

ARAB THOUGHT FORUM  
FINANCIAL STATEMENTS  
DECEMBER 31, 2008

## **Independent Auditors' Report to the Board of Trustees of Arab Thought Forum**

We have audited the accompanying financial statements of the Arab Thought Forum (ATF), 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks 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 ATF'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 Arab Thought Forum as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of a matter**

Without qualifying our opinion, ATF's expenses exceeded its revenues for the years 2008 and 2007, which caused a deficit of net assets as of December 31, 2008, accordingly ATF should raise sufficient funds to be able to finance its activities.



April 28, 2009  
Ramallah, Palestine

**STATEMENT OF FINANCIAL POSITION**

December 31, 2008

	Notes	<u>2008</u> U.S. \$	<u>2007</u> U.S. \$
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	2	9,579	8,798
Available - for - sale investments	3	1,350	2,005
		<u>10,929</u>	<u>10,803</u>
<b>Current assets</b>			
Contributions receivable	4	155,000	41,545
Other current assets		8,357	9,296
Cash and cash equivalents	5	12,253	98,379
		<u>175,610</u>	<u>149,220</u>
<b>Total Assets</b>		<b><u>186,539</u></b>	<b><u>160,023</u></b>
<b>Net Assets and Liabilities</b>			
<b>Net Assets</b>			
Cumulative changes in fair value		-	20
Unrestricted net assets		(21,161)	4,201
<b>Total Net Assets</b>		<b><u>(21,161)</u></b>	<b><u>4,221</u></b>
<b>Non-current liabilities</b>			
Provision for employees' indemnity	6	24,131	25,790
Deferred revenues	7	9,579	14,090
		<u>33,710</u>	<u>39,880</u>
<b>Current liabilities</b>			
Temporarily restricted contributions	8	157,998	90,733
Accounts payable and accruals		15,992	25,189
		<u>173,990</u>	<u>115,922</u>
<b>Total liabilities</b>		<b><u>207,700</u></b>	<b><u>155,802</u></b>
<b>Total Net Assets and Liabilities</b>		<b><u>186,539</u></b>	<b><u>160,023</u></b>

Arab Thought Forum

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**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>
<b>Revenues</b>			
Temporarily restricted contributions released from restriction	8	202,138	197,225
Unrestricted contributions		-	4,519
Deferred revenues recognized	7	9,501	4,628
Other revenues		1,082	418
<b>Total revenues</b>		<u>212,721</u>	<u>206,790</u>
<b>Expenses</b>			
Projects' expenses	9	202,138	197,225
Administrative expenses	10	31,736	66,258
Currency exchange loss		-	3,252
Depreciation expense		4,209	4,628
<b>Total expenses</b>		<u>238,083</u>	<u>271,363</u>
<b>Decrease in net assets</b>		(25,362)	(64,573)
Unrestricted net assets, beginning of year		<u>4,201</u>	<u>68,774</u>
<b>Unrestricted net assets, end of year</b>		<u><u>(21,161)</u></u>	<u><u>4,201</u></u>

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The attached notes 1 to 13 form part of these financial statements.

Arab Thought Forum

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**CASH FLOW STATEMENT**

Year Ended December 31, 2008

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
<b>Operating activities:</b>		
Decrease in net assets	(25,362)	(64,573)
<b>Adjustments:</b>		
Depreciation	4,209	4,628
Provision for employees' indemnity	6,584	10,740
Deferred revenues recognized	(9,501)	(4,628)
Other non cash items	<u>635</u>	<u>-</u>
	(23,435)	(53,833)
<b>Changes in working capital:</b>		
Contributions receivable	(113,455)	124,936
Other current assets	939	2,552
Temporarily restricted contributions	67,265	(40,582)
Accounts payable and accruals	(9,197)	(11,758)
Employees' indemnity paid	<u>(8,243)</u>	<u>(10,529)</u>
<b>Net cash flows (used in) from operating activities</b>	<u>(86,126)</u>	<u>10,786</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(86,126)</b>	<b>10,786</b>
Cash and cash equivalents, beginning of year	<u>98,379</u>	<u>87,593</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>12,253</u></u>	<u><u>98,379</u></u>

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The attached notes 1 to 13 form part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2008

### **1. Activities**

Arab Thought Forum (ATF) was established in Jerusalem in 1977 as an independent Palestinian institution, not affiliated with any government, political party or organization, and dedicated to development, education, research and analysis.

On October 28, 1983, ATF was legally registered as a private not-for-profit society under registration number 58-000-769-8 in accordance with the applicable law in Jerusalem. On August 21, 1997, ATF was legally registered in Palestine with the Palestinian Ministry of Interior under registration number 1019R.

The financial statements were approved by the Board of Directors on April 28, 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 ATF.

### **2.2 Significant accounting policies**

#### **Donation revenues**

Donor's unconditional pledges are those pledges where donor does 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 as revenue when the pledge is obtained.
- Unconditional pledges that are temporarily restricted by the donor for a specific purpose or time are recognized as revenue 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 statement of financial position 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.

### **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.

### **Available-for-sale investments**

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other financial assets categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized directly within net assets. When the investment is disposed of, the cumulative gain or loss previously recorded in net assets is recognized in the statements of activities and changes in net assets. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the statement of activities and changes in net assets when the right of payment has been established.

### **Fair values**

For investments traded in an active market, fair value is determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

## Property and equipment

Property and equipment is 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 (Years)
Equipment and computers	4 - 7
Office furniture	10
Vehicle	7
Library	10

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that 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.

Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately are capitalized 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

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

## Provision for employees' end of service benefits

Provision for employees' end of service benefits is calculated in accordance with the labor law prevailing in Palestine, and ATF's 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.

## Judgments and estimation uncertainty

ATF's financial position and results of activities are sensitive to accounting methods, assumptions, estimates and judgments that underlie the preparation of the financial statements. ATF 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.

## 2. Property and equipment

<b>2008</b>	Equipment and computers	Office furniture	Vehicle	Library	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Cost</b>					
At January 1, 2008	156,412	24,261	9,955	9,916	200,544
Additions	4,990	-	-	-	4,990
At December 31, 2008	<u>161,402</u>	<u>24,261</u>	<u>9,955</u>	<u>9,916</u>	<u>205,534</u>
<b>Accumulated depreciation:</b>					
At January 1, 2008	153,620	24,261	3,949	9,916	191,746
Depreciation charge for the year	2,715	-	1,494	-	4,209
At December 31, 2008	<u>156,335</u>	<u>24,261</u>	<u>5,443</u>	<u>9,916</u>	<u>195,955</u>
<b>Net carrying amount</b>					
At December 31, 2008	<u>5,067</u>	<u>-</u>	<u>4,512</u>	<u>-</u>	<u>9,579</u>
At December 31, 2007	<u>2,792</u>	<u>-</u>	<u>6,006</u>	<u>-</u>	<u>8,798</u>

Property and equipment include U.S. \$ 180,531 of fully depreciated assets that are still used in ATF's activities as of December 31, 2008.

## 3. Available - for - sale investments

Available-for-sale investments include equity shares of a company listed in Palestine Securities Exchange.

## 4. Contributions receivable

	Balance, beginning of year	Additions	Cash received	Currency exchange difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Welfare Association	30,650	-	(15,650)	-	15,000
Salzburg Seminar Institute for Historical Justice and Reconciliations	-	43,398	(43,398)	-	-
Coalition for Accountability and Integrity (AMAN)	10,895	-	(11,890)	995	-
NGO Development Center	-	180,000	(40,000)	-	140,000
Mu'assasat Strengthening Human Rights and Good Governance	-	50,000	(50,000)	-	-
	<u>41,545</u>	<u>273,398</u>	<u>(160,938)</u>	<u>995</u>	<u>155,000</u>

## 5. Cash and cash equivalents

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Cash on hand and at banks	12,253	81,708
Short-term deposit	-	16,671
	<u>12,253</u>	<u>98,379</u>

## 6. Provision for employees' indemnity

The movement on the provision for employees' end of service benefits during the year was as follows:

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Balance, beginning of year	25,790	25,579
Provided for during the year	6,584	10,740
Payments during the year	<u>(8,243)</u>	<u>(10,529)</u>
Balance, end of year	<u>24,131</u>	<u>25,790</u>

## 7. Deferred revenues

This item represents the value of equipment acquired during the year out of temporarily restricted contributions. Movement on deferred revenues during the year was as follows:

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Balance, beginning of year	14,090	16,718
Additions	4,990	2,000
Deferred revenues recognized	<u>(9,501)</u>	<u>(4,628)</u>
Balance, end of year	<u>9,579</u>	<u>14,090</u>

## 8. Temporarily restricted contributions

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

	Balance, beginning of year	Additions during the year	Temporarily restricted contributions released from restriction	Transferred to deferred revenues	Currency exchange difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
United Nations Development Programme (UNDP)	2,367	-	(2,367)	-	-	-
Welfare Association	41,702	-	(26,677)	-	-	15,025
Salzburg Seminar Institute for Historical Justice and Reconciliations	14,732	43,398	(58,130)	-	-	-
Coalition for Accountability and Integrity - AMAN	11,098	-	(12,093)	-	995	-
NGO Development Center	-	180,000	(32,037)	(4,990)	-	142,973
Mu'assasat strengthening Human Rights and Good Governance	20,834	50,000	(70,834)	-	-	-
	<u>90,733</u>	<u>273,398</u>	<u>(202,138)</u>	<u>(4,990)</u>	<u>995</u>	<u>157,998</u>

## 9. Projects' expenses

Components of projects' expenses are as follows:

	2008							2007		
	<i>Welfare</i>	<i>Salzburg</i>	<i>AMAN</i>	<i>Mu'assasat</i>	<i>UNDP</i>	<i>NGO Development Center</i>		<i>Total</i>	<i>Total</i>	
	<i>Mechanisms for the Development and Support of Jerusalem as the Arab's Cultural Capital 2009</i>	<i>Institute of Historical Justice And Reconciliation Middle East</i>	<i>Strengthening Transparency and Accountability of Local Government</i>	<i>Silwan Project</i>	<i>Financial support from the Swiss Development Cooperation</i>	<i>Democratic report and civil society</i>	<i>Strengthening human rights and good governance</i>	<i>Development of computer literacy for blind centers</i>	<i>U.S. \$</i>	<i>U.S. \$</i>
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and benefits	18,811	36,677	5,794	10,886	23,136	2,085	13,079	8,814	119,282	122,309
Tax and national insurance	505	7,429	2,691	161	11,483	161	-	-	22,430	710
Maintenance, rent and utilities	1,697	2,400	164	2,400	2,247	-	4,960	991	14,859	20,692
Professional services	-	-	204	2,339	8,175	-	-	-	10,718	3,169
Travel and Transportation	1,995	2,782	808	-	1,884	-	-	-	7,469	12,328
Communication and advertisement	1,177	2,911	334	334	-	55	552	1,641	7,004	7,761
Workshops and field work	-	2,793	1,410	1,850	-	-	-	-	6,053	1,963
Services and others	88	-	320	2,040	1,260	66	1,309	-	5,083	4,926
Stationery and printings	1,255	-	275	302	-	-	100	236	2,168	8,570
Hall rent	837	1,218	93	-	-	-	-	-	2,148	7,623
Library Development	-	-	-	-	1,815	-	-	-	1,815	4,000
Translation and publications	312	1,920	-	522	-	-	-	355	3,109	3,174
	<u>26,677</u>	<u>58,130</u>	<u>12,093</u>	<u>20,834</u>	<u>50,000</u>	<u>2,367</u>	<u>20,000</u>	<u>12,037</u>	<u>202,138</u>	<u>197,225</u>

## 10. Administrative expenses

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Salaries and benefits	11,217	18,573
Tax and national insurance	7,967	27,895
Maintenance, rent and utilities	6,384	10,000
Transportation	2,975	1,500
Services and other	2,209	964
Professional services	40	7,155
Sundry	944	171
	<u>31,736</u>	<u>66,258</u>

## 11. 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 payables and accruals.

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

## 12. Risk management

### Liquidity risk

ATF encounters a liquidity difficulty due to the shortage of liquid assets. ATF's management is continuing efforts to seek adequate cash balances from its donors.

### Foreign currency risk

ATF maintains its major assets and liabilities in U.S. \$. In addition, ATF's major contribution revenues are collected in U.S. \$ and most of its expenses are paid in U.S. \$. Therefore, ATF's management expects that fluctuations in foreign currencies have no material effect on the result of activities.

## 13. Concentration of risk in geographic area

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