

Preliminary and Tentative  
for Discussion Purposes Only

THE COALITION FOR ACCOUNTABILITY AND  
INTEGRITY - AMAN  
FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2005  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

## **Independent Auditors' Report**

**To the Executive Board**

**The Coalition for Accountability and Integrity - AMAN**

We have audited the accompanying statement of financial position of the Coalition for Accountability and Integrity (AMAN) as of September 30, 2005, and the related statements of activities and changes in net assets and cash flows for the period from inception on January 4, 2000 to September 30, 2005. These financial statements are the responsibility of AMAN's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Coalition for Accountability and Integrity (AMAN) as of September 30, 2005, and the results of its operations, and its cash flows for the period from inception on January 4, 2000 to September 30, 2005 in conformity with International Financial Reporting Standards.

Ernst & Young

Ramallah, Palestine  
April --, 2005

**THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN**

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**Statement of Financial Position**

As of September 30, 2005

(Currency: U.S. \$)

	Notes	2005
<b><u>Assets</u></b>		
<b>Current Assets:</b>		
Cash at bank	4	22,322
Contributions receivable	5	1,311,000
Other current assets		14,561
<b>Total Current Assets</b>		<b>1,347,883</b>
Property and equipment, net	6	11,575
<b>Total Assets</b>		<b>1,359,458</b>
 <b><u>Liabilities and Net Assets</u></b>		
<b>Liabilities:</b>		
<b>Current Liabilities</b>		
Accounts payable and accruals	7	26,802
Temporarily restricted contributions	8	1,314,060
<b>Total Current Liabilities</b>		<b>1,340,862</b>
Deferred revenues	9	11,575
Provision for severance pay		6,273
<b>Total Liabilities</b>		1,358,710
 <b>Net Assets:</b>		
Unrestricted net assets		748
<b>Total Net Assets</b>		<b>748</b>
 <b>Total Liabilities and Net Assets</b>		 <b>1,359,458</b>

The accompanying notes from 1 to 15 form part of these financial statements.

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

**Statement of Activities and Changes in Net Assets**

For the Period from inception on January 4, 2000 to September 30, 2005

(Currency: U.S. \$)

	<u>Notes</u>	<u>2005</u>
<b>Revenues</b>		
Temporarily restricted contributions released from restrictions	10	487,727
Deferred revenues recognized	9	19,214
<b>Total revenues</b>		<u>506,941</u>
<b>Expenses</b>		
Projects' expenses	11	435,715
General and administrative expenses	12	52,012
Depreciation expense	6	18,466
<b>Total expenses</b>		<u>506,193</u>
<b>Increase in net assets</b>		748
Net assets, beginning of the period		<u>-</u>
<b>Net assets, end of the period</b>		<u><u>748</u></u>

The accompanying notes from 1 to 15 form part of these financial statements.

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

**Statement of Cash Flows**

For the Period from inception on January 4, 2000 to September 30, 2005

(Currency: U.S. \$)

	2005
<b>Cash Flows from Operating Activities:</b>	
Increase in net assets	748
<b>Adjustments:</b>	
Depreciation	18,466
Provision for severance pay	6,273
Loss on disposal of property and equipment	748
	26,235
<b>Change in working capital</b>	
Proceeds from contributions	3,060
Other current assets	(14,561)
Accounts payable and accruals	26,802
Temporary Deferred revenues	11,575
	53,111
<b>Net cash flows from operating activities</b>	
<b>Cash Flows from Investing Activities:</b>	
Purchase of property and equipment	(30,789)
	(30,789)
<b>Net cash flows used in investing activities</b>	
<b>Net increase in cash at bank</b>	22,322
Cash at bank, beginning of period	-
<b>Cash at bank, end of period</b>	22,322

The accompanying notes from 1 to 15 form part of these financial statements.

## THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

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### Notes to the Financial Statements

As of September 30, 2005

(Currency: U.S. \$)

#### 1. AMAN and its Activities

During year 2000, some Palestinian not-for-profit organizations and Palestinian activists founded the Coalition for Accountability and Integrity - AMAN. AMAN was officially registered on February 9, 2004 under number RA-22234-505 in Ramallah. AMAN's mission is to contribute to good governance through fostering and enhancing integrity and accountability in the political system as well as in all sectors of the Palestinian society.

The founding organizations and activists of AMAN are:

- The Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH)
- Arab Thought Forum
- The Palestinian Trade Centre
- The Palestinian Institute for the Study of Democracy
- Al-Mezan Centre for Human Rights
- The Palestinian Council on Foreign Relations
- Dr. Azmi Shuaibi

Representatives of these founding organizations and individuals comprise the executive body of AMAN.

AMAN's objectives are to identify and investigate the aspects, features, causes and consequences of corruption of trust and authority, misuse of public funds, define and propose the appropriate mechanism in the legislative, judicial, administrative and financial areas in different sectors to counter corruption and achieve transparency and accountability. Moreover, AMAN aims to raise public awareness among Palestinian society regarding the danger of corruption and its devastating impact, enhance the role of oversight institutions including the Palestinian Legislative Council and civil society and propose draft legislations and regulations and work closely with the Palestinian Legislative Council.

During the audit period, AMAN was hosted by MIFTAH.

In order to achieve its objectives, AMAN executed many projects that were funded by many donors for the period from inception on January 4, 2000 to September 30, 2005. A list of these projects and donors follows:

Name of the Donor	Project Name
Netherlands Ministry of Foreign Affairs and the Norwegian Ministry of Foreign Affairs	<ul style="list-style-type: none"> <li>• Participation of AMAN's Members in the Transparency International Annual Meeting.</li> <li>• Capacity Building of the AMAN Secretariat.</li> <li>• Enhancing Values of Integrity and Principles of Accountability and Transparency in the Palestinian Society.</li> </ul>
United Nations Development Programme	<ul style="list-style-type: none"> <li>• Good Governance.</li> <li>• Capacity Building for AMAN.</li> <li>• Emergency Fund I.</li> <li>• Emergency Fund II.</li> <li>• Participation of Program Director in "Promoting Ethics, Integrity and Professional Standards in Public Services" training course.</li> <li>• UNV Program.</li> <li>• Institutional Building: Emergency Support to the Field of Institutional Building (Setting Up AMAN Office in Gaza City).</li> </ul>
Konrad Adenauer Stiftung	<ul style="list-style-type: none"> <li>• Activating the Performance of the Palestinian Legislative Council.</li> <li>• Enhancing Values of Integrity and Principles of Accountability in Political Parties Life.</li> </ul>
British Consulate	<ul style="list-style-type: none"> <li>• Establishing AMAN's Resource Centre.</li> </ul>
Tiri- Making Integrity Work	<ul style="list-style-type: none"> <li>• Integrity in Post War Reconstruction.</li> </ul>
British Council	<ul style="list-style-type: none"> <li>• Establishing AMAN's Resource Centre.</li> <li>• Desk Calendar and Poster Printing.</li> </ul>
Henrich Boll Foundation	<ul style="list-style-type: none"> <li>• Promotion of Mixed Election System.</li> </ul>
Transparency International	<ul style="list-style-type: none"> <li>• Participation of Financial Director in "Financial Management for NGO's" training course.</li> <li>• Advocating for Greater Access to Information to Fight Corruption in Middle East and North Africa.</li> <li>• Source Book Adaptation.</li> </ul>

## 2. Financial Statements

The attached financial statements represent the first audited financial statements of AMAN. These financial statements represent AMAN's financial position as of September 30, 2005 and results of its operations, and its cash flows for the period from inception on January 4, 2000 to September 30, 2005.

## 3. Summary of Significant Accounting Policies

### – Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards, issued by International Accounting Standards Board (IASB).

Currently, the International Financial Reporting Standards do not include any specific requirements regarding the not-for-profit organization in connection with the accounting policies or the presentation of the financial statements.

The financial statements have been presented in U.S. Dollar.

### – Donors' pledges

- Donors' unconditional pledges are those pledges where donors do not specify prerequisites that have to be carried out by the recipient before obtaining the fund.
- Donors' conditional pledges are those pledges where donors stipulate prerequisites that have to be carried out by the recipient before obtaining the fund.

### – Donation revenues

Donation revenues from unconditional pledges are recognized as follows:

- Unconditional pledges that are not restricted for specific purpose or time are recognized when the pledge is obtained.
- Unconditional pledges that are temporarily restricted by donors for specific purpose or time are recognized when such purpose or time is satisfied.

### – Deferred revenues

Donations related to property and equipment are stated at fair value, recorded as deferred revenues and recognized as revenue on a systematic basis over the useful life of the property and equipment.

### – Expenses recognition

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

– **Contributions receivable**

Contributions receivable from donors are the amounts not collected from the unconditional pledges.

– **Property and equipment**

Property and equipment are stated at cost on the date of acquisition or, in the case of gifts, at fair market value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the property and equipment using the following annual depreciation rates:

	<u>%</u>
Computers - hardware and software	25
Office equipment	20
Office furniture	15

The carrying value of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset is included in the statement of activities in the period the item is derecognized.

– **Severance pay**

A provision for severance pay to cover the commitments of AMAN towards the employees' end-of-service indemnity was made in accordance with the prevailing labor law in Palestine.

– **Income taxes**

AMAN is a not-for-profit organization; accordingly, it is not subject to income tax.

– **Foreign currency transactions**

Transactions which are denominated in currencies other than the U.S. Dollar (U.S. \$), are translated to U.S. \$ using exchange rates in effect at the time of each transaction. Monetary assets and liabilities, which are denominated in currencies other than U.S. \$, are translated to U.S. \$ using the prevailing exchange rate at the date of the statement of financial position. Gains or losses arising from exchange differences are reflected in the statement of activities.

**4. Cash at Bank**

	2005
Current accounts at bank in U.S. \$	14,000
Current accounts at bank in NIS	8,322
	<u>22,322</u>

**5. Contributions Receivable**

Contributions receivable comprise pledges to give as of September 30, 2005 from the following donors:

	2005
Netherlands Ministry of Foreign Affairs and the Norwegian Ministry of Foreign Affairs (Norway and Netherlands)	1,265,025
Konrad Adenauer Stiftung	15,754
Tiri- Making Integrity Work	15,221
United Nations Development Programme (UNDP)	15,000
	<u>1,311,000</u>

**6. Property and Equipment**

Components of property and equipment as of September 30, 2005, and movements during the period from inception on January 4, 2000 to September 30, 2005 are as follows:

	Balance, beginning of period	Additions/ Depreciation	Disposals	Balance, end of period
<b>Cost:</b>				
Computers – hardware and software	-	17,236	734	16,502
Office equipment	-	8,887	1,705	7,182
Office furniture	-	4,666	109	4,557
	-	<u>30,789</u>	<u>2,548</u>	<u>28,241</u>
<b>Accumulated Depreciation:</b>				
Computers – hardware and software	-	11,212	582	10,630
Office equipment	-	5,089	1,198	3,891
Office furniture	-	2,165	20	2,145
	-	<u>18,466</u>	<u>1,800</u>	<u>16,666</u>
<b>Net Book Value</b>	<u>-</u>			<u>11,575</u>

## 7. Accounts Payable and Accruals

	2005
Due to MIFTAH	24,291
Sundry	2,511
	<u>26,802</u>

## 8. Temporarily Restricted Contributions

This item comprises temporarily restricted contributions subject to purpose or time restriction. These amounts represent the excess of donations received over the expenditures made out to satisfy the purposes stipulated by the donors.

The temporarily restricted contributions comprise the following as of September 30, 2005:

	2005
Netherlands Ministry of Foreign Affairs and the Norwegian Ministry of Foreign Affairs	1,239,749
United Nations Development Programme	29,937
Konrad Adenauer Stiftung	16,739
Tiri- Making Integrity Work	24,682
Sundry	2,,953
	<u>1,314,060</u>

Movement on temporarily restricted contributions during the period from inception on January 4, 2000 to September 30, 2005 was as follows:

	2005
Beginning balance	-
Additions during the period *	1,832,576
Temporarily restricted contributions released from restriction (note 10)	(487,727)
Deferred revenues (note 9)	(30,789)
Ending balance	<u>1,314,060</u>

\* Additions to temporarily restricted contributions have been received and pledged during the period from inception on January 4, 2000 to September 30, 2005 from the following donors:

	2005
Netherlands Ministry of Foreign Affairs and the Norwegian Ministry of Foreign Affairs	1,429,865
United Nations Development Programme	277,292
Konrad Adenauer Stiftung	43,210
British Consulate	27,343
Tiri- Making Integrity Work	24,682
British Council	15,610
Henrich Boll Foundation	4,804
Transparency International	9,770
	<u>1,832,576</u>

**9. Deferred Revenues**

This item represents property and equipment acquired during the period out of the temporarily restricted contributions. Such property and equipment is recorded as deferred revenues and recognized as revenues on a systematic basis over the useful life of the property and equipment. Movement on deferred revenues during the period from inception on January 4, 2000 to September 30, 2005 was as follows:

	<u>2005</u>
Beginning balance	-
Additions (Note 6)	30,789
Deferred revenues recognized *	<u>(19,214)</u>
Ending balance	<u><u>11,575</u></u>

\* This amount represents the depreciation expense of the property and equipment for the period from inception on January 4, 2000 to September 30, 2005, and the book value of the disposed property and equipment.

**10. Temporarily Restricted Contributions Released from Restrictions**

This item represents the revenue recognized as a result of satisfying the purpose of restricted donations during the period from inception on January 4, 2000 to September 30, 2005.

## 11. Projects' Expenses

	<b>UNDP</b>	<b>Norway and Netherlands</b>	<b>Konrad Adenauer Stiftung</b>	<b>British Consulate</b>	<b>British Council</b>	<b>Henrich Boll Foundation</b>	<b>Sundry</b>	<b>Total</b>
Salaries and related expenses	128,707	85,174	3,862	3,445	-	250	-	221,438
Severance pay	1,888	4,385	-	-	-	-	-	6,273
Experts honoraria and training fees	16,970	7,000	-	-	-	-	900	24,870
Equipment and hall rental	2,675	-	-	450	-	-	-	3,125
Workshop expenses	-	1,882	-	-	-	-	-	1,882
Travel and accommodation	1,490	14,107	17	331	-	2	443	16,390
Information and Publications	30,079	38,833	15,501	10,437	11,610	2,474	1,895	110,829
Training expenses	4,447	11,878	-	-	-	-	590	16,915
Hosting delegations and meetings	9,026	1,863	1,570	378	-	1,558	-	14,395
Postage, telephone and fax	4,170	2,714	450	607	-	-	-	7,941
Information technology expenses	3,908	911	50	-	-	-	-	4,869
Sundry	1,979	459	283	48	-	-	4,019	6,788
Total projects' expenses	<u>205,339</u>	<u>169,206</u>	<u>21,733</u>	<u>16,535</u>	<u>11,610</u>	<u>4,284</u>	<u>7,847</u>	<u>435,715</u>
General and Administrative (Note 12)	<u>28,681</u>	<u>17,414</u>	<u>4,628</u>	<u>839</u>	<u>-</u>	<u>450</u>	<u>-</u>	<u>52,012</u>
Total	<u><u>234,020</u></u>	<u><u>186,620</u></u>	<u><u>26,361</u></u>	<u><u>16,535</u></u>	<u><u>11,610</u></u>	<u><u>4,734</u></u>	<u><u>7,847</u></u>	<u><u>487,727</u></u>

## 12. General and Administrative Expenses

	<u>UNDP</u>	<u>Norway and Netherlands</u>	<u>Konrad Adenuar Stitung</u>	<u>British Consulate</u>	<u>Henrich Boll Foundation</u>	<u>Total</u>
Salaries and related expenses	12,645	9,113	487	-		22,245
Office rental	5,650	5,000	2,010	600	450	13,710
Professional fees	3,100	1,638	-			4,738
Utilities	7,286	1,663	2,131	239		11,319
Total	<u>28,681</u>	<u>17,414</u>	<u>4,628</u>	<u>839</u>	<u>450</u>	<u>52,012</u>

### **13. Fair Values of Financial Instruments**

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash at bank and contributions receivable. Financial liabilities consist of accounts payable and accruals, temporarily restricted contributions and deferred revenues.

The fair value of financial instruments is not materially different from their carrying values.

### **14. Risk Management**

#### **Liquidity risk**

AMAN limits its liquidity risk by maintaining adequate cash balances to meet its current obligations and to finance its operating activities. In addition, the operations of AMAN are financed by multiple donors.

#### **Foreign currency risk**

AMAN maintains its major assets and liabilities in one currency which is the U.S. \$. In addition, its major donation revenues are collected in U.S. \$ and most of its expenses are paid in U.S. \$.

### **15. Concentration of Risk in Geographic Area**

AMAN is carrying out all of its activities in Palestine. The political and economical situation in the area increases the risk of carrying out these activities and may adversely affect AMAN's performance.