

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN
FINANCIAL STATEMENTS
DECEMBER 31, 2008

Independent Auditors' Report to the Executive Board 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 of December 31, 2008, and the statement of activities and changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 give a true and fair view of the financial position of the Coalition for Accountability and Integrity - AMAN as of December 31, 2008 and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A stylized, handwritten-style signature of 'Ernst & Young' in blue ink.

April 16, 2009

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

Statement of Financial Position

As of December 31, 2008

	<u>Notes</u>	<u>2008</u> <u>U.S. \$</u>	<u>2007</u> <u>U.S. \$</u>
Assets			
Non-current assets			
Property and equipment	3	<u>21,991</u>	<u>29,366</u>
Current assets			
Contributions receivable	4	1,887,018	335,322
Other current assets		31,474	7,501
Cash and cash equivalents		<u>166,765</u>	<u>122,684</u>
		<u>2,085,257</u>	<u>465,507</u>
Total Assets		<u>2,107,248</u>	<u>494,873</u>
Net Assets and Liabilities			
Net assets			
Unrestricted net assets		<u>24,976</u>	<u>1,972</u>
Total net assets		<u>24,976</u>	<u>1,972</u>
Non-current liabilities			
Deferred revenues	5	20,347	29,366
Provision for employees' indemnity	6	<u>37,913</u>	<u>27,652</u>
		<u>58,260</u>	<u>57,018</u>
Current liabilities			
Accounts payable and accruals	7	90,971	51,853
Temporarily restricted contributions	8	<u>1,933,041</u>	<u>384,030</u>
		<u>2,024,012</u>	<u>435,883</u>
Total liabilities		<u>2,082,272</u>	<u>492,901</u>
Total Net Assets and Liabilities		<u>2,107,248</u>	<u>494,873</u>

The attached notes 1 to 14 form part of these financial statements.

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

Statement of Activities and Changes in Net Assets

Year ended December 31, 2008

	<u>Notes</u>	<u>2008</u> <u>U.S. \$</u>	<u>2007</u> <u>U.S. \$</u>
Revenues			
Temporarily restricted contributions released from restriction	8	638,891	790,361
Unrestricted contributions		39,794	21,202
Deferred revenues recognized	5	<u>17,553</u>	<u>14,187</u>
Total revenues		<u>696,238</u>	<u>825,750</u>
Expenses			
Projects' expenses	9	638,891	790,361
Depreciation	3	15,661	14,187
Administrative expenses	10	16,602	-
Other expenses		<u>2,080</u>	<u>24,270</u>
Total expenses		<u>673,234</u>	<u>828,818</u>
Increase (decrease) in net assets		23,004	(3,068)
Net assets, beginning of year		<u>1,972</u>	<u>5,040</u>
Net assets, end of year		<u><u>24,976</u></u>	<u><u>1,972</u></u>

The attached notes 1 to 14 form part of these financial statements.

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

Cash Flow Statement

Year ended December 31, 2008

	2008	2007
	U.S. \$	U.S. \$
Operating activities:		
Increase (decrease) in net assets	23,004	(3,068)
Adjustments:		
Depreciation	15,661	14,187
Provision for employees indemnity	22,998	17,425
Loss from sale of property and equipment	188	-
Deferred revenue recognized	(17,553)	(14,187)
	44,298	14,357
Changes in working capital		
Contributions receivable	(1,551,696)	240,859
Other current assets	(23,973)	7,883
Deferred revenues	8,534	16,353
Temporarily restricted contribution	1,549,011	(410,164)
Accounts payable and accruals	39,118	20,784
Employees' indemnity paid	(12,737)	(14,658)
Net cash flow from (used in) operating activities	52,555	(124,586)
Investing activities:		
Purchase of property and equipment	(10,243)	(16,353)
Proceeds from sale of property and equipment	1,769	-
Net cash used in investing activities	(8,474)	(16,353)
Increase (decrease) in cash and cash equivalents	44,081	(140,939)
Cash and cash equivalents, beginning of year	122,684	263,623
Cash and cash equivalents, end of year	166,765	122,684

The attached notes 1 to 14 form part of these financial statements.

Notes to the Financial Statements

December 31, 2008

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 of December 31, 2008 were authorized for issuance by the Executive Board on April 16, 2009.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards.

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 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 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 uncollectibility of financial assets

An assessment is made at each financial statement 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. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value less any impairment loss previously recognized in the statement of activities and changes in net assets;
- For assets carried at cost, impairment is the difference between carrying value and present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Cash and cash equivalent

Cash and cash equivalent 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 less accumulated depreciation and any impairment in value.

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

	Useful Life (Year)
Office furniture	6-7
Office equipment	4-5

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

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized only when they increase future economic benefits of the related item of property and equipment. All other expenditures are recognized in the statement of activities and changes in net assets as the expense is incurred.

Income taxes

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

Provision for employees' indemnity

Provision for employees' indemnity is calculated in accordance with the labor law prevailing in Palestine and AMAN internal policies, based on one - month indemnity for each year of employment.

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

3. Property and equipment

	Office furniture U.S. \$	Office equipment U.S. \$	Total U.S. \$
Cost:			
At January 1, 2008	10,953	61,961	72,914
Additions	4,362	5,881	10,243
Disposals	-	(13,325)	(13,325)
At December 31, 2008	15,315	54,517	69,832
Depreciation:			
At January 1, 2008	4,541	39,007	43,548
Depreciation charge for the year	1,714	13,947	15,661
Disposals	-	(11,368)	(11,368)
At December 31, 2008	6,255	41,586	47,841
Net book value:			
At December 31, 2008	9,060	12,931	21,991
At December 31, 2007	6,412	22,954	29,366

Property and equipment include U.S. \$ 8,510 of fully depreciated assets that are still in operation as of December 31, 2008.

4. Contributions receivable

	Balance, beginning of year U.S. \$	Additions U.S. \$	Cash received U.S. \$	Write off U.S. \$	Currency exchange difference U.S. \$	Balance, end of year U.S. \$
Norway and Netherlands United Nations Development Programme	94,772	1,778,856	(419,053)	(90,903)	(3,869)	1,359,803
Friedrich Nauman Foundation	197,311	-	(136,101)	-	-	61,210
The NGO Development Centre	4,489	24,565	(4,537)	-	(2,364)	22,153
Palestine Securities Exchange	33,750	-	(33,750)	-	-	-
Arab region parliamentarians against corruption	5,000	-	(5,000)	-	-	-
Palestine Telecommunications Company	-	4,830	(4,830)	-	-	-
Transparency International	-	23,181	-	-	-	23,181
	-	489,271	(68,600)	-	-	420,671
	<u>335,322</u>	<u>2,320,703</u>	<u>(671,871)</u>	<u>(90,903)</u>	<u>(6,233)</u>	<u>1,887,018</u>

5. 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:

	2008	2007
	U.S. \$	U.S. \$
Balance, beginning of year	29,366	27,200
Additions (Note 8)	8,534	16,353
Deferred revenues recognized	(17,553)	(14,187)
Balance, end of year	<u>20,347</u>	<u>29,366</u>

6. Provision for employees' indemnity

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

	2008	2007
	U.S. \$	U.S. \$
Balance, beginning of year	27,652	24,885
Additions	22,998	17,425
Payments	(12,737)	(14,658)
Balance, end of year	<u>37,913</u>	<u>27,652</u>

7. Accounts payable and accruals

	2008	2007
	U.S. \$	U.S. \$
Postponed checks	55,676	-
Due to suppliers	19,419	45,248
Accrued professional fees	7,000	6,500
Due to employees	6,529	-
Employees' payroll tax	2,242	-
Sundry	105	105
	<u>90,971</u>	<u>51,853</u>

8. 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	Currency exchange difference	Write off	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Norway and Netherlands	122,769	1,778,856	(378,202)	(4,644)	(5,847)	(116,921)	1,396,011
United Nations Development Programme	193,878	-	(125,380)	(266)	-	-	68,232
TIRI	3,122	-	(3,122)	-	-	-	-
Friedrich Naumann Foundation	3,342	24,565	(15,763)	-	(1,499)	-	10,645
Transparency International	2,323	-	(2,323)	-	-	-	-
The NGO Development Centre	42,250	-	(42,250)	-	-	-	-
Palestinian Securities Exchange	845	-	(845)	-	-	-	-
Cooperative Housing Foundation	15,501	-	(15,501)	-	-	-	-
Arab region parliamentarians against corruption	-	4,830	(588)	-	-	-	4,242
Palestine Telecommunications Company	-	23,181	-	-	-	-	23,181
Transparency International	-	489,271	(54,917)	(3,624)	-	-	430,730
	384,030	2,320,703	(638,891)	(8,534)	(7,346)	(116,921)	1,933,041

9. Projects' Expenses

	Enhancing integrity, transparency and accountability in the Palestinian society	National Campaign for advocating and supporting the adaptation of the United Nations Conventions against Corruption (UNCAC)	Integrity in Reconstruction	Enhancing the legal framework of Associations in the Arab World through national dialogue and empowerment of civil society	Emergency Fund I	Introducing Transparency and Accountability Standards to the Code of Conduct	AMAN Conference Palestinian Securities Exchange
	Norway and Netherlands	UNDP	TIRI	Friedrich Naumann Foundation	Transparency International	The NGO Development Centre	U.S. \$
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and related expenses	174,728	49,604	-	5,988	2,311	25,310	-
Employee indemnity	17,665	3,957	-	-	-	-	-
Experts honoraria and training fees	41,339	19,794	-	3,025	-	9,150	-
Utilities, stationery and supplies	7,309	1,883	214	-	-	-	187
Professional fees	5,500	1,500	-	-	-	-	-
Office, equipment and hall rental	21,118	1,020	1,200	1,364	-	2,322	-
Workshop expenses	1,121	475	-	-	-	-	-
Travel and accommodation	17,746	10,790	15	663	-	2,278	-
Information and publications	40,905	19,779	1,112	2,967	-	218	-
Training expenses	25,929	11,911	-	1,749	-	2,833	-
Hosting delegations and meetings	-	-	-	-	-	-	-
Postage, telephone, fax and internet	5,517	3,091	575	-	-	67	-
Sundry	19,325	1,576	6	7	12	72	658
Total	378,202	125,380	3,122	15,763	2,323	42,250	845

	Empowering Palestinian youth in the fight against corruption (ACT)	Transparency in Revenues	Emergency Func II	Measuring Anti- Corruption Efforts and Building Demand for Effective National Integrity Systems in Egypt & the Arab World (MABDA)	Transparency International Mediterranean Advocacy & Legal Advice Centers (ALAC)	Total	Total
	CHF U.S. \$	ARPAC U.S. \$	Transparency International U.S. \$	Transparency International U.S. \$	Transparency International U.S. \$	2008 U.S. \$	2007 U.S. \$
Salaries and related expenses	257,941	15,493	11,658	24,301	1,897	311,290	221,457
Employee indemnity	21,622	-	-	1,266	110	22,998	17,425
Experts honoraria and training fees	73,308	-	-	8,040	13	81,361	132,861
Utilities, stationery and supplies	9,593	8	775	-	-	10,376	78,419
Professional fees	7,000	-	-	-	-	7,000	6,500
Office, equipment and hall rental	27,024	-	80	-	1,250	28,354	45,942
Workshop expenses	1,596	-	-	-	-	1,596	13,456
Travel and accommodation	31,492	-	-	-	2,660	34,152	21,537
Information and publications	64,981	-	588	399	249	66,406	177,635
Training expenses	42,422	-	-	189	-	42,554	54,707
Hosting delegations and meetings	-	-	-	132	-	-	1,452
Postage, telephone, fax and internet	9,250	-	-	971	40	10,261	14,092
Sundry	21,656	-	-	691	196	22,543	4,878
Total	567,885	15,501	588	14,574	33,928	638,891	790,361

10. Administrative expenses

	2008	2007
	U.S. \$	U.S. \$
Training fees	4,769	-
Salaries and related expenses	4,400	-
Office, equipment and hall rental	3,433	-
Information and publications	2,132	-
Sundry	1,868	-
	<u>16,602</u>	<u>-</u>

11. Related party transactions

This represents transaction with key management personnel:

	2008	2007
	U.S. \$	U.S. \$
Key management personnel compensation:		
Short-term benefits	<u>69,489</u>	<u>48,420</u>
Termination benefits	<u>3,406</u>	<u>4,035</u>

12. 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.

13. 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 month.

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 Israeli Sheqel (ILS) and the European Monetary Unit (EURO) with all other variables held constant, on the statement of activities and changes in net assets:-

	Increase / decrease in ILS rate to U.S. \$	Effect on results of activities	Increase / decrease in EURO rate to U.S.\$	Effect on results of activities
	%	U.S. \$	%	U.S. \$
2008				
U.S.\$	+5	(216)	+5	1,220
U.S.\$	-5	216	-5	(1,220)
2007				
U.S.\$	+5	(106)	+5	2,623
U.S.\$	-5	106	-5	(2,623)

14. 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.