

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF
GLOBAL DIALOGUE AND DEMOCRACY (MIFTAH)

FINANCIAL STATEMENTS

DECEMBER 31, 2013

Independent Auditors' Report to the Board of Trustees of The Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH)

We have audited the accompanying financial statements of the Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH), which comprise the statement of financial position as at December 31, 2013, and the statement of activities and changes in net assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MIFTAH as at December 31, 2013 and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young - Middle East



April 27, 2014
Ramallah - Palestine

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF GLOBAL
DIALOGUE AND DEMOCRACY (MIFTAH)

Statement of Financial Position
As at December 31, 2013

	<u>Notes</u>	<u>2013</u> U.S. \$	<u>2012</u> U.S. \$
Assets			
Non - current assets			
Property and equipment	3	19,101	12,008
Current assets			
Contributions receivable	4	605,185	416,384
Other current assets		5,246	-
Cash and cash equivalents	5	565,095	778,119
		<u>1,175,526</u>	<u>1,194,503</u>
Total Assets		<u>1,194,627</u>	<u>1,206,511</u>
Net Assets and Liabilities			
Net assets			
Unrestricted net assets		232,906	201,275
Total net assets		<u>232,906</u>	<u>201,275</u>
Non - current liabilities			
Deferred revenues	6	19,101	11,632
Provision for employees' indemnity	7	17,854	181,692
		<u>36,955</u>	<u>193,324</u>
Current liabilities			
Accounts payable and accruals	8	98,907	70,997
Temporarily restricted contributions	10	825,859	740,915
		<u>924,766</u>	<u>811,912</u>
Total Liabilities		<u>961,721</u>	<u>1,005,236</u>
Total Net Assets and Liabilities		<u>1,194,627</u>	<u>1,206,511</u>

The attached notes 1 to 15 form part of these financial statements

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF GLOBAL
DIALOGUE AND DEMOCRACY (MIFTAH)

Statement of Activities and Changes in Net Assets

Year ended December 31, 2013

	<u>Notes</u>	<u>2013</u> U.S. \$	<u>2012</u> U.S. \$
Revenues			
Temporarily restricted contributions released from restriction	10	935,777	725,052
Unrestricted contributions	9	25,000	-
Deferred revenues recognized	6	6,601	10,523
Foreign exchange gain		3,946	-
Other revenues		3,061	645
		<u>974,385</u>	<u>736,220</u>
Expenses			
Projects' expenses	11	935,777	725,052
Depreciation of property and equipment	3	6,977	11,234
Foreign exchange loss		-	5,847
		<u>942,754</u>	<u>742,133</u>
Increase (decrease) in net assets		31,631	(5,913)
Net assets, beginning of year		<u>201,275</u>	<u>207,188</u>
Net assets, end of year		<u><u>232,906</u></u>	<u><u>201,275</u></u>

The attached notes 1 to 15 form part of these financial statements

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF GLOBAL
DIALOGUE AND DEMOCRACY (MIFTAH)

Statement of Cash Flows

Year ended December 31, 2013

	<u>Note</u>	<u>2013</u> <u>U.S. \$</u>	<u>2012</u> <u>U.S. \$</u>
Operating Activities:			
Increase (decrease) in net assets		31,631	(5,913)
Adjustments:			
Depreciation of property and equipment		6,977	11,234
Deferred revenues recognized		(6,601)	(10,523)
Provision for employees' indemnity		30,600	28,236
		<u>62,607</u>	<u>23,034</u>
Changes in working capital			
Contributions receivable		(188,801)	(317,063)
Due from Board of Trustees		-	45,000
Other current assets		(5,246)	9,726
Temporarily restricted contributions		84,944	430,429
Accounts payable and accruals		27,910	4,328
Deferred revenues		14,070	6,549
Employees' indemnity paid		(194,438)	(21,488)
Net cash (used in) from operating activities		<u>(198,954)</u>	<u>180,515</u>
Investing Activities:			
Purchase of property and equipment		(14,070)	(6,549)
Net cash used in investing activities		<u>(14,070)</u>	<u>(6,549)</u>
(Decrease) increase in cash and cash equivalents		(213,024)	173,966
Cash and cash equivalents, beginning of year		<u>778,119</u>	<u>604,153</u>
Cash and cash equivalents, end of year	5	<u><u>565,095</u></u>	<u><u>778,119</u></u>

The attached notes 1 to 15 form part of these financial statements

Notes to the Financial Statements

December 31, 2013

1. General

The Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH) was established in December 1998 as a non-governmental non-partisan Jerusalem-based institution dedicated to fostering democracy and good governance within the Palestinian society through promoting public accountability, transparency, the free flow of information and ideas, and challenging of stereotyping at home and abroad. MIFTAH's aim is to serve as a Palestinian platform for global dialogue and cooperation guided by the principles of democracy, human rights, gender equity, and participatory governance. To this end, MIFTAH undertakes the pro-active generation and presentation of policy proposals and the focused dissemination of reliable information. Since its establishment, MIFTAH has established the cogency of its positions in Palestine and in the region, and has formulated long and short-term policies and strategies to deal with particular pressing issues. Through networking with like-minded organizations locally, regionally and internationally, and with Palestinian expatriate communities, MIFTAH maintains lasting relationships and partnerships in pursuit of a common vision of dialogue and democracy.

MIFTAH's financial statements as at December 31, 2013 were approved by the Board of Trustees on April 27, 2014.

2.1 Basis of preparation

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

The financial statements have been presented in U.S. Dollars, which is the functional currency of MIFTAH.

The financial statements have been prepared under the historical cost convention.

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year.

Furthermore, several standards and interpretations have been issued but are not yet mandatory. MIFTAH believes that the new standards and interpretations will have no significant impact on disclosures, financial position or performance when applied at a future date.

Significant accounting judgments, estimates and assumptions

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 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 measured at fair value, recorded as deferred revenues and recognized as revenue in the statement of activities and changes in Net assets on a systematic basis over the useful life of the asset.

Expenses recognition

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

Impairment of financial assets

An assessment is at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, any impairment loss is recognized in the statement of activities and changes in net assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short-term deposits with an original maturity of three months or less.

Contributions receivable

Contributions receivable are stated at the original amount of the unconditional pledge less amounts received and any uncollectible pledges. An estimate for the uncollectible amount is made when the collection of full unconditional pledge is no longer probable.

Property and equipment

Property and equipment is 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 and changes in net assets as incurred.

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

	Useful life (years)
Office equipment	4-5
Office furniture	6-7
Leasehold improvements	5

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 and changes in net assets 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 taxes

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

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.

Judgements and estimation uncertainty

MIFTAH's financial position and results of activities are sensitive to accounting methods, assumptions, estimates and judgments that underlie the preparation of the financial statements. MIFTAH bases its estimates on its past experience and on various other assumptions deemed reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Due to different assumptions and situations, the actual results may differ significantly from these estimates.

Useful lives of tangible and intangible assets

MIFTAH's management reassesses the useful lives of tangible and intangible assets, and makes adjustments if applicable, at each financial year end.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial statements date. All differences are recognized in the statement of activities and changes in net assets.

3. Property and equipment

	<u>Office equipment</u> U.S. \$	<u>Office furniture</u> U.S. \$	<u>Leasehold improvements</u> U.S. \$	<u>Total</u> U.S. \$
Cost:				
At January 1, 2013	207,196	64,888	28,495	300,579
Additions	<u>12,721</u>	<u>1,349</u>	-	<u>14,070</u>
At December 31, 2013	<u>219,917</u>	<u>66,237</u>	<u>28,495</u>	<u>314,649</u>
Depreciation:				
At January 1, 2013	196,697	63,379	28,495	288,571
Depreciation charge for the year	<u>5,785</u>	<u>1,192</u>	-	<u>6,977</u>
At December 31, 2013	<u>202,482</u>	<u>64,571</u>	<u>28,495</u>	<u>295,548</u>
Net carrying value:				
At December 31, 2013	<u>17,435</u>	<u>1,666</u>	-	<u>19,101</u>
At December 31, 2012	<u>10,499</u>	<u>1,509</u>	-	<u>12,008</u>

Property and equipment include U.S. \$ 272,419 and U.S. \$ 259,961 of fully depreciated assets that are still being used in MIFATH's activities as at December 31, 2013 and 2012, respectively.

4. Contributions receivable

	Balance, beginning of year	Additions	Cash received	Currency difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Arab Fund	-	177,135	(46,988)	(557)	129,590
NGO Development Centre (NDC)	13,000	32,000	(38,600)	-	6,400
OXFAM Novib	109,929	587	(36,644)	-	73,872
United Nations Development Programme (UNDP)	35,030	-	(35,030)	-	-
Representative Office of Norway	-	133,913	(125,721)	(8,192)	-
UN Women	62,525	-	(61,139)	(1,386)	-
Konrad Adenauer Stiftung (KAS)	-	43,331	(40,841)	(2,490)	-
U.S Consulate	-	175,000	(148,750)	-	26,250
United Nations Population Fund (UNFPA)	1,548	59,208	(61,145)	2,001	1,612
British Council	-	269,422	(872)	14,752	283,302
The Ministry for Foreign Affairs of Ireland (MFAI)	-	96,285	(95,145)	(1,140)	-
Palestinian Anti-Corruption Commission (PACC)	-	23,150	(18,150)	-	5,000
International Republic Institute (IRI)	194,352	18,423	(133,616)	-	79,159
	<u>416,384</u>	<u>1,028,454</u>	<u>(842,641)</u>	<u>2,988</u>	<u>605,185</u>

5. Cash and cash equivalents

	2013	2012
	U.S. \$	U.S. \$
Cash in hand and at banks	242,627	297,135
Short-term deposits	322,468	480,984
	<u>565,095</u>	<u>778,119</u>

Short term deposits in U.S. \$ are due within three months after the financial statements date with an average interest rate of 0.5% , during the years ended December 31, 2013 and 2012.

Short-term deposits as at December 31, 2013 and 2012 include U.S. \$ 17,854 and U.S. \$ 181,692, respectively as restricted deposits against employees' indemnity.

6. Deferred revenues

This item represents the value of property and equipment acquired during the year using the temporarily restricted contributions. Such property and equipment are recorded as deferred revenues and recognized as revenues on a systematic basis over the useful lives of the property and equipment. Movement on deferred revenues during the year was as follows:

	2013	2012
	U.S. \$	U.S. \$
Balance, beginning of year	11,632	15,606
Additions (Note 10)	14,070	6,549
Deferred revenues recognized	(6,601)	(10,523)
Balance, end of year	<u>19,101</u>	<u>11,632</u>

7. Provision for employees' indemnity

Following is a summary of the movement on the provision for severance pay during the year:

	<u>2013</u>	<u>2012</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Balance, beginning of year	181,692	174,944
Additions during the year	30,600	28,236
Payments during the year*	<u>(194,438)</u>	<u>(21,488)</u>
Balance, end of year	<u>17,854</u>	<u>181,692</u>

*On their meeting dated May 25, 2013, Board of Trustees decided to pay employees' indemnity provision's outstanding amount as of that date, which amounted to U.S \$ 138,145. The remaining balance of U.S \$ 56,293 was paid to resigned employees.

8. Accounts payable and accruals

	<u>2013</u>	<u>2012</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Outstanding checks	77,086	45,763
Accounts payable	14,752	16,106
Accrued expenses	7,069	7,793
Other	-	1,335
	<u>98,907</u>	<u>70,997</u>

9. Unrestricted contributions

During 2013, a member of MIFTAH's Board of Trustees donated U.S. \$ 25,000 which was recognized as unrestricted contributions.

10. Temporarily restricted contributions

This item comprises temporarily restricted contributions subject to purpose restriction. These amounts represent the excess of donations received over the expenditures made out to satisfy the purposes stipulated by the donors. The movement on the temporarily restricted contributions is as follows:

	Balance, beginning of year	Additions	Temporarily restricted contributions released from restriction	Deferred revenues	Interest revenue	Currency difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Arab Fund	-	177,135	(84,418)	-	-	(433)	92,284
NGO Development Centre (NDC)	-	32,000	(31,550)	(450)	-	-	-
Oxfam Novib	104,657	587	(41,696)	-	-	-	63,548
United Nations Development Programme (UNDP)	49,523	-	(49,523)	-	-	-	-
Representative Office of Norway (NRO)	-	133,913	(118,531)	(7,191)	-	(8,191)	-
National Endowment for Democracy (NED)	1,717	-	(1,717)	-	-	-	-
UN Women	63,047	-	(62,488)	-	-	(559)	-
Konrad Adenauer Stiftung (KAS)	-	43,331	(41,152)	-	-	(2,179)	-
U.S Consulate	-	175,000	(139,150)	(1,309)	-	-	34,541
United Nations Population Fund (UNFPA)	-	59,208	(61,106)	-	-	1,898	-
The Ministry for Foreign Affairs of Ireland (MFAI)	64,970	96,285	(62,552)	(3,696)	-	137	95,144
International Republic Institute (IRI)	222,390	18,423	(185,068)	(1,424)	-	-	54,321
British Council	-	269,422	(39,186)	-	-	14,377	244,613
Palestinian Anti-Corruption Commission (PACC)	-	23,150	(17,640)	-	-	-	5,510
Special donations	234,611	-	-	-	1,287	-	235,898
	<u>740,915</u>	<u>1,028,454</u>	<u>(935,777)</u>	<u>(14,070)</u>	<u>1,287</u>	<u>5,050</u>	<u>825,859</u>

11. Projects' expenses

Components of projects expenses are as follows:

	<u>UN women</u>	<u>UNDP</u>	<u>Arab Fund</u>	<u>UNFPA</u>	<u>KAS</u>	<u>IRI</u>	<u>OXFAM Novib</u>	<u>NED</u>	
	Gender Responsive Budget	Supporting Young Palestinian Women Political Leaders	Local Communities Development	Gender-Based Violence and Women's Empowerment	Promoting Good Governance through Empowering Media Students	Elections Support	Supporting Women Transformative Leadership in Changing Times (AMAL)	Fostering Dialogue on Statehood among Palestinian Youth	Subtotal
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Salaries and related expenses	27,125	20,231	20,507	20,821	33,231	94,806	23,599	818	241,138
Office equipment and hall rental	3,160	600	3,600	1,050	-	9,950	2,600	-	20,960
Utilities	508	618	1,703	131	-	975	-	-	3,935
Postage, telephone and fax	434	1,374	924	14	79	4,341	27	-	7,193
Travel and accommodation	1,110	1,691	2,670	1,682	341	14,907	1,550	7	23,958
Information, publications and other project expenses	23,636	10,634	48,006	24,250	6,956	14,451	187	88	128,208
Training expenses	1,753	7,044	3,586	6,782	-	14,141	7,699	304	41,309
Hosting delegations and meetings	2,858	6,771	2,057	6,374	545	30,234	5,990	500	55,329
Professional fees	720	-	720	-	-	720	-	-	2,160
Tax expenses	-	-	-	-	-	-	-	-	-
Others	1,184	560	645	2	-	543	44	-	2,978
Total	62,488	49,523	84,418	61,106	41,152	185,068	41,696	1,717	527,168

Projects' expenses - continued

	<u>NDC</u>	<u>MFAI</u>	<u>NRO</u>	<u>PACC</u>	<u>U.S Consulate</u>	<u>British Council</u>			
	<u>Core Fund</u>				<u>National Strategy to Fight Corruption</u>	<u>Women in Leadership Positions</u>	<u>Tajawob</u>	<u>Total Project Expenses 2013</u>	<u>Project Expenses 2012</u>
<u>Subtotal</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>			<u>U.S. \$</u>	<u>U.S. \$</u>	
Salaries and related expenses	241,138	19,038	22,165	74,557	1,850	52,182	12,845	423,775	396,980
Office equipment and hall rental	20,960	2,000	3,000	3,400	100	3,000	2,190	34,650	30,500
Utilities	3,935	634	1,018	2,952	-	1,388	1,342	11,269	15,332
Postage, telephone and fax	7,193	264	318	354	195	391	8	8,723	8,563
Travel and accommodation	23,958	909	7,185	6,809	3,708	14,756	2,285	59,610	18,864
Information, publications and other project expenses	128,208	354	2,451	6,821	3,469	26,440	281	168,024	108,175
Training expenses	41,309	2,798	10,271	11,025	3,877	20,908	9,793	99,981	71,560
Hosting delegations and meetings	55,329	4,533	9,073	5,087	4,441	17,831	9,780	106,074	62,360
Professional fees	2,160	800	800	1,195	-	720	325	6,000	6,000
Tax expenses	-	-	4,177	4,177	-	-	-	8,354	-
Others	2,978	220	2,094	2,154	-	1,534	337	9,317	6,718
Total	527,168	31,550	62,552	118,531	17,640	139,150	39,186	935,777	725,052

12.Related party transactions

Related parties represent members of the Board of Trustees and key management personnel of MIFTAH. Pricing policies and terms of these transactions are approved by MIFTAH's management.

Transactions with related parties included in the statement of activities and changes in net assets are as follows:

	<u>2013</u> <u>U.S. \$</u>	<u>2012</u> <u>U.S. \$</u>
Unrestricted contributions	<u>25,000</u>	<u>-</u>
Key management personnel compensation		
Short-term benefits	<u>48,817</u>	<u>47,881</u>
Termination benefits	<u>4,100</u>	<u>4,044</u>

13.Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of contributions receivable and cash and cash equivalents. Financial liabilities consist of accounts payable and accruals.

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

14.Risk management

Interest rate risk

MIFTAH is exposed to interest rate risk on its short-term deposit.

The following table demonstrates the sensitivity of the statement of activities and changes in net assets to reasonably possible changes in interest rates, with all other variables held constant, the effect of decreases in interest rate is expected to be equal and opposite to the effect of the increase shown:

	<u>Increase in</u> <u>basis points</u>	<u>Effect on</u> <u>results of</u> <u>activities</u> <u>U.S.\$</u>
<u>2013</u> U.S. \$	+20	557
<u>2012</u> U.S. \$	+20	962

Liquidity risk

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

Most of MIFTAH's financial liabilities are due within a period of three months.

Foreign currency risk

The table below indicates MIFTAH'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 foreign currencies with all other variables held constant, on the statement of activities and changes in net assets. The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to the effect of the increase shown.

	Change in currency exchange rate to U.S. \$	Effect on results of activities
	<u>%</u>	<u>U.S. \$</u>
<u>2013</u>		
EURO	+10	9,456
ILS	+10	(1,078)
GBP	+10	3,868
<u>2012</u>		
EURO	+10	8,042
ILS	+10	(8,692)

15. Concentration of risk in geographic area

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