

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN
FINANCIAL STATEMENTS
DECEMBER 31, 2012

Independent Auditors' Report to the General Assembly of The Coalition for Accountability and Integrity - AMAN

We have audited the accompanying financial statements of the Coalition for Accountability and Integrity - AMAN, which comprise the statement of financial position as at December 31, 2012, and the statement of activities and changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 the Coalition for Accountability and Integrity - AMAN as at December 31, 2012 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



March 25, 2013
Ramallah, Palestine

Statement of Financial Position

As at December 31, 2012

	<u>Notes</u>	<u>2012</u> <u>U.S. \$</u>	<u>2011</u> <u>U.S. \$</u>
<u>Assets</u>			
Non-current assets			
Property and equipment	3	<u>47,779</u>	<u>33,535</u>
Current assets			
Contributions receivable	4	814,011	1,542,119
Other current assets	5	28,333	31,468
Cash and cash equivalents		<u>906,704</u>	<u>706,106</u>
		<u>1,749,048</u>	<u>2,279,693</u>
Total Assets		<u><u>1,796,827</u></u>	<u><u>2,313,228</u></u>
<u>Net Assets and Liabilities</u>			
Net assets			
Unrestricted net assets		<u>38,534</u>	<u>11,602</u>
Total net assets		<u>38,534</u>	<u>11,602</u>
Non-current liabilities			
Deferred revenues	6	51,368	34,809
Provision for employees' indemnity	7	<u>127,929</u>	<u>106,787</u>
		<u>179,297</u>	<u>141,596</u>
Current liabilities			
Accounts payable and accruals	8	201,869	125,461
Temporarily restricted contributions	9	<u>1,377,127</u>	<u>2,034,569</u>
		<u>1,578,996</u>	<u>2,160,030</u>
Total liabilities		<u>1,758,293</u>	<u>2,301,626</u>
Total Net Assets and Liabilities		<u><u>1,796,827</u></u>	<u><u>2,313,228</u></u>

Statement of Activities and Changes in Net Assets

For the year ended December 31, 2012

	<u>Notes</u>	<u>2012</u> <u>U.S. \$</u>	<u>2011</u> <u>U.S. \$</u>
<u>Revenues</u>			
Temporarily restricted contributions released from restriction	9	1,352,548	1,202,648
Deferred revenues recognized	6	12,508	11,612
Unrestricted Contributions	10	<u>56,099</u>	<u>4,434</u>
Total revenues		<u>1,421,155</u>	<u>1,218,694</u>
<u>Expenses</u>			
Projects' expenses	11	1,352,548	1,202,648
Depreciation	3	14,823	13,576
Other expenses	12	<u>26,852</u>	<u>55,204</u>
Total expenses		<u>1,394,223</u>	<u>1,271,428</u>
Increase (decrease) in net assets		26,932	(52,734)
Net assets, beginning of the year		<u>11,602</u>	<u>64,336</u>
Net assets, end of year		<u><u>38,534</u></u>	<u><u>11,602</u></u>

Statement of Cash Flows

For the year ended December 31, 2012

	<u>2012</u>	<u>2011</u>
	U.S. \$	U.S. \$
Operating activities:		
Increase (decrease) in net assets	26,932	(52,734)
Adjustments:		
Depreciation	14,823	13,576
Provision for employee's indemnity	40,174	37,755
Written - off contributions	5,988	-
Deferred revenues recognized	(12,508)	(11,612)
	<u>75,409</u>	<u>(13,015)</u>
Changes in working capital		
Contributions receivable	608,730	260,011
Other current assets	3,135	1,551
Deferred revenues	29,067	23,267
Temporarily restricted contribution	(544,052)	(103,009)
Accounts payable and accruals	76,408	36,571
Employee's indemnity paid	(19,032)	(16,020)
Net cash flows from operating activities	<u>229,665</u>	<u>189,356</u>
Investing activities:		
Purchase of property and equipment	(29,067)	(23,267)
Net cash used in investing activities	<u>(29,067)</u>	<u>(23,267)</u>
Increase in cash and cash equivalents	200,598	166,089
Cash and cash equivalents, beginning of the year	<u>706,106</u>	<u>540,017</u>
Cash and cash equivalents, end of year	<u><u>906,704</u></u>	<u><u>706,106</u></u>

Notes to the Financial Statements

December 31, 2012

1. General

On January 4, 2000, a group of 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 registration 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.

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 the 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.

AMAN's financial statements as at December 31, 2012 were authorized for issuance by the Executive Board on 25 March, 2013.

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 prepared under the historical cost convention.

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

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. AMAN believes that the new standards and interpretations will have no significant impact on disclosures, financial position or performance when applied at a future date.

2.3 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 follow:

- 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 donor for 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 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 and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be 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 pledges 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 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 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 furniture	<u>6-7</u>
Office equipment	4-5

An 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

AMAN 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

AMAN`s financial position and changes in net assets are sensitive to accounting methods, assumptions, estimates and judgments that underlie the preparation of the financial statements. AMAN 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 might differ significantly from these estimates.

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 translated into USD using the rate of exchange ruling at the financial position date. All differences are recognized in the statement of activities and changes in net assets.

3. Property and equipment

	Office furniture	Office equipment	Total
	U.S. \$	U.S. \$	U.S. \$
<u>Cost:</u>			
At January 1, 2012	26,410	87,939	114,349
Additions	4,731	24,336	29,067
At December 31, 2012	<u>31,141</u>	<u>112,275</u>	<u>143,416</u>
<u>Depreciation:</u>			
At January 1, 2012	14,952	65,862	80,814
Depreciation charge for the year	3,351	11,472	14,823
At December 31, 2012	<u>18,303</u>	<u>77,334</u>	<u>95,637</u>
<u>Net book value:</u>			
At December 31, 2012	<u>12,838</u>	<u>34,941</u>	<u>47,779</u>
At December 31, 2011	<u>11,458</u>	<u>22,077</u>	<u>33,535</u>

Property and equipment include U.S. \$ 61,476 and U.S. \$ 55,448 of fully depreciated assets that are still being used in AMAN's activities as at December 31, 2012 and 2011, respectively.

4. Contributions receivable

	Balance, beginning of year	Additions	Cash received	Written - off	Currency exchange difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Norway , Netherlands and Luxembourg	1,071,890	-	(809,910)	-	15,014	276,994
Transparency International	266,952	458,564	(445,436)	(66,849)	7,824	221,055
Foundation for Future	95,292	-	(73,000)	-	-	22,292
Friedrich Nauman Foundation	32,121	-	(10,591)	(22,075)	545	-
TIRI	36,703	80,084	(76,745)	-	-	40,042
National Endowment for Democracy	8,000	-	(8,000)	-	-	-
Palestine Telecommunications Company	3,574	-	-	(3,574)	-	-
European Commission	27,587	320,706	(81,678)	(26,880)	13,893	253,628
	<u>1,542,119</u>	<u>859,354</u>	<u>(1,505,360)</u>	<u>(119,378)</u>	<u>37,276</u>	<u>814,011</u>

5. Other current assets

	<u>2012</u>	<u>2011</u>
	U.S. \$	U.S. \$
Prepaid expenses	10,883	12,208
Employees receivables	13,468	1,853
Other receivables	3,982	17,407
	<u>28,333</u>	<u>31,468</u>

6. Deferred revenues

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

	<u>2012</u>	<u>2011</u>
	U.S. \$	U.S. \$
Balance, beginning of year	34,809	23,154
Additions (Note 9)	29,067	23,267
Deferred revenues recognized	(12,508)	(11,612)
Balance, end of year	<u>51,368</u>	<u>34,809</u>

7. Provision for employees' indemnity

Following is a summary of the movement on the provision for employees' indemnity (end-of-service benefits) during the year:

	<u>2012</u>	<u>2011</u>
	U.S. \$	U.S. \$
Balance, beginning of year	106,787	85,052
Additions	40,174	37,755
Payments	(19,032)	(16,020)
Balance, end of year	<u>127,929</u>	<u>106,787</u>

8. Accounts payable and accruals

	<u>2012</u>	<u>2011</u>
	U.S. \$	U.S. \$
Postponed checks	72,984	34,668
Due to suppliers	64,172	64,480
Accrued salaries	37,407	-
Provision for legal cases	13,666	13,666
Employees' payroll tax	2,759	5,539
Accrued professional fees	10,100	7,000
Sundry	781	108
	<u>201,869</u>	<u>125,461</u>

9. 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	Returned to donor	Deferred revenues	Written - off	Transferred to unrestricted contributions	Currency exchange difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Norway , Netherlands and Luxembourg Transparency International	1,429,346	-	(883,395)	-	(7,890)	-	-	26,466	564,527
Foundation for Future European Commission	295,948	458,564	(208,984)	-	(19,758)	(66,849)	(37,250)	9,922	431,593
TIRI	125,187	-	(111,967)	-	-	-	-	-	13,220
Friedrich Naumann Foundation	80,812	320,706	(66,725)	(13,763)	(186)	(21,313)	-	24,232	323,763
National Endowment for Democracy	52,050	80,084	(69,520)	(18,021)	(569)	-	-	-	44,024
World Bank	21,241	-	-	-	-	(21,654)	-	413	-
Palestine Telecommunications Company	12,621	-	(11,957)	-	(664)	-	-	-	-
Arab Region Parliamentarians Against Corruption	10,041	-	-	-	-	-	(10,041)	-	-
The Italian Cooperation	5,042	-	-	-	-	(3,574)	(1,468)	-	-
	1,342	-	-	-	-	-	(1,342)	-	-
	939	-	-	-	-	-	(930)	(9)	-
	<u>2,034,569</u>	<u>859,354</u>	<u>(1,352,548)</u>	<u>(31,784)</u>	<u>(29,067)</u>	<u>(113,390)</u>	<u>(51,031)</u>	<u>61,024</u>	<u>1,377,127</u>

10. Unrestricted Contributions

	<u>2012</u>	<u>2011</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Transferred from temporarily restricted contributions (Note 9)	51,031	-
Other unrestricted contributions	<u>5,068</u>	<u>4,434</u>
	<u>56,099</u>	<u>4,434</u>

11. Projects' Expenses

	Enhancing integrity, transparency and accountability in the Palestinian society	Pro Poor Integrity	Fighting Corruption Through Education	NGO Good Governance Certificate (GGC)	Independent Judiciary	ACTION-Addressing Corruption Through Information and Organized Networking	Transparency International Mediterranean Advocacy & Legal Advice Centers (ALAC)	Empowering and Strengthening Civil Society's Organizational Capacities and Networks in the MENA Region to Address Corruption	Influential power for increasing the key state institutions' responsiveness and accountability	
	Norway, Netherlands and Luxembourg	TIRI	NED	Foundation for Future	European Commission	Transparency International	Transparency International	Transparency International	European Commission	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and related expenses	289,151	15,505	1,398	40,734	4,561	33,223	10,815	48,790	11,761	455,938
Project expenses	107,842	-	1,800	-	-	27,000	-	-	-	136,642
Employees' indemnity	25,615	1,286	147	3,394	390	2,738	1,045	3,934	1,626	40,175
Experts honoraria and training fees	146,532	8,370	3,000	27,110	11,738	17,830	1,300	4,920	-	220,800
Utilities, stationery and supplies	10,743	6,761	387	2,820	338	2,844	-	1,789	265	25,947
Professional fees	7,000	-	-	-	2,191	-	2,300	6,600	-	18,091
Office equipment and hall rental	33,385	960	-	4,350	-	-	-	362	-	39,057
Workshops expenses	45,128	13,343	996	10,855	4,148	6,986	-	2,311	1,237	85,004
Travel and accommodation	58,723	14,594	24	3,722	4,939	4,394	-	140	388	86,924
Information and publications	142,772	6,924	4,064	17,687	16,621	6,326	9,742	10,919	6,387	221,442
Postage, telephone, fax and internet	9,589	741	121	1,192	-	-	-	280	84	12,007
Sundry	6,915	1,036	20	103	-	531	-	1,865	51	10,521
Total	883,395	69,520	11,957	111,967	44,926	101,872	25,202	81,910	21,799	1,352,548

12. Other expenses

	<u>2012</u>	<u>2011</u>
	U.S. \$	U.S. \$
Currency exchange	20,832	20,111
Written - off contributions	5,988	-
Employees honoraria and bonuses	-	34,908
Sundry	32	185
	<u>26,852</u>	<u>55,204</u>

13. Related party transactions

This represents transaction with key management personnel:

	<u>2012</u>	<u>2011</u>
	U.S. \$	U.S. \$
Key management personnel compensation:		
Short-term benefits	<u>76,366</u>	<u>74,617</u>
Termination benefits	<u>3,668</u>	<u>3,600</u>

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

15.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 activities of AMAN are financed by multiple donors.

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

Foreign currency risk

The table below indicates AMAN'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.

	Increase in currency exchange rate to U.S. \$ <u> % </u>	Effect on results of activities <u> U.S. \$ </u>
<u>2012</u>		
EURO	+5	5,916
British Pound	+5	113
Norwegian Krone	+5	(6,516)
<u>2011</u>		
EURO	+5	5,613
British Pound	+5	(1,634)
Norwegian Krone	+5	(9,044)

16.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 activities and may adversely affect AMAN's performance.