

AI MEZAN CENTER FOR HUMAN RIGHTS

FINANCIAL STATEMENTS

DECEMBER 31, 2019



Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com



INDEPENDENT AUDITOR'S REPORT

To Members of the General Assembly of Al Mezan Center for Human Rights

Opinion

We have audited the financial statements of Al Mezan Center for Human Rights (Al Mezan), which comprise the statement of financial position as at December 31, 2019, and the statement of activities, statement of changes in net assets, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Al Mezan as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Al Mezan in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to note (15) to the accompanying financial statements, Al Mezan reported a deficit in net assets as at December 31, 2019 and 2018. These conditions indicate that a material uncertainty exists that may cast significant doubt on Al Mezan ability to continue as a going concern. Al Mezan's ability to continue its activities and generate future cash flows depends primarily on obtaining sufficient funding to finance its activities. Our opinion is not modified in respect of this matter.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Al Mezan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Al Mezan or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing Al Mezan's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Al Mezan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Al Mezan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Al Mezan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Ramallah - Palestine
June 10, 2020

AL MEZAN CENTER FOR HUMAN RIGHTS

STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

| | <u>Notes</u> | <u>2019</u> U.S. \$ | <u>2018</u> U.S. \$ |
|--|--------------|-------------------------|-------------------------|
| Non-current Assets | | | |
| Property and equipment | 3 | 71,740 | 36,195 |
| Right-of-use assets | 2 | 169,669 | - |
| | | <u>241,409</u> | <u>36,195</u> |
| Current Assets | | | |
| Contributions receivable | 4 | 1,177,482 | 369,960 |
| Other current assets | 5 | 2,717 | 12,079 |
| Cash and cash equivalents | 6 | 708,734 | 456,017 |
| | | <u>1,888,933</u> | <u>838,056</u> |
| TOTAL ASSETS | | <u><u>2,130,342</u></u> | <u><u>874,251</u></u> |
| <u>NET ASSETS AND LIABILITIES</u> | | | |
| Net Assets | | | |
| Paid-in capital | 1 | 5,000 | 5,000 |
| Unrestricted net assets | | <u>(82,007)</u> | <u>(227,305)</u> |
| Total Net Assets | | <u><u>(77,007)</u></u> | <u><u>(222,305)</u></u> |
| Non-current Liabilities | | | |
| Long-term lease liability | 2 | 147,152 | - |
| Deferred revenues | 7 | 71,740 | 36,195 |
| Provision for employees' benefits | 8 | 518,267 | 413,074 |
| | | <u>737,159</u> | <u>449,269</u> |
| Current Liabilities | | | |
| Temporarily restricted contributions | 9 | 1,253,984 | 483,611 |
| Other current liabilities | 10 | 216,206 | 163,676 |
| | | <u>1,470,190</u> | <u>647,287</u> |
| Total Liabilities | | <u><u>2,207,349</u></u> | <u><u>1,096,556</u></u> |
| TOTAL NET ASSETS AND LIABILITIES | | <u><u>2,130,342</u></u> | <u><u>874,251</u></u> |

The attached notes 1 to 17 form part of these financial statements

AL MEZAN CENTER FOR HUMAN RIGHTS

STATEMENT OF ACTIVITIES

Year ended December 31, 2019

| | <u>Notes</u> | <u>2019</u> <u>U.S. \$</u> | <u>2018</u> <u>U.S. \$</u> |
|---|--------------|-------------------------------|-------------------------------|
| Revenues | | | |
| Temporarily restricted contributions released from restriction | 9 | 1,046,588 | 724,531 |
| Deferred revenues recognized | 7 | 20,575 | 14,221 |
| Unrestricted contributions | 9 | 156,294 | 7,010 |
| Gain on disposal of property and equipment | | 7,500 | - |
| Other revenues | | - | 98 |
| Total revenues | | <u>1,230,957</u> | <u>745,860</u> |
| Expenses | | | |
| Core programs | 11 | (533,793) | (479,588) |
| Non-core programs | 11 | (491,267) | (399,207) |
| Depreciation of property, plant and equipment and right-of-use assets | 2 & 3 | (38,198) | (14,221) |
| Finance cost related to long-term lease liabilities | 2 | (9,347) | - |
| Currency exchange differences | | (13,054) | (19,783) |
| Total expenses | | <u>(1,085,659)</u> | <u>(912,799)</u> |
| Changes in net assets for the year | | <u>145,298</u> | <u>(166,939)</u> |

AL MEZAN CENTER FOR HUMAN RIGHTS

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 2019

| | Paid-in capital <u>U.S. \$</u> | Unrestricted net assets <u>U.S. \$</u> | Total net assets <u>U.S. \$</u> |
|------------------------------------|--------------------------------------|--|---------------------------------------|
| <u>2019</u> | | | |
| Balance, beginning of the year | 5,000 | (227,305) | (222,305) |
| Changes in net assets for the year | - | 145,298 | 145,298 |
| Balance, end of year | <u>5,000</u> | <u>(82,007)</u> | <u>(77,007)</u> |
| <u>2018</u> | | | |
| Balance, beginning of the year | 5,000 | (60,366) | (55,366) |
| Changes in net assets for the year | - | (166,939) | (166,939) |
| Balance, end of year | <u>5,000</u> | <u>(227,305)</u> | <u>(222,305)</u> |

AL MEZAN CENTER FOR HUMAN RIGHTS

STATEMENT OF CASH FLOWS

Year ended December 31, 2019

| | <u>Notes</u> | <u>2019</u> U.S. \$ | <u>2018</u> U.S. \$ |
|---|--------------|------------------------|------------------------|
| <u>Operating activities</u> | | | |
| Changes in net assets for the year | | 145,298 | (166,939) |
| Adjustments: | | | |
| Depreciation of property, plant and equipment and right-of-use assets | | 38,198 | 14,221 |
| Deferred revenues recognized | | (20,575) | (14,221) |
| Provision for employees' benefits | | 140,993 | 138,534 |
| Finance cost related to long-term lease liabilities | | 9,347 | - |
| Gain on disposal of property and equipment | | (7,500) | - |
| | | <u>305,761</u> | <u>(28,405)</u> |
| Changes in working capital: | | | |
| Contributions receivable | | (807,522) | (308,550) |
| Other current assets | | 8,077 | (5,751) |
| Temporarily restricted contributions | | 826,493 | 453,914 |
| Other current liabilities | | 28,530 | 39,057 |
| Employees' benefits paid | | (35,800) | (9,000) |
| Net cash flow from operating activities | | <u>325,539</u> | <u>141,265</u> |
| <u>Investing activities</u> | | | |
| Purchase of property and equipment | | (56,120) | (7,340) |
| Proceeds from disposal of property and equipment | | 7,500 | - |
| Cash used in investing activities | | <u>(48,620)</u> | <u>(7,340)</u> |
| <u>Financing activities</u> | | | |
| Long-term lease liability payments | | (24,202) | - |
| Cash used in financing activities | | <u>(24,202)</u> | <u>-</u> |
| Increase in cash and cash equivalents | | 252,717 | 133,925 |
| Cash and cash equivalents, beginning of the year | | <u>456,017</u> | <u>322,092</u> |
| Cash and cash equivalents, end of year | 6 | <u>708,734</u> | <u>456,017</u> |

The attached notes 1 to 17 form part of these financial statements

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

1. General

Al Mezan Center for Human Rights (Al Mezan) was established in Gaza City on May 30, 1999 as a not-for-profit company and is registered under a registration number (563130798) in accordance with the Palestinian Companies' Law. The authorized and subscribed share capital of Al Mezan is 100 share at U.S. \$ 100 par value for each share. The paid-in capital amounted to U.S. \$ 5,000 as at the date of these financial statements.

Al Mezan's mission is to provide a secure and long-lasting foundation for the provision of human rights on all levels.

Al Mezan goals are to promote and prevent violation of human rights in general, economic, social, and cultural rights, to provide efficient aid to those victims of such violations, and to substantially enhance the quality of life for marginalized sectors of Gaza Strip community. These goals are being achieved through monitoring, investigating and documenting human rights violations and extending the necessary consultation services to individuals and groups through conducting necessary researches in human rights agreements and international law.

Al Mezan operates through its main office in Gaza City and two offices in Jabalia and Rafah.

The financial statements were authorized for issuance by Al Mezan's Board of Directors on June 10, 2020.

2. Accounting Policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB).

The financial statements have been presented in U.S. Dollar, which is the functional currency of Al Mezan.

The financial statements have been prepared on a historical cost basis.

2.2 Changes in accounting policy

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2018 except for Al Mezan's adoption of the following standards, amendments, and interpretations effective starting from 1 January 2019.

IFRS (16) "Leases"

IFRS (16) "Leases" supersedes IAS (17) "Leases" and IFRIC (4) "Determining whether an Arrangement contains a Lease", SIC (15) "Operating Leases-Incentives" and SIC (27) "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-statement of financial position model.

Lessor accounting under IFRS (16) is substantially unchanged under IAS (17). Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS (17). Therefore, IFRS (16) did not have an impact for leases where Al Mezan is the lessor.

Al Mezan adopted IFRS (16) using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Accordingly, no adjustments were made to prior year financial statements. Al Mezan elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS (17) and IFRIC (4) at the date of initial application. The following is the impact of application of IFRS (16):

Following is the effect on the statement of financial position as at January 1, 2019:

| | <u>U.S. \$</u> |
|---------------------|-----------------|
| Assets | |
| Right-of-use assets | 187,292 |
| Liabilities | |
| Lease Liabilities | <u>187,292</u> |
| Net assets | <u><u>-</u></u> |

Nature of the effect of adoption of IFRS (16)

Al Mezan used to classify each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transfers substantially all of the risks and rewards associated with ownership of the leased asset to Al Mezan; otherwise, it was classified as an operating lease. Finance leases used to be capitalized at the commencement of the lease contract at fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liabilities. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under other assets and other liabilities, respectively.

At the adoption of IFRS (16), Al Mezan applied a single recognition approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The standard provides specific application requirements and practical solutions, which Al Mezan has used when applying the standard.

Leases previously accounted for as operating leases

Al Mezan recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Al Mezan also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.

Amounts recognized in the statement of financial position and statement of activities.

The following table shows the carrying amounts of Al Mezan's right-of-use assets and lease liabilities and the movements for the year ended December 31, 2019:

| | Assets | Liabilities |
|--|------------------------|-----------------------|
| | Right-of-use assets | Lease liabilities |
| | U.S. \$ | U.S. \$ |
| Balance as of January 1, 2019 | 187,292 | 187,292 |
| Depreciation | (17,623) | - |
| Finance costs | - | 9,347 |
| Prepayment | - | (1,285) |
| Payments during the year | - | (24,202) |
| | <u>169,669</u> | <u>171,152</u> |
| Current portion of lease liabilities (included in other current liabilities - note 10) | - | (24,000) |
| Balance as of December 31, 2019 | <u><u>169,669</u></u> | <u><u>147,152</u></u> |

Set out below are the new accounting policies of Al Mezan upon adoption of IFRS (16):

Right-of-use assets

Al Mezan recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless Al Mezan is not reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing.

Lease liabilities

At the commencement date of the lease, Al Mezan recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by Al Mezan and payments of penalties for terminating a lease, if the lease terms reflect Al Mezan intentions to exercise the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, Al Mezan uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

AI Mezan applies the short-term lease recognition exemption to its short-term leases (those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

AI Mezan determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. AI Mezan has the option, under some of its leases to lease the assets for additional terms. AI Mezan applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, AI Mezan reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

AI Mezan included the renewal period as part of the lease term due to the significance of these assets to its operations. These leases are considered to have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Standards issued but not effective

The International Accounting Standards Board (IASB) issued certain standards and amendments that are not yet effective and have not yet been adopted by AI Mezan. AI Mezan intends to adopt these standards and amendments, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

The IASB issued amendments to IAS (1) "Presentation of Financial Statements" and IAS (8) "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on AI Mezan's financial statements.

2.3 Significant accounting judgment, estimates and assumptions

The preparation of the financial statements in conformity with IFRSs requires the use of accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying AI Mezan's accounting policies. AI Mezan's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Useful lives of property and equipment

AI Mezan's management reassesses the useful lives of property and equipment, and makes adjustments if applicable, at each financial year end.

Impairment of financial assets (Expected Credit Loss "ECL")

In determining impairment of financial assets, AI Mezan uses judgement to estimate the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses.

Allocation of expenses

Allocation of AI Mezan expenses to programs, administrative and general functions is based on AI Mezan management's best estimate of allocation basis.

Determining the lease term of contracts with renewal and termination options

AI Mezan determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Management believes that the estimates and assumptions used are reasonable.

2.4 Summary of significant accounting policies

Donation revenues

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.

Donation revenues from unconditional pledges are recognized as follows:

- Unconditional pledges that are not restricted for a specific purpose or time are recognized when the pledge is obtained.
- Unconditional pledges that are temporarily restricted by the donor for a 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 income on a systematic basis over their respective useful lives.

Expenses recognition

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

Cash and cash equivalents

Cash and cash equivalent comprise cash on hand and bank balances and short-term deposits maturing in three month or less, net of restricted cash balances, if any.

Contributions receivable

Contributions receivable are stated at the original amount of the unconditional pledge less amounts received net of expected credit loss which is computed in accordance with IFRS 9.

Current versus non-current classification

AI Mezan presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

AI Mezan classifies all other liabilities as non-current.

Impairment of financial assets

For all debt instruments, the center has applied the standard's simplified approach and has calculated ECL based on lifetime expected credit losses. To measure ECL, debit balances are classified based on their credit factors and maturities.

Financial assets that are measured at amortized cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties.

Fair value of financial instruments

The fair value of financial assets and financial liabilities recorded in the statement of financial position approximate their carrying amounts largely due to the short-term maturities of these instruments. Where the fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of activities as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | Useful lives (years) |
|------------------------|-------------------------|
| Furniture and fixtures | 8.33 |
| Office equipment | 4 |
| Information resources | 4 |
| Computers and printers | 4 |
| Motor vehicle | 6.7 |
| Renovation | 4 |
| Solar Energy System | 4 |

Any item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of activities when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Income tax

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

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if there is a currently enforceable legal right to offset the recognized amounts and Al Mezan intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received whether billed by the supplier or not.

Provisions

Provisions are recognized when Al Mezan has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to U.S Dollar at the rate of exchange ruling at the statement of financial position date. All differences are recognized in the statement of activities.

3. Property and Equipment

| | Furniture and fixtures | Office equipment | Information resources | Computers and printers | Motor vehicle | Renovation | Solar Energy System | Total |
|---------------------------------|------------------------------|---------------------|--------------------------|------------------------------|------------------|--------------|---------------------------|----------------|
| | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| 2019 | | | | | | | | |
| Cost | | | | | | | | |
| Balance, beginning of the year | 62,068 | 126,929 | 100,085 | 121,950 | 19,200 | 3,142 | - | 433,374 |
| Additions | 405 | 5,233 | 998 | 26,200 | - | - | 23,284 | 56,120 |
| Disposal | - | (13,100) | - | - | - | - | - | (13,100) |
| Balance, end of year | <u>62,473</u> | <u>119,062</u> | <u>101,083</u> | <u>148,150</u> | <u>19,200</u> | <u>3,142</u> | <u>23,284</u> | <u>476,394</u> |
| Accumulated depreciation | | | | | | | | |
| Balance, beginning of the year | 48,715 | 119,934 | 99,010 | 108,816 | 19,199 | 1,505 | - | 397,179 |
| Depreciation | 2,143 | 3,050 | 705 | 9,277 | - | 786 | 4,614 | 20,575 |
| Disposal | - | (13,100) | - | - | - | - | - | (13,100) |
| Balance, end of year | <u>50,858</u> | <u>109,884</u> | <u>99,715</u> | <u>118,093</u> | <u>19,199</u> | <u>2,291</u> | <u>4,614</u> | <u>404,654</u> |
| Net book value | | | | | | | | |
| At December 31, 2019 | <u>11,615</u> | <u>9,178</u> | <u>1,368</u> | <u>30,057</u> | <u>1</u> | <u>851</u> | <u>18,670</u> | <u>71,740</u> |
| 2018 | | | | | | | | |
| Cost | | | | | | | | |
| Balance, beginning of the year | 54,952 | 126,705 | 100,085 | 121,950 | 19,200 | 3,142 | - | 426,034 |
| Additions | 7,116 | 224 | - | - | - | - | - | 7,340 |
| Balance, end of year | <u>62,068</u> | <u>126,929</u> | <u>100,085</u> | <u>121,950</u> | <u>19,200</u> | <u>3,142</u> | <u>-</u> | <u>433,374</u> |
| Accumulated depreciation | | | | | | | | |
| Balance, beginning of the year | 47,413 | 116,183 | 97,267 | 102,176 | 19,199 | 720 | - | 382,958 |
| Depreciation | 1,302 | 3,751 | 1,743 | 6,640 | - | 785 | - | 14,221 |
| Balance, end of year | <u>48,715</u> | <u>119,934</u> | <u>99,010</u> | <u>108,816</u> | <u>19,199</u> | <u>1,505</u> | <u>-</u> | <u>397,179</u> |
| Net book value | | | | | | | | |
| At December 31, 2018 | <u>13,353</u> | <u>6,995</u> | <u>1,075</u> | <u>13,134</u> | <u>1</u> | <u>1,637</u> | <u>-</u> | <u>36,195</u> |

4. Contributions Receivable

Contributions receivable comprise unconditional pledges to give as of December 31, 2019. Details of movement during the year are as follows:

| | Balance, beginning of the year | Additions - (written off) | Received | Currency differences | Balance, end of year |
|---|---|------------------------------|--------------------|-------------------------|----------------------------|
| | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| European Union (EU) represented by the European Commission | 338,526 | - | (172,153) | 2,688 | 169,061 |
| NGO Development Center - NDC | - | 609,114 | (218,200) | (1,538) | 389,376 |
| Open Society Foundation - OSF | - | 600,000 | (350,000) | - | 250,000 |
| United Nations Development Programme (UNDP) | - | 344,829 | (103,627) | - | 241,202 |
| The United Nations - Occupied Palestinian Territory Humanitarian Fund | - | 244,756 | (195,805) | - | 48,951 |
| OXFAM Novib | - | 10,300 | (10,300) | - | - |
| Save the Children International (SCI) | 11,559 | (1,087) | (10,434) | (38) | - |
| Netherlands Representative Office to Palestinian Authority (PA) | 11,500 | - | (11,500) | - | - |
| Medico International e.V. (Germany) | - | 34,109 | (17,055) | (244) | 16,810 |
| Diakonia Regional Office for the Middle East | - | 50,000 | (25,000) | - | 25,000 |
| Al Haq Organization - Al Haq | - | 5,800 | (5,800) | - | - |
| Premiere Urgence International - PUI | - | 5,718 | (3,045) | 409 | 3,082 |
| KerK In Actie (ICCO) | - | 85,275 | (85,275) | - | - |
| Norwegian Refugee Council (NRC) | 8,375 | 34,000 | (8,375) | - | 34,000 |
| HEINRICH BOLL STIFUNG - HBS | - | 5,246 | (5,246) | - | - |
| | <u>369,960</u> | <u>2,028,060</u> | <u>(1,221,815)</u> | <u>1,277</u> | <u>1,177,482</u> |

5. Other Current Assets

This item represents the following:

| | 2019 U.S. \$ | 2018 U.S. \$ |
|------------------|-----------------|-----------------|
| Advance payment | 1,672 | 8,846 |
| Prepaid expenses | - | 3,233 |
| Other | 1,045 | - |
| | <u>2,717</u> | <u>12,079</u> |

6. Cash and Cash Equivalents

| | 2019 U.S. \$ | 2018 U.S. \$ |
|---|-----------------|-----------------|
| Cash at banks | 304,294 | 298,046 |
| Cash at bank designated for provision for employees' benefits | 404,440 | 157,971 |
| | <u>708,734</u> | <u>456,017</u> |

7. Deferred Revenues

This item represents property and equipment acquired out of the temporarily restricted contributions. The movement on deferred revenues during the year was as follows:

| | 2019 U.S. \$ | 2018 U.S. \$ |
|--------------------------------|-----------------|-----------------|
| Balance, beginning of the year | 36,195 | 43,076 |
| Addition (Note 9) | 56,120 | 7,340 |
| Deferred revenues recognized | (20,575) | (14,221) |
| Balance, end of year | <u>71,740</u> | <u>36,195</u> |

8. Provision for Employees' Benefits

Movement on the provision for employees' benefits during the year was as follows:

| | Employees' indemnity U.S. \$ | Saving fund U.S. \$ | Total U.S. \$ |
|--------------------------------|------------------------------------|------------------------|------------------|
| December 31, 2019 | | | |
| Balance, beginning of the year | 228,047 | 185,027 | 413,074 |
| Additions during the year | 66,862 | 74,131 | 140,993 |
| Payments | (800) | (35,000) | (35,800) |
| Balance, end of year | <u>294,109</u> | <u>224,158</u> | <u>518,267</u> |
| | Employees' indemnity U.S. \$ | Saving fund U.S. \$ | Total U.S. \$ |
| December 31, 2018 | | | |
| Balance, beginning of the year | 165,158 | 118,382 | 283,540 |
| Additions during the year | 65,889 | 72,645 | 138,534 |
| Payments | (3,000) | (6,000) | (9,000) |
| Balance, end of year | <u>228,047</u> | <u>185,027</u> | <u>413,074</u> |

Employees' end of service indemnity is calculated in accordance with the labor law prevailing in Palestine, and Al Mezan internal policies, based on one-month indemnity for each year of employment.

Contributions to employees' saving fund are made based on the employees' basic salary. The monthly contribution by the employee and Al Mezan is set at 7% and 14% of the basic salary, respectively.

Al Mezan maintains a separate special bank account to maintain employees' indemnity and the saving fund.

9. Temporarily Restricted Contributions

This item comprises temporarily restricted contributions subject to purpose restriction. It represents the difference between the donation pledged and the expenditures made out to satisfy the purpose stipulated by the donor. Movement on temporarily restricted contributions during the year was as follows:

| | Balance, beginning of the year | Additions - (written off) | Temporarily restricted contributions released from restriction | Unrestricted contribution | Deferred revenues (Note 7) | Currency differences | Balance, end of year |
|---|---|------------------------------|--|------------------------------|----------------------------------|-------------------------|----------------------------|
| | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| 2019 | | | | | | | |
| European Union (EU) represented by the European Commission | 420,777 | - | (153,178) | - | (1,638) | 2,688 | 268,649 |
| NGO Development Center - NDC | - | 609,114 | (248,172) | (53,484) | (2,955) | (1,538) | 302,965 |
| Open Society Foundation - OSF | - | 600,000 | (181,989) | (100,000) | (705) | - | 317,306 |
| United Nations Development Programme - UNDP | - | 344,829 | (139,788) | - | (1,890) | - | 203,151 |
| The United Nations - Occupied Palestinian Territory Humanitarian Fund | - | 244,756 | (147,855) | - | - | - | 96,901 |
| The United Nations - Occupied Palestinian Territory Humanitarian Fund Through Palestinian Centre for Human Rights (PCHR) | 2,666 | - | - | - | - | - | 2,666 |
| OXFAM Novib | - | 10,300 | (3,710) | - | - | - | 6,590 |
| Save the Children International (SCI) | 1,087 | (1,087) | - | - | - | - | - |
| Medico International e.V. (Germany) | - | 34,109 | (15,347) | - | (1,707) | (244) | 16,811 |
| Diakonia Regional Office for the Middle East | - | 50,000 | (47,800) | - | (2,200) | - | - |
| Al Haq Organization - Al Haq | - | 5,800 | (2,990) | (2,810) | - | - | - |
| Open Society Foundation through Al Haq | 50,706 | - | (5,681) | - | (45,025) | - | - |
| Premiere Urgence International - PUI | - | 5,718 | (4,345) | - | - | 409 | 1,782 |
| KerK In Actie (ICCO) | - | 85,275 | (53,549) | - | - | - | 31,726 |
| Norwegian Refugee Council (NRC) | 8,375 | 34,000 | (38,080) | - | - | - | 4,295 |
| HEINRICH BOLL STIFUNG - HBS | - | 5,246 | (4,104) | - | - | - | 1,142 |
| | <u>483,611</u> | <u>2,028,060</u> | <u>(1,046,588)</u> | <u>(156,294)</u> | <u>(56,120)</u> | <u>1,315</u> | <u>1,253,984</u> |

| | Balance, beginning of the year | Additions - (written off) | Temporarily restricted contributions released from restriction | Unrestricted contribution | Deferred revenues (Note 7) | Currency differences | Balance, end of year |
|---|---|------------------------------|---|------------------------------|----------------------------------|-------------------------|----------------------------|
| 2018 | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| European Union (EU) represented by the European Commission | - | 514,617 | (100,150) | (7,010) | - | 13,320 | 420,777 |
| Save the Children International (SCI) | - | 65,000 | (63,913) | - | - | - | 1,087 |
| Netherlands Representative Office to Palestinian Authority (PA) | - | 230,000 | (229,776) | - | (224) | - | - |
| Medico International e.V. (Germany) | 17,997 | 15,107 | (33,558) | - | - | 454 | - |
| Diakonia Regional Office for the Middle East | - | 40,000 | (37,621) | - | - | (2,379) | - |
| Trocaire | 9,408 | - | (9,408) | - | - | - | - |
| The United Nations - Occupied Palestinian Territory Humanitarian Fund Through Palestinian Centre for Human Rights (PCHR) | - | 99,999 | (97,333) | - | - | - | 2,666 |
| Open Society Foundation through Al Haq | - | 60,740 | (2,918) | - | (7,116) | - | 50,706 |
| United Nations Development Programme - UNDP | 9,632 | 38,500 | (48,132) | - | - | - | - |
| KerK In Actie (ICCO) | - | 61,990 | (61,990) | - | - | - | - |
| Norwegian Refugee Council (NRC) | - | 48,107 | (39,732) | - | - | - | 8,375 |
| | <u>37,037</u> | <u>1,174,060</u> | <u>(724,531)</u> | <u>(7,010)</u> | <u>(7,340)</u> | <u>11,395</u> | <u>483,611</u> |

10. Other Current Liabilities

| | <u>2019</u> | <u>2018</u> |
|---|----------------|----------------|
| | <u>U.S. \$</u> | <u>U.S. \$</u> |
| Accrued professional fees | 15,972 | 17,754 |
| Accrued payroll tax | 110,214 | 94,711 |
| Accrued salaries | 21,753 | 26,976 |
| Current portion of lease liabilities (note 2) | 24,000 | - |
| Accrued expenses | 44,267 | 24,235 |
| | <u>216,206</u> | <u>163,676</u> |

11. Expenses

| | 2019 | | | 2018 | | |
|---------------------------------|----------------|-------------------|------------------|----------------|-------------------|----------------|
| | Core programs | Non-core programs | Total | Core programs | Non-core programs | Total |
| | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| Salaries and related costs | 347,876 | 319,638 | 667,514 | 345,375 | 262,956 | 608,331 |
| Staff rewards | 73,034 | - | 73,034 | 33,546 | - | 33,546 |
| Health insurance | 7,098 | - | 7,098 | - | - | - |
| Photocopying and printing costs | 4,928 | 8,171 | 13,099 | 196 | 4,706 | 4,902 |
| Professional fees | 8,540 | 2,500 | 11,040 | 7,550 | 4,900 | 12,450 |
| Legal services | 23,835 | 88,950 | 112,785 | 16,195 | 35,620 | 51,815 |
| Monitoring and documentation | 3,100 | - | 3,100 | 4,716 | - | 4,716 |
| Transportation | 7,758 | 5,212 | 12,970 | 2,471 | 6,902 | 9,373 |
| Communication cost | 6,962 | 5,818 | 12,780 | 6,514 | 7,757 | 14,271 |
| Capacity building cost | 2,500 | - | 2,500 | 128 | - | 128 |
| Rent | - | 100 | 100 | 14,409 | 10,160 | 24,569 |
| Human rights prize | - | 18,363 | 18,363 | - | 16,159 | 16,159 |
| Utilities | 3,500 | 900 | 4,400 | 5,128 | 5,369 | 10,497 |
| Stationery | 1,804 | 3,461 | 5,265 | 1,501 | 5,068 | 6,569 |
| Hospitality | 3,026 | 915 | 3,941 | 3,618 | 2,274 | 5,892 |
| Car insurance | 222 | - | 222 | 258 | - | 258 |
| Maintenance | 4,996 | 740 | 5,736 | 4,939 | - | 4,939 |
| Training cost | 11,940 | 8,262 | 20,202 | 8,194 | 5,595 | 13,789 |
| Advocacy mission | - | - | - | - | 4,708 | 4,708 |
| Website and database | - | - | - | - | - | - |
| Information & advocacy | 12,925 | 14,020 | 26,945 | 16,984 | - | 16,984 |
| Subscription and mails | 179 | - | 179 | 726 | - | 726 |
| Bank charges | 1,825 | 54 | 1,879 | 1,564 | 58 | 1,622 |
| Summer camps | - | 14,052 | 14,052 | - | 24,057 | 24,057 |
| Sundry | 7,745 | 111 | 7,856 | 5,576 | 2,918 | 8,494 |
| | <u>533,793</u> | <u>491,267</u> | <u>1,025,060</u> | <u>479,588</u> | <u>399,207</u> | <u>878,795</u> |

12. Fair Values of Financial Instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash and cash equivalents, contributions receivable, and some other current assets. Financial liabilities consist of temporarily restricted contributions and some other current liabilities.

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

13. Related Party Transactions

Related parties represent directors and key management personnel of Al Mezan, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by Al Mezan's management.

The statement of activities includes the following related party transactions:

| | <u>2019</u> | <u>2018</u> |
|--|----------------|----------------|
| | <u>U.S. \$</u> | <u>U.S. \$</u> |
| <u>Compensation of key management personnel:</u> | | |
| Salaries | <u>242,160</u> | <u>218,376</u> |
| Saving fund | <u>25,827</u> | <u>24,665</u> |
| End of service benefits | <u>17,813</u> | <u>17,469</u> |
| Staff rewards | <u>23,705</u> | <u>21,329</u> |

14. Risk Management

Liquidity risk

Al Mezan limits its liquidity risk by maintaining adequate cash balances and funds from multiple donors to meet its current obligations and to finance its activities. Most of Al Mezan's financial liabilities are due within a year.

Foreign currency risk

The table below indicates Al Mezan's foreign currency exposure, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the U.S. \$ currency rate against the EURO and Israeli Shekels (ILS) with all other variables held constant, on the statement of activities. The effect of decrease in foreign currency exchange rates is expected to be equal and opposite to the effect of increase shown below:

| | <u>Increase in EURO rate to U.S.\$ %</u> | <u>Effect on statement of activities for the year U.S. \$</u> | <u>Increase in ILS rate to U.S.\$ %</u> | <u>Effect on statement of activities for the year U.S. \$</u> |
|-------------|--|---|---|---|
| <u>2019</u> | 10 | 1,069 | 10 | 6,955 |
| <u>2018</u> | 10 | (7,149) | 10 | 3,345 |

Credit risk

Credit risks arising from the contribution receivable, exposure to credit risk arises from default of donors to transfer the donations according to the contracts signed with them which represent the carrying amount of these receivables.

With respect to credit risk arising from the other financial assets of Al Mezan which consist of cash and cash equivalents and some other current assets, exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

15. Financial Stability and Management Plans

The deficit of Al Mezan's net assets at December 31, 2019 U.S. \$ 77,007 (December 31, 2018: U.S. \$ 222,305). Management believes that the deficit will be reduced and bypassed during the following years by increasing efforts in fundraising activities through seeking unrestricted donations.

16. Concentration of Risk in Geographic Area

Al Mezan is carrying out its activities in Palestine. The political and economic destabilization in the area increases the risk of carrying out activities and may adversely affect Al Mezan's performance.

17. Subsequent Event

Subsequent to the financial statements date, and as a result of the continued impact of the Coronavirus (COVID- 19) on the global economy and various business sectors and the accompanying restrictions and measures imposed by the Palestinian National Authority and neighboring countries and the rest of the world, it is possible that Al Mezan's activities are affected by global developments that currently affect travels restrictions including quarantine for travelers, cancellation of conferences and activities.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the COVID- 19 and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of issuance of these financial statements. These developments could impact Al Mezan performance and activities.