needs and assist municipalities in recovering cost for the provision of services, and
- Providing assistance services for rehabilitation, reconstruction, and upgrading of deteriorating and damaged municipal infrastructure and facilities.

Project Costs:

During the year 2009, IDA received a commitment from the Sweden International Development Agency (hereinafter "SIDA") for additional contribution to the original trust fund agreement. This additional agreement was made through amendment dated September 28, 2009. According to this amendment, the grant budget was increased by U.S Dollars 2,800,000.

During the year 2010, MDLF has signed an amendment to the original agreement in which the donor has committed to contribute an additional amount of USD 329,069. Following to this amendment, the revised budget has been categorised as follow:

Category	Original Budget U.S Dollars	Revised 2009 Budget U.S Dollars	Revised 2010 Budget U.S Dollars	Percentage of Expenditures to be Financed
Works	250,896	250,896	250,896	100%
Goods	2,358,423	3,232,869	3,457,597	100%
Incremental Operating Costs	2,612,726	4,328,280	4,409,586	100%
MDLF Management Fees	264,101	474,101	497,136	100%
	5,486,146	8,286,146	8,615,215	

Details of Project's expenses-

	Actual 2011	Actual 2010
Works	45,509	193,327
Goods	236,608	1,355,925
Incremental operating costs	507,123	1,630,538
MDLF management fees and audit fees	25,936	276,038
	815,176	3,455,828

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(12.k) Local Government Capacity Building Project (LGCBP) funded by the Kingdom of Denmark through the International Development Association (“IDA”)

On March 22, 2005 an agreement was signed between Kingdom of Denmark represented by International Development Association and Palestine Liberation Organization represented by Palestinian Authority to support Local Government Capacity Building Project – LGCBP (TF 054521) by an amount of DKK 56,500,000 to be paid in several payments. The first payment was made is USD 2,474,000.

On September 9, 2008 the grant agreement was amended to reflect the receipt of the additional contribution of (USD 7,563,396), resulting in an aggregate contribution of (USD 10,037,396) categorised as shown in the original budget column below. During 2010, MDLF has obtained approval to re-categorise the project’s expenses as shown in the below table:

	<u>Original Budget in USD</u>	<u>Revised Budget in USD (2010)</u>
Goods	1,488,068	1,860,550
Consultant services, training and audit fees	6,938,356	7,089,846
Incremental operating costs	429,214	387,000
Other services	500,000	300,000
MDLF management fees and audit	400,000	400,000
Unallocated	281,758	-
	<u>10,037,396</u>	<u>10,037,396</u>

The project’s closing date has been extended to June 30, 2012.

Project Objective:

The objective of the project is to improve local governance and accountability, and thereby foster the efficient and sustainable economic, social and physical development of the urban and rural areas in the parts of West Bank and Gaza under the jurisdiction of the Palestinian Authority, through the capacity building of MOLG and LGUs.

Details of Project's expenses-

	<u>Actual 2011</u>	<u>Actual 2010</u>
Goods	5,637	854,177
Consultant services, training and audit fees	589,491	345,583
Incremental operating costs	3,986	3,364
Other services	92,745	-
MDLF management fees and audit	60,048	80,401
Unallocated	-	-
	<u>751,907</u>	<u>1,283,525</u>

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The table below describes the grant description to be financed by the government of Denmark which should not to exceed Danish Kronor (DKK) 12,000,000 as follows:

	Original Budget DKK	Original Budget USD	Revised Budget USD 2010
Institutional Development	1,000,000	210,971	197,326
Social and Cultural Projects	3,000,000	632,911	672,807
Infrastructure Projects	5,550,000	1,170,886	1,108,450
Consultant	800,000	168,776	70,000
MDLF Management Fees	800,000	168,776	168,776
Reviews	300,000	63,291	-
Audits	50,000	10,549	-
Unallocated Funds	500,000	105,485	-
	12,000,000	2,531,645	2,217,359

The project closed up on March 31, 2011.

Details of Project's expenses-

	Actual 2011	Actual 2010
Institutional Development	-	104,476
Social and Cultural Projects	243,159	359,997
Infrastructure Projects	-	657,332
Consultant	-	70,000
MDLF Management Fees	-	12
Reviews	-	-
Audits	-	-
Unallocated Funds	-	-
	243,159	1,191,817

(12.n) Emergency Municipal Services Rehabilitation-II Project - EMSRP II (Additional financing from the International Development Association – (“IDA”))

International Development Association-IDA ("World Bank" -WB as Administrator of the Trust Fund for Gaza and West Bank) and the Municipal Development and Lending Fund (the "Project Implementing Entity ") in connection with the Trust Fund Grant Agreement between the Palestinian Liberation Organization-PLO (for the benefit of the Palestinian Authority-the Recipient) have entered into an additional financing agreement dated July 14, 2009 for Emergency Municipal Services Rehabilitation-II -WB Project (EMSRP II-WB).

Project Objectives:

EMSRP II is designed primarily as a repeater project to EMSRP I and would address many of the same areas of support. Palestinian counterparts indicate that these remain critical areas of need, including assistance to sustain essential municipal services, promote temporary employment generation, while maintaining a guideline for emergency recovery operations which are intended to be simple in design, fast disbursing and responsive to emergency needs aimed at restoring/rehabilitating assets and services.

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The main objectives of EMSRP II:

- Help mitigate further deterioration in the delivery of essential municipal services, including solid waste collection, street lighting, provision of water, wastewater and electricity services (where such services are provided by municipalities), and street cleaning, among other services, through rehabilitation of damaged or deteriorating infrastructure and the provision of non-wage budgetary support for direct service cost inputs.
- Create temporary job opportunities at the local level through the launching of labor-intensive employment generation schemes, proportionally allocated on the basis of an unemployment index.
- Promote pilot initiatives that foster Local Government-NGO collaboration in response to urgent community needs and assist municipalities in recovering costs for the provision of services.

IDA agreed to extend to the fund a grant in an amount equal to three million United States Dollars (USD 3,000,000) to assist in financing the following project categories:

Category	Amount of the Grant Allocated USD	Percentage of Expenditures to be Financed
Works	330,353	100%
Goods	753,000	100%
Incremental operating costs	1,706,647	100%
Management fee for MDLF and audit	210,000	100%
	3,000,000	

The project closed up on October 31, 2011.

Details of Project's expenses-

	Actual 2011	Actual 2010
Works	-	320,201
Goods	102,040	650,926
Incremental operating costs	118,880	1,215,322
MDLF management fees and audit	136	179,044
	221,056	2,365,493

(12.o) ENVIRONMENTAL AND SOCIAL IMPACT ASSESSMENT

On July 29, 2011 a service agreement was signed between the Ministry of Planning and Administrative Development ("MoPAD") and the Municipal Development and Lending Fund ("MDLF") under which the MDLF is given the management, coordination and follow-up of the Environmental and Social Impact Assessment which is financed by the French Development Agency ("AFD") for the preparation of the future Gaza Solid Waste Management Project. For the implementation of this agreement the MoPAD agreed to pay the MDLF an amount of USD 25,000.

For the purposes of the implementation of the above mentioned agreement, on August 2, 2011 the MDLF entered into a consulting service agreement with the Joint Venture of EcoConServ Environmental Solutions and Universal Group ("UG") as the implementing parties of the project. The agreement amount is Euro 90,010.

The closing date of the project is January 10, 2012.

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Project Budget:

	<u>Budget in EUR</u>	<u>Budget in USD</u>
MDLF management fees	-	25,000
Consulting service	90,010	146,968
	<u>90,010</u>	<u>171,968</u>

Details of Project's expenses-

	<u>Actual 2011</u>	<u>Actual 2010</u>
MDLF management fees	25,000	-
Consulting service	117,391	-
	<u>142,391</u>	<u>-</u>

(12.p) Support to Local Government Reform and Development Program (LGRDP) funded by the Government of the Kingdom of Belgium through the Belgian Development Agency ("BTC")

In late 2010 an agreement was signed between the Government of the Kingdom of Belgium ("Belgium") and the Palestinian Authority ("PA") to support Local Government Reform and Development Program ("LGRDP" or "program") by an amount of EUR 15,160,000.

The Ministry of Local Government ("MoLG") is designated by the PA as the administrative entity responsible for the implementation of the project. MDLF is the implementation agency responsible for Components 2 and 3 of the program. The accompanying Financial Statements are prepared to present Component 2.

The Belgian Development Agency ("BTC") is entrusted by Belgium for the follow up, guidance, monitoring, evaluation and audit of the program.

The program's actual implementation started by midyear 2011.

Project objectives:

The general objective of the program is to strengthen the institutional and management capacities of the local government system.

The specific objective to be achieved during the project period is to support institutional reform through improved capacities and services of selected clusters of smaller Local Government Units ("LGUs") and to improve institutional capacity of MoLG.

Project budget:

The total cost for all the components of the program has been estimated at EUR 15,160,000, of which EUR 160,000 to be contributed by the PA and EUR 15,000,000 to be contributed by Belgium.

The program will be implemented over a five year period within the following budget framework:

	<u>Budget in EUR</u>	<u>Budget in USD</u>
Component 1 : CB of MoLG	1,824,140	2,391,448
Component 2 : Support for amalgamation in 6 areas (including 7% management fee) - MDLF	9,000,000	11,799,000
Component 3: MDP contribution (including 7% management fee) - MDLF	2,900,000	3,801,900
General Means and budgetary reserve	1,275,860	1,672,652
	<u>15,000,000</u>	<u>19,665,000</u>

Project's actual expenses for the year of USD 78,660 represent management fees.

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(12.q) Local Government Policy Development in Palestine funded by the Government of the Kingdom of Denmark through the Danish Representative Office ("DRO")

On May 26, 2011 an agreement was signed between the Government of the Kingdom of Denmark represented by the Danish representative office ("DRO"), the Municipal Development and lending fund ("MDLF"), and the Ministry of Local Government ("MoLG") to support the programme titled Local Government Policy Development in Palestine by an amount of DKK 4,794,110 for two years starting from January 1, 2011 and ending on December 31, 2012.

Project objectives:

DRO intends to support the programme on establishing a Policy and Strategy Unit ("PSU") within the MoLG to be able to develop, formulate and monitor policies in the complex political/institutional set up in the Palestinian Authority ("PA"). Further, the programme provides limited and targeted capacity support to MDLF and the Association of Palestinian Local Authorities ("APLA").

Further the development objective of the programme is to support the building of a sovereign, democratically viable Palestinian state, guaranteeing basic human rights and security for its population, creating the framework for economic growth and delivering basic services by contributing to the establishment of a viable strategic framework for municipal development.

The program has three immediate objectives related to each component in the budget presented below:

- 1) MoLG to have a fully functioning PSU, capable of formulating and monitoring MoLG policies and strategies to be implemented in the local government sector.
- 2) MDLF be strengthened to implement its working program with enhanced efficiency, effectiveness and quality including implementation of policies for the municipal development and local governance sector.
- 3) APLA be strengthened in its ability to voice the interest of Local Government Unit ("LGU") members in policy issues.

Project budget:

The programme budget for the 2 years starting from January 1, 2011 and ending on December 31, 2012, is as follows:

	Budget in DKK			Budget in USD		
	2011	2012	Total	2011	2012	Total
Component 1: Support to MoLG	1,489,750	1,372,990	2,862,740	268,155	247,138	515,293
Component 2: Support to MDLF	289,420	279,420	568,840	52,095	50,296	102,391
Component 3: Support to APLA	-	358,875	358,875	-	64,598	64,598
Sub-total program activities	1,779,170	2,011,285	3,790,455	320,250	362,032	682,282
Midterm review	-	200,000	200,000	-	36,000	36,000
Audit	145,000	145,000	290,000	26,100	26,100	52,200
MDLF management fee (7%)	134,692	164,940	299,632	24,245	29,689	53,934
Contingencies	96,209	117,814	214,023	17,317	21,207	38,524
Grand Total	2,155,071	2,639,039	4,794,110	387,912	475,028	862,940

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF

Financial statements for the year ended December 31, 2011

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

Details of Project's expenses-

	<u>Actual 2011</u>	<u>Actual 2010</u>
Component 1: Support to MoLG	47,490	-
Component 2: Support to MDLF	-	-
Component 3: Support to APLA	-	-
Sub-total program activities	<u>47,490</u>	<u>-</u>
Midterm review	-	-
Audit	-	-
MDLF management fee (7%)	3,200	-
Contingencies	-	-
Grand Total	<u><u>50,690</u></u>	<u><u>-</u></u>

(12.r) Emergency Municipal Services Rehabilitation-II Project - EMSRP II funded by the International Development Association ("IDA")

International Development Association-IDA ("World Bank" -WB as Administrator of the Trust Fund for Gaza and West Bank) and the Municipal Development and Lending Fund (the "Project Implementing Entity ") in connection with the Trust Fund Grant Agreement between the Palestinian Liberation Organization-PLO (for the benefit of the Palestinian Authority-the Recipient) have entered into an agreement dated February 2, 2007 for Emergency Municipal Services Rehabilitation-II -WB Project (EMSRP II-WB).

Project Objectives

Project's objectives are the same as those mentioned in note (12.n).

IDA agrees to extend to the MDLF a grant in an amount equal to ten million United States Dollars (USD 10,000,000) to assist in financing the following project categories:

<u>Category</u>	<u>Budget in U.S Dollars</u>	<u>Percentage of expenditure to be financed</u>
Goods	3,139,664	100%
Works	2,154,947	100%
Consultants' services	268,455	100%
Incremental operating costs	3,936,934	100%
MDLF management fees	500,000	100%
	<u><u>10,000,000</u></u>	<u><u>100%</u></u>

The project closed up on April 30, 2010.

Details of Project's expenses-

<u>Category</u>	<u>Actual 2011</u>	<u>Actual 2010</u>
Goods	-	130,876
Incremental operating costs	-	79,550
MDLF management fee and audit	-	434
Consultants' services	-	-
Works	-	-
	<u><u>-</u></u>	<u><u>210,860</u></u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

(12.s) Community Development Stability Fund (CDSF)

On December 2, 2008, the project's agreement was signed between the State of Netherlands, represented by the Minister of Development Cooperation, legally represented by the Chargé d' Affaires of the Representative Office of the Kingdom of the Netherlands and the Palestinian Authority, represented by the Minister of Planning.

According to the agreement, the state of Netherlands represented by the Minister for Development Cooperation was prepared to make a contribution of EURO 5,000,000 (Equivalent to USD 7,062,000) funded by the Government of Netherland as follows:

	<u>Budget in EUR</u>	<u>Equivalent to USD</u>
Investments 93%	4,650,000	6,567,660
Management fees 7%	350,000	494,340
	<u>5,000,000</u>	<u>7,062,000</u>

The exchange rate used in the above budget is based on the date of signing the agreement. The project's objective is to consolidate stability and improve living conditions at the local level through quick economic development projects in areas affected by emergency conditions.

The project closed up on October 17, 2010.

Details of Project's expenses-

<u>Component</u>	<u>Actual 2011</u>	<u>Actual 2010</u>
Investment	-	4,358,693
Management fees	-	292,578
	<u>-</u>	<u>4,651,271</u>

(12.t) PHRD Technical Assistance (TA) Grant for the preparation of the Municipal Development Program funded by the government of Japan through the International Development Association ("IDA")

The agreement was signed on December 4, 2008 between the International Development Association (IDA-World Bank) Acting as administrator of grant funds provided by Japan and the Palestinian Liberation Organization ("PLO") for the benefit of the Palestinian Authority that is authorized to enter into this agreement, to cause the Municipal Development and Lending Fund ("MDLF"), established under the Recipient's decree of the council of ministers no. 05/34/min.waw.alf.qaf of 2005 to carry out the objectives and activities in accordance with the terms and conditions set forth or referred to in this agreement.

Project objective:

Prepare the Municipal Development Programme which has as its objectives to support the delivery of effective municipal services through demand-based infrastructure investments and capacity building for local governments.

Project costs:

The table below describes the grant categories to be financed by the program which should not to exceed U.S Dollars 495,000 as the following:

<u>Category</u>	<u>Total Budget in USD</u>	<u>Revised Budget in USD</u>
Consultants' Services	446,000	411,836
Goods, Training and Operating Cost	49,000	68,027
	<u>495,000</u>	<u>479,863</u>

The project closed up on June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

Details of Project's expenses-

<u>Category</u>	<u>Actual 2011</u>	<u>Actual 2010</u>
Consultants' services	-	84,927
Good, training and operating costs	-	19,970
	-	104,897

NOTE (13) GENERAL AND ADMINISTRATIVE EXPENSES

Details-

	<u>2011</u>	<u>2010</u>
Salaries and related benefits*	1,453,686	1,127,029
Consultants and professional fees	76,080	45,864
Rent	62,637	60,251
Insurance	60,853	48,139
Fuel	59,931	54,598
Telephone, postage and internet	26,410	22,037
Board of directors fees	19,100	38,600
Training and workshops	17,892	10,692
Utilities	17,424	22,744
Printing and stationary	16,266	12,214
Car expenses	10,822	9,979
Office supply and maintenance	9,625	9,288
Travel and transportation expenses	9,543	12,806
Advertisement	7,496	3,405
Software expense	6,159	7,372
Car licences	3,485	2,380
Hospitality and cleaning	2,852	2,438
Bank charges	2,456	5,274
Translation	792	1,570
Others	4,028	1,731
	1,867,537	1,498,411

*Salaries and related benefits are detailed as follows:

	<u>2011</u>	<u>2010</u>
Salaries and wages	1,097,236	816,090
Provident fund expense	109,123	82,271
End of service expense	93,369	74,847
Transportation allowance	69,657	53,631
Bonus	46,601	53,672
Family allowances	34,528	25,702
Employees' remuneration	3,172	500
Living expenses	-	19,084
Other allowances	-	1,232
	1,453,686	1,127,029

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (14) STATEMENT OF SOURCES AND USES OF FUNDS FOR THE PERIOD FROM JANUARY 1, 2011 TO DECEMBER 31, 2011 (excluding MDLF accounts)

	EMSRP II						Other Projects						Sub-total
	AFD	SIDA	KfW	DANISH T. F.	A.F.WB	LGCBP	LDP I	CDSF	LDP II	Danish LG		AFDII	
										Policy	LGRDP.BTC		
Beginning balances	980,323	679,557	1,205,702	7,030	213,808	14,632	243,162	7,020	2,106,224	-	-	-	5,457,458
Cash and banks	-	-	-	-	-	-	35	-	-	-	-	-	35
Accounts Receivable	(184,221)	(239,525)	(1,340,059)	(862,980)	-	(87,104)	-	-	-	-	-	-	(2,713,889)
Liabilities accounts													
Total opening balances (A)	796,102	440,032	(134,357)	(855,950)	213,808	(72,472)	243,197	7,020	2,106,224	-	-	-	2,743,604
Add: Sources of funds													
Funds received	232,557	348,767	7,514,452	3,811,455	-	875,492	-	-	411,553	537,510	25,769	-	13,757,555
Currency variance	37,211	26,377	(122,330)	(31,283)	7,248	(7,577)	-	-	-	(6,475)	(769)	-	(97,598)
Interest income	-	-	-	-	-	-	-	12,165	337	-	-	-	12,502
Total sources (B)	269,768	375,144	7,392,122	3,780,172	7,248	867,915	-	12,165	411,890	531,035	25,000	-	13,672,459
Cash available (A+B)	1,065,870	815,176	7,257,765	2,924,222	221,056	795,443	243,197	7,020	2,118,389	411,890	531,035	25,000	16,416,063
Less: Uses of Funds													
Projects expenses	1,065,870	815,176	7,229,840	2,924,222	221,056	751,907	243,162	-	1,050,057	50,690	78,660	142,391	14,573,031
Bank charges	-	-	2,467	-	-	-	-	-	-	-	-	-	2,467
Down payment / advances	-	-	-	-	-	-	-	-	-	273	-	-	273
Total operating expenses	1,065,870	815,176	7,232,307	2,924,222	221,056	751,907	243,162	-	1,050,057	50,963	78,660	142,391	14,575,771
Excess / (shortage) of sources over uses	-	-	25,458	-	-	43,536	35	7,020	1,068,332	360,927	452,375	(117,391)	1,840,292
Ending balances													
Cash and banks	-	-	25,458	-	-	61,336	-	7,020	1,096,960	361,482	452,375	-	2,004,631
Accounts Receivable	-	-	-	-	-	-	35	-	-	-	-	-	35
Liabilities accounts	-	-	-	-	-	(17,800)	-	-	(28,628)	(555)	-	(117,391)	(164,374)
Total ending balance	-	-	25,458	-	-	43,536	35	7,020	1,068,332	360,927	452,375	(117,391)	1,840,292

MUNICIPAL DEVELOPMENT AND LENDING FUND - MDLF
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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (14) STATEMENT OF SOURCES AND USES OF FUNDS FOR THE PERIOD FROM JANUARY 1, 2011 TO DECEMBER 31, 2011 (excluding MDLF accounts) - continued from previous page

	MDP Phase 1						MDP Phase 2		
	W. B	KfW	AFD	MDTF	GIZ	PNA	AFD	Belgium	Grand Total
Sub-total from previous page									
Beginning balances									
Cash and banks	5,457,458	-	3,012,743	1,610,603	168,534	77,380	-	-	14,822,533
Accounts Receivable	35	-	-	-	-	-	-	-	35
Liabilities accounts	(2,713,889)	(547,963)	(65,784)	(1,296,070)	(1,913)	(507,727)	-	-	(6,087,726)
Total opening balances (A)	2,743,604	(547,963)	2,946,959	314,533	166,621	(430,347)	-	-	8,734,842
Add: Sources of funds									
Funds received	13,757,555	9,916,013	1,018,234	10,201,152	177,963	516,068	1,966,500	1,181,080	42,177,373
Currency variance	(97,598)	(241,411)	174,721	31,380	(5,898)	182,516	(27,750)	(16,672)	241,393
Interest income	12,502	5,035	6,107	895	491	48	-	-	29,104
Total sources (B)	13,672,459	9,679,637	1,199,062	10,233,427	172,556	698,632	1,938,750	1,164,408	42,447,870
Cash available (A+B)	16,416,063	9,131,674	4,146,021	10,547,960	339,177	268,285	1,938,750	1,164,408	51,182,712
Less: Uses of Funds									
Projects expenses	14,573,031	8,247,219	3,427,524	8,170,226	296,052	2,172,856	-	-	42,994,871
Bank charges	2,467	-	-	-	-	-	-	-	2,467
Down payment / advances	273	-	-	-	-	-	-	-	1,165
Total operating expenses	14,575,771	8,247,219	3,427,524	8,170,226	296,052	2,172,856	-	-	42,998,503
Excess / (shortage) of sources over uses	1,840,292	884,455	718,497	2,377,734	43,125	(1,904,571)	1,938,750	1,164,408	8,184,209
Ending balances									
Cash and banks balances	2,004,631	985,992	863,835	2,401,043	152,190	747	1,938,750	1,164,408	10,659,980
Accounts Receivable	35	-	-	-	-	-	-	-	35
Liabilities accounts	(164,374)	(101,537)	(145,338)	(23,309)	(109,065)	(1,905,318)	-	-	(2,475,806)
Total ending balance	1,840,292	884,455	718,497	2,377,734	43,125	(1,904,571)	1,938,750	1,164,408	8,184,209

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in U.S Dollars)

NOTE (15) RELATED PARTIES

This item represents transactions and balances with related parties, i.e., directors, senior management and projects being managed by MDLF, over which they exercise control.

-Transactions with related parties are as follows:

	<u>2011</u>	<u>2010</u>
Director General salary and related benefit	73,880	78,168
Board of director remuneration	19,100	38,600
MDLF management fees	2,595,009	1,683,176

-Balances with related parties are as follows:

	<u>2011</u>	<u>2010</u>
Director General - benefits payable	27,943	25,389