

**Development Fund for Iraq**  
**Statement of Cash Receipts and Payments**  
**For the period from 22 May 2003 to 31 December 2003**  
**(with Independent Auditors' Report)**

*This report contains 11 pages*



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### **Independent Auditors' Report**

To the International Advisory and Monitoring Board of the  
Development Fund for Iraq  
To the Coalition Provisional Authority

We have audited the accompanying statement of cash receipts and payments of the Development Fund for Iraq (the "Fund") for the period from inception (22 May 2003) to 31 December 2003. This financial statement is the responsibility of the Coalition Provisional Authority. Our responsibility is to express an opinion on the accompanying financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing and International Organization of Supreme Audit Institutions (INTOSAI) Standards on Government Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by the Coalition Provisional Authority, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 5 to the financial statement, the internal control systems over the Iraqi oil industry were not sufficient to ensure the completeness of export sales of petroleum and petroleum products for the period from 22 May 2003 to 31 December 2003 of which the proceeds were to be deposited in the Fund in accordance with United Nations Security Council Resolution 1483. It was not practicable to extend our auditing procedures sufficiently to quantify such amounts and accordingly we could not satisfy ourselves about the completeness of export sales.

In our opinion, except for the effects of such adjustments, if any, of the matter referred to in the preceding paragraph, the accompanying statement of cash receipts and payments present fairly, in all material respects, the receipts and payments of the Development Fund for Iraq for the period from 22 May 2003 to 31 December 2003 in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting".





### **Independent Auditors' Report, continued**

Without further qualifying our opinion, we draw attention to Note 2 to the financial statement, which states that the Coalition Provisional Authority ceased to exist on 28 June 2004 and explains the transfer of the administration of the Fund to the Interim Government of Iraq. The Coalition Provisional Authority's plans in this regard are also described in Note 2 to the financial statement.

Without further qualifying our opinion, due to the sudden departure of the CPA Administrator on 28 June 2004, the statement of cash receipts and payments was approved by Mr. Nash, manager of the Iraq Reconstruction Management Office, responsible for completing transition efforts and continuing with the Iraqi Reconstruction as described in Note 2 to the financial statement. Mr. Nash was not involved in the administration of the Coalition Provisional Authority.

This report, including our opinion, is intended solely for the information and use of the International Advisory and Monitoring Board of the Development Fund for Iraq and the Coalition Provisional Authority and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited. We do not, in giving our opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our consent in writing.

Manama, Kingdom of Bahrain  
29 June 2004

**Development Fund for Iraq**  
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*(all amounts are in thousands of US dollars)*

<b>Receipts</b>	<b>Notes</b>	
UN Oil for Food program transfers	4	\$ 5,600,000
Net proceeds from export sales of petroleum	5	3,726,271
Deposits from assets frozen outside of Iraq	6	757,550
Food and Agricultural Organization and World Food Program	7	120,000
Deposits by Iraqi Ministries for payments on their behalf	8	95,271
Interest on overnight deposits		4,348
Interest on US Treasury bills		3,780
Other		<u>274</u>
Total receipts		10,307,494
<b>Payments</b>		
Allocated budget to Iraqi Ministries	9	1,375,950
Projects administered by the CPA	10	245,182
Food and Agricultural Organization and World Food Program	7	125,400
Payments on behalf of Iraqi Ministries	8	<u>75,829</u>
Total payments		1,822,361
<b>Excess of receipts over payments</b>		<u>8,485,133</u>
Cash and cash equivalents, beginning of period		<u>-</u>
<b>Cash and cash equivalents, end of period</b>	11, 14	<u><b>\$ 8,485,133</b></u>

This Statement of Cash Receipts and Payments was approved by the Coalition Provisional Authority on 28 June 2004 and signed on its behalf by:

**David J. Nash**  
*Director, IRMO*

**Bradford R. Higgins**  
*CPA Chief Financial Officer*

**Don Davis, Colonel, USAF**  
*CPA Comptroller,  
DFI Fund Manager*

The accompanying notes are an integral part of the statement of cash receipts and payments.

**Development Fund for Iraq**  
**Notes to the Statement of Cash Receipts and Payments**  
**For the period from 22 May 2003 to 31 December 2003**  
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**1. Organization of the Fund**

The Development Fund for Iraq (the “Fund” or “DFI”) was established during May 2003 by the power delegated by the President of the United States of America, pursuant to United Nations Security Council Resolution (UNSCR) 1483, to the Administrator of the Coalition Provisional Authority (the “CPA”).

The Fund consists of bank accounts with the Federal Reserve Bank of New York and the Central Bank of Iraq. In accordance with UNSCR 1483, the proceeds from export sales of petroleum, petroleum products and natural gas from Iraq are to be deposited in the DFI. In addition, the surplus funds from the UN Oil for Food program, established by UNSCR 986, are to be transferred to the Fund. Furthermore, all Member States are obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI.

Consistent with UNSCR 1483, the Fund is to be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq’s infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration and for other purposes benefiting the people of Iraq.

In accordance with CPA Regulation 1 issued on 16 May 2003, the CPA is vested with all executive, legislative and judicial authority necessary to achieve its objectives, to be exercised under relevant UNSCRs, including UNSCR 1483, and the laws and usages of war. The CPA is responsible for the temporary governance of Iraq under the authority of the CPA Administrator.

In accordance with CPA Regulation 2 issued on 15 June 2003, the CPA Administrator oversees and controls the establishment, administration and use of the Fund for and on behalf of the Iraqi people, and directs disbursements from the Fund for those purposes he determines, in consultation with the Iraqi interim administration, to be for the benefit of the people of Iraq.

An International Advisory and Monitoring Board (IAMB) for the Fund was appointed in accordance with UNSCR 1483, to perform functions similar to those of an audit committee.

**2. Going concern assumption**

On 28 June 2004, the CPA ceased to exist and, in accordance with the UNSCR 1546, the CPA transferred access to the DFI bank accounts to the new, sovereign Interim Government of Iraq. The funds will be disbursed solely at the direction of the Government of Iraq, including all outstanding contractual obligations negotiated by the CPA that will extend beyond 30 June 2004. To complete transition efforts and continue with Iraqi Reconstruction, the Iraq Reconstruction Management Office was established at that time.

The CPA is currently issuing irrevocable documentary letters of credit to ensure uninterrupted performance of critical contracts funded by the DFI. For all other contracts, the CPA and the Interim Government of Iraq will agree and establish procedures for monitoring and disbursing payments for these contracts to ensure all contractual obligations are met.

**Development Fund for Iraq**  
**Notes to the Statement of Cash Receipts and Payments, continued**  
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**3. Summary of significant accounting policies**

**Statement of compliance**

The statement of cash receipts and payments has been prepared in accordance with the International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting" issued by the International Federation of Accountants in January 2003. The effective date for the adoption of this standard is 1 January 2004 with early adoption encouraged. The CPA elected to adopt this standard for the period from inception (22 May 2003) to 31 December 2003.

**Basis of presentation**

The Fund consists of cash held on behalf of the Central Bank of Iraq. These funds are held at the Federal Reserve Bank in New York in an account entitled "Central Bank of Iraq / Development Fund for Iraq", at the Central Bank of Iraq and by Coalition Forces.

The accounting policies have been applied consistently throughout the period.

The reporting date of 31 December 2003 was determined by the IAMB and the CPA.

All amounts are in thousands of US dollars unless otherwise stated.

**Receipts**

The Fund records receipts when cash is received in bank accounts under the control of the DFI. Non-cash transactions, including barter transactions, are not recorded.

**Payments**

A payment occurs when funds are transferred from the control of the CPA to a non-Coalition Forces recipient (e.g. a contractor or an Iraqi Ministry).

Cash deposits with banks for issued irrevocable documentary letters of credit are also considered to be payments.

**Commitments**

The DFI allocates funds for specific budgetary items. These funds are considered to be committed and are not available for other spending.

**Management estimates**

Information disclosed in the notes requires the CPA to make estimates and assumptions that affect the reported amounts of commitments, unrecorded assets and liabilities, and other note disclosures. Actual results could differ from those estimates.

**Cash and cash equivalents**

Cash comprises current deposits with banks and cash on hand. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**Functional currency**

The functional currency is the US dollar.

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**Notes to the Statement of Cash Receipts and Payments, continued**  
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**4. UN Oil for Food program transfers**

The UN Oil for Food (OFF) program was established by UNSCR 986 and subsequent relevant resolutions. UNSCR 1483 directed that all surplus funds in the OFF program were to be transferred to the DFI at the earliest possible time. OFF transfers during the period to 31 December 2003 are as follows:

28 May 2003	\$ 1,000,000
31 October 2003	1,000,000
18 November 2003	1,000,000
31 December 2003	<u>2,600,000</u>
	<u>\$ 5,600,000</u>

Subsequent to 31 December 2003, the United Nations transferred additional amounts of \$2,000,000 on 31 March 2004 and \$500,000 on 19 April 2004.

In addition, the United Nations has notified the CPA that approximately \$412,000, before payments of certain liabilities, of the remaining OFF funds are still to be transferred to the DFI. These liabilities are currently being ascertained and once identified, the remaining OFF funds will be transferred to the DFI.

According to the United Nations, there are no restrictions, conditions or other covenants over the funds received from the OFF program. Further, the funds received are not repayable under any circumstances.

**5. Net proceeds from export sales of petroleum**

Export sales of petroleum and petroleum products are arranged and invoiced exclusively by the Iraqi State Oil Marketing Organization (SOMO), the sales arm of the Ministry of Oil. Export sales of petroleum products were only made through barter transactions. There were no export sales of natural gas from Iraq, as there is no Iraqi infrastructure for exports of natural gas.

The proceeds of export sales of petroleum and petroleum products are to be deposited in the "Oil Proceeds Receipts Account" (OPRA) and immediately thereafter, 95% is to be deposited in the Fund and the remaining 5% is to be deposited in the Compensation Fund. The Compensation Fund was established in accordance with UNSCR 687 and subsequent relevant resolutions, as a result of the Iraqi invasion of Kuwait during 1990.

Export sales of petroleum are paid through irrevocable documentary letters of credit with proceeds received approximately 30 days after the petroleum has been lifted. Export sales and proceeds of petroleum for the period to 31 December 2003 are as follows:

Total export sales for the period (198,242,690 barrels)	\$ 5,076,634
Less proceeds deposited in OPRA in early 2004	<u>(1,154,243)</u>
Proceeds deposited in OPRA during 2003	3,922,391
Less amounts transferred to the Compensation Fund	<u>(196,120)</u>
Net proceeds deposited in the Fund during 2003	<u>\$ 3,726,271</u>

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As the OPRA account is technically not a DFI account, it has been excluded from the Fund. Accordingly, only 95% of export sales receipts are included in Receipts.

SOMO also engages in barter transactions (see note 12) for exports of petroleum and petroleum products. Barter transactions consist of exports of residual fuel oil for light fuel products and exports of crude oil for electricity from Syria. The value of these barter transactions, as recorded by SOMO, for the period to 31 December 2003 is \$120,907. As these were non-cash transactions, they are not recorded in the statement of cash receipts and payments.

The CPA believes that an unknown quantity of petroleum and petroleum products was illegally exported from Iraq (smuggling), especially in the early months of post-hostilities, by-passing the authorized processes of marketing, sales and cash collection. Despite the internal controls put in place by the CPA and SOMO, internal control systems over the Iraqi oil industry were insufficient to ensure that all petroleum and petroleum products were accounted for in the absence of metering system. The CPA is unable to reliably estimate the amounts of petroleum and petroleum products that were illegally exported for the period to 31 December 2003.

**6. Deposits from assets frozen outside of Iraq**

In accordance with UNSCR 1483, all Member States were obligated to freeze and transfer funds and other financial assets of the former Iraqi regime to the DFI unless those assets were subject to prior judicial, administrative or arbitral lien or judgment. During the period to 31 December 2003, amounts deposited by Member States into the DFI are as follows:

Switzerland	\$ 211,077
United States of America	207,945
Great Britain	184,066
Japan	98,088
Jordan	35,000
Tunisia	8,006
Kuwait	6,963
France	4,188
Italy	2,198
Australia	17
Vietnam	<u>2</u>
	<u>\$ 757,550</u>

During the period from 1 January 2004 to 28 June 2004, Member States transferred additional amounts totaling \$262,921. Other funds and financial assets of the former Iraqi regime are still held by various Member States, which the CPA, the US Government and regulatory agencies in Member States are actively pursuing. The CPA cannot reliably estimate the amount of such funds that may eventually be transferred to the DFI as some of these assets are subject to prior judicial, administrative or arbitral lien or judgment.



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**7. Food and Agricultural Organization and World Food Program**

The Food and Agricultural Organization, the World Food Program and the CPA agreed that the Iraqi Ministry of Trade should act as the procurer for the 2003 Iraqi wheat and barley harvest. During the period to 31 December 2003 receipts from these programs amounted to \$120,000 and payments to the Ministry of Trade amounted to \$125,400. Although these programs were completed during 2003, a final receipt of \$25,879 and a final payment of \$20,479 occurred in 2004.

**8. Deposits by Iraqi Ministries for payments on their behalf**

As the Iraqi banking system does not have the capability to execute wire transfers, the Iraqi Ministries request the CPA to disburse funds on their behalf to international suppliers. During the period to 31 December 2003, deposits by Ministries were \$95,271 and direct payments to international suppliers amounted to \$10,593.

In addition, cash deposited with a bank, on behalf of the Iraqi Ministries, for issued irrevocable documentary letters of credit for the period to 31 December 2003 amounted to \$65,236, and is considered to be a payment during the period. The cash is held at the J.P. Morgan Bank until evidence of the completion of the service or receipt of goods, is received by the Iraqi Ministries.

<i>Ministry of:</i>	<i>Deposits by:</i>	<i>Payments for:</i>
Health	\$ 53,271	\$ 8,082
Electricity	30,000	120
Interior	10,704	10,422
Communications	1,275	-
Oil	-	45,850
Housing and Construction	-	11,304
Other	<u>21</u>	<u>51</u>
	<u>\$ 95,271</u>	<u>\$ 75,829</u>

**9. Allocated budget to Iraqi Ministries**

The Iraqi Ministry of Finance is partially funded by the DFI. After funds are transferred from the DFI to the Iraqi Ministry of Finance, funds are re-distributed to other Iraqi Ministries in accordance with their individual operating budgets. Payments for the period to 31 December 2003 are as follows:

October 2003	\$ 433,000
November 2003	392,950
December 2003	<u>550,000</u>
	<u>\$ 1,375,950</u>

During the period from post-hostilities to September 2003, the Iraqi Ministries were funded by other sources. These included funds of the former Iraqi regime, frozen in the USA under UNSCR 687 and subsequently vested under Executive Order 13290 of 20 March 2003 and transferred before adoption of the UNSCR 1483, monies seized in Iraq under the laws and usages of war and US appropriated funds.

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**10. Projects administered by the CPA**

The CPA administers certain projects and the related payments on behalf of Iraqi Ministries. Payments for the period to 31 December 2003 are as follows:

<i>Ministry of:</i>	<i>Project:</i>	
Finance	Iraqi banknote purchase	\$ 116,593
Finance	Iraqi banknote exchange	31,154
Finance	Iraqi currency exchange	340
Finance	OFF – Northern program	13,462
Finance	Trade Bank of Iraq	1,100
Oil	Import of petroleum products	13,417
Oil	Security	12,560
Oil	Restoration of oil infrastructure	1,130
Oil	Communications	315
Electricity	Purchase of electricity from Turkey	11,393
Electricity	Reconstruction of power plants	4,919
Electricity	Restoration of Iraqi electricity	4,100
National Security and Defense	Weapons	2,832
National Security and Defense	Equipment	1,278
Trade	OFF – Co-ordination centers	25,000
Awqaf (religion)	Hajj pilgrimage	5,000
Housing and Construction	Security	569
Culture	Donation	20
		<u>\$ 245,182</u>

**11. Cash and cash equivalents**

Cash and cash equivalents as at 31 December 2003 are as follows:

US Federal Reserve Bank of New York:		
Treasury bills		\$ 3,777,455
Overnight repurchase agreement pool facility		3,115,000
Operating accounts		78
Central Bank of Iraq - operating account		1,432,600
Cash with Coalition Forces		<u>160,000</u>
		<u>\$ 8,485,133</u>

Cash and cash equivalents include \$4,477,176 of cash committed for certain projects (see note 14). In addition, cash includes \$84,678 deposited by Iraqi Ministries, which is restricted for use only in accordance with instructions from the Iraqi Ministries (see note 8).

The return on Treasury bills and the overnight facility ranged from approximately 0.5% to 1.0%.

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Maturity dates and purchase prices of Treasury bills are as follows:

29 January 2004	\$ 697,946
26 February 2004	697,944
25 March 2004	697,515
22 April 2004	697,022
27 May 2004	697,087
17 June 2004	<u>289,941</u>
	<u>\$ 3,777,455</u>

**12. Unrecorded assets and liabilities**

The Fund records accounting transactions on a cash basis, but the CPA has also commenced the process of identifying and valuing major classes of assets and liabilities which would have been recorded had the Fund presented accrual based financial statements. The identified assets and liabilities as at 31 December 2003 are as follows:

*Assets*

Receivable from UN Oil for Food program	\$ 2,500,000
Net receivables from export sales of petroleum	1,096,531
Amounts due from Ministries for irrevocable documentary letters of credit	65,236
Advance payment to the Ministry of Trade for World Food Program	5,400
Accrued interest from Treasury bills	<u>4,623</u>
	<u>\$ 3,671,790</u>

*Liabilities*

Deposits by Iraqi Ministries	\$ 84,678
Other accruals and liabilities	<u>6,737</u>
	<u>\$ 91,415</u>

*Barter transactions*

Barter transactions for petroleum and petroleum products are non-cash transactions. Barter transactions are not recorded in the DFI statement of cash receipts and payments and are not considered unrecorded assets or liabilities, as these transactions will not materialize into cash at any time. Consequently, payments were not made to the Compensation Fund. However, based on the value of the barter transactions as recorded by SOMO, payments to the Compensation Fund would amount to \$6,045.

**13. Related parties**

Key management of the Fund consists of the CPA Administrator and CPA Senior Advisors and their staff, in consultation with the Iraqi interim administration. The Fund is monitored by the IAMB in accordance with UNSCR 1483. Key management and the IAMB receive no compensation or fees from the DFI.

**Development Fund for Iraq**  
**Notes to the Statement of Cash Receipts and Payments, continued**  
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**14. Commitments and contingencies**

**Commitments**

The DFI uses commitments as a means of managing cash resources. Commitments may not be accurate as certain projects are not complete and the final costs are not known. However, the CPA does not believe that there will be material adjustments to the final costs of these projects.

Cash and cash equivalents less commitments as at 31 December 2003 are as follows:

Cash and cash equivalents	\$ 8,485,133
Commitments	<u>4,477,176</u>
Amount not committed at 31 December 2003	<u>\$ 4,007,957</u>

The uncommitted cash is intended to be used to fund the 2004 Iraqi Budget.

The CPA utilizes irrevocable documentary letters of credit for contractual obligations during the ordinary course of activities, as requested by contractors and suppliers. As at 31 December 2003, the amount of open irrevocable documentary letters of credit was \$65,236 (see note 8).

**Litigation**

In the normal course of its activities, the Fund is party to various legal claims, actions and complaints. It is not possible to predict with certainty whether or not the Fund will ultimately be successful in any of these legal matters or, if not, what the impact might be. However, the CPA does not expect that the results in any of these legal proceedings will have a material adverse effect on the Fund's activities.

**Immunity**

In accordance with UNSCR 1483, certain Member States have taken legal steps as considered necessary, to ensure immunity of the petroleum and petroleum products originating in Iraq, until title passes to the initial purchaser, from legal proceedings against them so as not to be subject to any form of attachment, garnishment or execution. This immunity expires on 31 December 2007, unless the United Nations Security Council decides otherwise.

**Taxation**

The Fund is not subject to taxation.

**15. Subsequent events**

Pursuant to UNSCR 1546 which was approved on 8 June 2004, the proceeds of export sales of Iraqi petroleum and petroleum products shall continue to be deposited with the DFI and utilized in a transparent and equitable manner, through the Iraqi budget, until a government is constitutionally elected. The International Advisory and Monitoring Board shall continue its activities in monitoring the Fund and shall include an additional full voting member designated by the Government of Iraq. These provisions can be reviewed at the request of the Transitional Government to be elected by 31 January 2005, at the latest.