

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

FINANCIAL STATEMENTS

DECEMBER 31, 2017

Independent Auditor's Report

To member of the General Assembly of the Coalition for Accountability and Integrity - AMAN

Opinion

We have audited the financial statements of the Coalition for Accountability and Integrity (AMAN), which comprise the statement of financial position as at December 31, 2017, and the statement of activities and changes in net assets and the 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 AMAN as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the 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 AMAN in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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.

Responsibilities of Management and the Board of Directors 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.

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

The Board of Directors is responsible for overseeing AMAN'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 AMAN's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, 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 AMAN'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 AMAN 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.

Ernst & Young - Middle East
License # 206/2012



May 10, 2018
Ramallah, Palestine

Statement of Financial Position

As at December 31, 2017

	<u>Notes</u>	<u>2017</u> U.S. \$	<u>2016</u> U.S. \$
<u>Assets</u>			
Non-current assets			
Property and equipment	3	18,941	20,284
		<u>18,941</u>	<u>20,284</u>
Current assets			
Contributions receivable	4	2,981,432	274,906
Other current assets	5	23,454	53,814
Cash and cash equivalents	6	1,041,953	517,114
		<u>4,046,839</u>	<u>845,834</u>
Total assets		<u><u>4,065,780</u></u>	<u><u>866,118</u></u>
<u>Net assets and liabilities</u>			
Net assets			
Unrestricted net assets		213,605	230,601
Total net assets		<u>213,605</u>	<u>230,601</u>
Non-current liabilities			
Deferred revenues	7	18,941	20,284
Provision for employees' indemnity	8	246,803	211,541
		<u>265,744</u>	<u>231,825</u>
Current liabilities			
Accounts payable and accruals	9	263,587	169,983
Temporarily restricted contributions	10	3,322,844	233,709
		<u>3,586,431</u>	<u>403,692</u>
Total liabilities		<u>3,852,175</u>	<u>635,517</u>
Total Net Assets and Liabilities		<u><u>4,065,780</u></u>	<u><u>866,118</u></u>

The attached notes 1 to 16 form part of these financial statements

Statement of Activities and Changes in Net Assets

For the year ended December 31, 2017

	<u>Notes</u>	<u>2017</u> <u>U.S. \$</u>	<u>2016</u> <u>U.S. \$</u>
Revenues			
Temporarily restricted contributions released from restriction	10	1,325,030	1,165,266
Deferred revenues recognized	7	11,700	14,095
Unrestricted Contributions	11	<u>15,322</u>	<u>93,382</u>
Total revenues		<u><u>1,352,052</u></u>	<u><u>1,280,692</u></u>
Expenses			
Projects' expenses	12	(1,325,030)	(1,165,266)
Depreciation of property and equipment	3	(11,700)	(14,095)
Currency differences		(25,979)	7,949
Other expenses		<u>(6,339)</u>	<u>(1,924)</u>
Total expenses		<u><u>(1,369,048)</u></u>	<u><u>(1,181,285)</u></u>
(Decrease) increase in net assets		(16,996)	99,407
Net assets, beginning of the year		<u>230,601</u>	<u>131,194</u>
Net assets, end of year		<u><u>213,605</u></u>	<u><u>230,601</u></u>

The attached notes 1 to 16 form part of these financial statements

Statement of Cash Flows

For the year ended December 31, 2017

	Notes	<u>2017</u> U.S. \$	<u>2016</u> U.S. \$
<u>Operating activities:</u>			
(Decrease) increase in net assets		(16,996)	99,407
<u>Adjustments:</u>			
Depreciation of property and equipment		11,700	14,095
Provision for employee's indemnity		53,825	38,176
Deferred revenues recognized		<u>(11,700)</u>	<u>(14,095)</u>
		36,829	137,583
Contributions receivable		(2,706,526)	258,329
Other current assets		30,360	(1,549)
Temporarily restricted contributions		3,099,492	(474,023)
Accounts payable and accruals		93,604	53,103
Employee's indemnity paid		<u>(18,563)</u>	<u>(18,572)</u>
Net cash flows from (used in) operating activities		<u>535,196</u>	<u>(45,129)</u>
<u>Investing activities:</u>			
Purchase of property and equipment		<u>(10,357)</u>	<u>(5,218)</u>
Net cash used in investing activities		<u>(10,357)</u>	<u>(5,218)</u>
Increases (decrease) in cash and cash equivalents		524,839	(50,347)
Cash and cash equivalents, beginning of year		517,114	567,461
Cash and cash equivalents, end of year	6	<u><u>1,041,953</u></u>	<u><u>517,114</u></u>

Notes to the Financial Statements

December 31, 2017

1. General

The Coalition for Accountability and Integrity (AMAN) was found by a group of Palestinian organizations working in Human Rights and Democracy field. AMAN was officially registered on February 9, 2004 under registration number RA-22234-5.5 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, to enhance the role of oversight institutions including the Palestinian Legislative Council and civil society, to propose draft legislations and regulations and to work closely with the Palestinian Legislative Council.

AMAN's financial statements as at December 31, 2017 were authorized for issuance by the Board of Directors on May 7, 2018.

2. Accounting Policies

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 on a historical cost basis.

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

2.2 Changes in accounting policies and disclosures

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, 2016. Except that AMAN applied certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2017.

The application of these amendments has no effect on AMAN's financial position and its financial performance, or the disclosures of the financial statements of AMAN.

2.3 Estimates and assumptions

The preparation of AMAN's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key areas involving a higher degree of judgment or complexity are described below:

Useful lives of tangible assets

Management reassesses the useful lives of tangible assets, and makes adjustments if applicable, at each financial year end.

2.4 Summary of Significant accounting policies,

Revenue Recognition

Contribution 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 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

Contributions related to property and equipment are 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.

Cash and cash equivalents

For the purpose of the statement of cash flow, cash and cash equivalents consist of 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.

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.

Impairment 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.

Current versus non-current classification

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

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, Or
- 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 classified as 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, Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

AMAN classifies all other liabilities as non-current.

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.

Provisions

Provisions are recognised when AMAN has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are probable and can be reliably measured.

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 U.S. Dollar using the rate of exchange ruling at the financial statement 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, 2017	39,298	148,949	188,247
Additions	<u>1,557</u>	<u>8,800</u>	<u>10,357</u>
At December 31, 2017	<u>40,855</u>	<u>157,749</u>	<u>198,604</u>
Accumulated depreciation:			
At January 1, 2017	31,668	136,295	167,963
Depreciation charge for the year	<u>2,926</u>	<u>8,774</u>	<u>11,700</u>
At December 31, 2017	<u>34,594</u>	<u>145,069</u>	<u>179,663</u>
Net book value:			
At December 31, 2017	<u>6,261</u>	<u>12,680</u>	<u>18,941</u>
At December 31, 2016	<u>7,630</u>	<u>12,654</u>	<u>20,284</u>

Property and equipment include U.S. \$ 130,191 and U.S. \$ 130,191 of fully depreciated assets that are still being used in AMAN's activities as at December 31, 2017 and 2016, respectively.

4. Contributions receivable

The movement on the contributions receivable during the year was as follows:

	Balance, beginning of year	Additions	Cash received	Written- off	Currency differences	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Government of Norway, Netherlands and Luxembourg	256,148	4,277,125	(1,532,831)	(111,673)	21,281	2,910,050
Oxfam Novib -UK	13,700	110,929	(106,915)	-	(688)	17,026
Transparency International - Belgium	-	38,942	-	-	757	39,699
United Nations Development Programme	-	44,976	(30,319)	-	-	14,657
The Central Election Comission	5,058	-	(4,272)	(595)	(191)	-
	<u>274,906</u>	<u>4,471,972</u>	<u>(1,674,337)</u>	<u>(112,268)</u>	<u>21,159</u>	<u>2,981,432</u>

5. Other current assets

	<u>2017</u>	<u>2016</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Employees' receivables	16,908	36,401
Prepaid expenses	4,689	13,420
Others	1,857	3,993
	<u>23,454</u>	<u>53,814</u>

6. Cash and cash equivalents

	<u>2017</u>	<u>2016</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Cash on hand	1,694	3,814
Cash at banks	1,040,259	513,300
	<u>1,041,953</u>	<u>517,114</u>

7. Deferred revenues

	<u>2017</u>	<u>2016</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Balance, beginning of year	20,284	29,161
Additions (note 10)	10,357	5,218
Deferred revenues recognized	(11,700)	(14,095)
Balance, end of year	<u>18,941</u>	<u>20,284</u>

8. Provision for employees' indemnity

The movement on the provision for employees' indemnity during the year as follows:

	<u>2017</u>	<u>2016</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Balance, beginning of year	211,541	191,937
Additions during the year	53,825	38,176
Payments during the year	(18,563)	(18,572)
Balance, end of year	<u>246,803</u>	<u>211,541</u>

Provision for employee's indemnity is provided for in accordance with the labor law prevailing in Palestine and AMAN's human resources policies based on one-month salary for each year of employment. The Palestinian Social Security Law is expected to be applied during 2018, which obligates employer's to settle the end of service benefits for the periods preceding the application of the provisions of this law.

9. Accounts payable and accruals

	<u>2017</u>	<u>2016</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Accounts payable	180,464	116,580
Postponed checks	72,079	44,436
Accrued expenses	3,842	2,997
Accrued payroll tax	3,302	2,208
Accrued professional fees	3,900	3,762
	<u>263,587</u>	<u>169,983</u>

10. Temporarily restricted contributions

This item comprises temporarily restricted contributions subject to purpose restriction. These amounts represent the excess of contributions received over the expenditures made out to satisfy the purposes stipulated by the donors. Movement on the temporarily restricted contributions as at December 31, 2017 is as follows:

	Balance, beginning of year	Additions	Temporarily restricted contributions released from restriction	Deferred revenues	Written- off	Currency differences	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Government of Norway, Netherlands and Luxembourg	151,745	4,277,125	(1,194,639)	(7,622)	(111,673)	49,368	3,164,304
Oxfam Novib -UK	81,441	110,929	(123,844)	(2,289)	-	14,682	80,919
Transparency International - Belgium	-	38,942	(853)	-	-	696	38,785
United Nations Development Programme	-	44,976	(5,694)	(446)	-	-	38,836
The Central Election Commission	523	-	-	-	(595)	72	-
	<u>233,709</u>	<u>4,471,972</u>	<u>(1,325,030)</u>	<u>(10,357)</u>	<u>(112,268)</u>	<u>64,818</u>	<u>3,322,844</u>

11. Unrestricted Contributions

	<u>2017</u>	<u>2016</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Unrestricted contributions	15,232	5,292
Transferred from temporarily restricted contributions*	-	88,090
	<u>15,232</u>	<u>93,382</u>

* For 2016, this item represents amounts transferred from temporarily restricted contributions to unrestricted contributions after donor's approval.

12. Projects' expenses

	Enhancing Integrity, Transparency and Accountability in the Palestinian Society	National Integrity Systems - Lybia	Tax Justice, Budget Monitoring and Citizens' Participation Pilot Project in OPT	Enhancing Social Accountability Culture and Citizens Participation in Combating Corruption	Total	
	Governments of Norway. Netherlands and Luxembourg	Transparency International - Belgium	Oxfam	United Nations Development Programme	2017	2016
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and related expenses	589,406	-	22,321	3,058	614,785	479,025
Projects' expenses*	124,637	-	-	-	124,637	55,509
Employees' indemnity	52,357	-	1,467	-	53,824	38,176
Experts honoraria and training fees	110,378	-	15,420	-	125,798	132,746
Utilities, stationery and supplies	20,867	-	7,986	2,051	30,904	26,892
Professional fees	3,900	-	-	-	3,900	13,524
Office, equipment and hall rental	32,960	-	324	-	33,284	32,295
Workshops and training expenses	51,486	-	7,259	-	58,745	72,189
Travel and accommodation	47,519	853	4,047	274	52,693	52,959
Information and publications	142,462	-	63,496	311	206,269	236,935
Postage, telephone, fax and internet	14,346	-	785	-	15,131	15,380
Sundry	4,321	-	739	-	5,060	9,636
Total	1,194,639	853	123,844	5,694	1,325,030	1,165,266

* This item represents amounts granted to Palestinian organization and associations to implement AMAN's projects.

13. Related party transactions

This item represents transactions with related parties. Related parties represent AMAN's board of directors, key management and entities controlled, jointly controlled or significantly influenced by such parties.

The statement of activities and changes in net assets included the following transactions with related parties:

	<u>2017</u>	<u>2016</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Key management personnel compensation:</u>		
Key management share of salaries and related benefits	<u>86,200</u>	<u>76,693</u>
Key management share of employee's indemnity	<u>4,751</u>	<u>3,279</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 and some other current assets. Financial liabilities consist of accounts payable, accruals and temporarily restricted contributions

The fair value of financial instruments is not materially different from their carrying values at the date of financial statements.

15. Risk management

Credit Risk

Credit risk is the risk that the donors or other parties will be unable to fulfil their obligations of transferring the amounts under the signed contracts, which compromise the carrying value of these payables.

With respect to credit risk arising from other financial assets of AMAN including cash and cash equivalent and other current assets, exposure to credit risk arises from the default of the counterparty. The maximum exposure is equal to the carrying amount of these financial assets.

Liquidity risk

AMAN limits its liquidity risk by maintaining adequate cash balances to meet its current obligations and to finance its 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 decreases in foreign currency exchange rate is expected to be equal and opposite to the effect of the increases shown.

	Increase in currency exchange rate to U.S. \$ <u> %</u>	Effect on statement of activities and changes in net assets <u> U.S. \$</u>
<u>2017</u>		
EURO	10	(1,485)
ILS	10	401
<u>2016</u>		
EURO	10	(3,587)
ILS	10	(270)

16. Concentration of Risk in Geographic Area

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