

ARAB THOUGHT FORUM
FINANCIAL STATEMENTS
DECEMBER 31, 2009

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, 2009, 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 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 Arab Thought Forum as of December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



June 9, 2010
Ramallah, Palestine

STATEMENT OF FINANCIAL POSITION

December 31, 2009

| | <u>Notes</u> | <u>2009</u> U.S. \$ | <u>2008</u> U.S. \$ |
|--|--------------|------------------------|------------------------|
| <u>Assets</u> | | | |
| Non-current assets | | | |
| Property and equipment | 2 | 11,170 | 9,579 |
| Available - for - sale investments | 3 | 2,064 | 1,350 |
| | | <u>13,234</u> | <u>10,929</u> |
| Current assets | | | |
| Contributions receivable | 4 | 147,262 | 155,000 |
| Other current assets | | 4,616 | 8,357 |
| Cash and cash equivalents | 5 | 15,708 | 12,253 |
| | | <u>167,586</u> | <u>175,610</u> |
| Total Assets | | <u>180,820</u> | <u>186,539</u> |
| <u>Net Assets and Liabilities</u> | | | |
| Net Assets | | | |
| Unrestricted net assets | | (1,084) | (21,161) |
| Cumulative change in fair value | | 714 | - |
| Total Net Assets | | <u>(370)</u> | <u>(21,161)</u> |
| Non-current liabilities | | | |
| Provision for employees' indemnity | 6 | 30,854 | 24,131 |
| Deferred revenues | 7 | 11,170 | 9,579 |
| | | <u>42,024</u> | <u>33,710</u> |
| Current liabilities | | | |
| Temporarily restricted contributions | 8 | 103,864 | 157,998 |
| Accounts payable and accruals | | 35,302 | 15,992 |
| | | <u>139,166</u> | <u>173,990</u> |
| Total liabilities | | <u>181,190</u> | <u>207,700</u> |
| Total Net Assets and Liabilities | | <u>180,820</u> | <u>186,539</u> |

Arab Thought Forum

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2009

| | | <u>2009</u> | <u>2008</u> |
|--|--------------|-----------------------|------------------------|
| | <u>Notes</u> | <u>U.S. \$</u> | <u>U.S. \$</u> |
| Revenues | | | |
| Temporarily restricted contributions released from restriction | 8 | 306,390 | 202,138 |
| Unrestricted contributions | | 24,606 | - |
| Deferred revenues recognized | 7 | 4,915 | 9,501 |
| Other revenues | | 1,335 | 1,082 |
| Total revenues | | <u>337,246</u> | <u>212,721</u> |
| Expenses | | | |
| Projects' expenses | 9 | 306,390 | 202,138 |
| Administrative expenses | 10 | 4,029 | 31,736 |
| Currency exchange loss | | 1,835 | - |
| Depreciation expense | 2 | 4,915 | 4,209 |
| Total expenses | | <u>317,169</u> | <u>238,083</u> |
| Increase (decrease) in net assets | | 20,077 | (25,362) |
| Unrestricted net assets, beginning of year | | <u>(21,161)</u> | <u>4,201</u> |
| Unrestricted net assets, end of year | | <u><u>(1,084)</u></u> | <u><u>(21,161)</u></u> |

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

Arab Thought Forum

CASH FLOW STATEMENT

Year Ended December 31, 2009

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| | <u>U.S. \$</u> | <u>U.S. \$</u> |
| Operating activities: | | |
| Increase (decrease) in net assets | 20,077 | (25,362) |
| Adjustments: | | |
| Depreciation | 4,915 | 4,209 |
| Provision for employees' indemnity | 7,469 | 6,584 |
| Deferred revenues recognized | (4,915) | (9,501) |
| Other non cash items | - | 635 |
| | <u>27,546</u> | <u>(23,435)</u> |
| Changes in working capital: | | |
| Contributions receivable | 7,738 | (113,455) |
| Other current assets | 3,741 | 939 |
| Temporarily restricted contributions | (47,628) | 67,265 |
| Accounts payable and accruals | 19,310 | (9,197) |
| Employees' indemnity paid | (746) | (8,243) |
| | <u>9,961</u> | <u>(86,126)</u> |
| Net cash flows from (used in) operating activities | <u>9,961</u> | <u>(86,126)</u> |
| Investing activities: | | |
| Purchase of property and equipment | (6,506) | - |
| | <u>(6,506)</u> | <u>-</u> |
| Net cash used in investing activities | <u>(6,506)</u> | <u>-</u> |
| Increase (decrease) in cash and cash equivalents | <u>3,455</u> | <u>(86,126)</u> |
| Cash and cash equivalents, beginning of year | <u>12,253</u> | <u>98,379</u> |
| Cash and cash equivalents, end of year | <u><u>15,708</u></u> | <u><u>12,253</u></u> |

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009

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 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 Trustees on June 9, 2010.

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 ATF.

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the ATF has adopted the following revised IFRS. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the ATF.

IFRS 7 - Financial Instruments (Revised)

IAS 1 - Presentation of Financial Statements (Revised)

2.3 Judgments and Estimation Uncertainty

ATF 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 may differ significantly from these estimates.

2.4 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' indemnity

Provision for employees' indemnity 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.

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

| | Equipment and computers | Office furniture | Vehicle | Library | Total |
|----------------------------------|-------------------------------|---------------------|--------------|--------------|----------------|
| | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| Cost: | | | | | |
| At January 1, 2009 | 161,402 | 24,261 | 9,955 | 9,916 | 205,534 |
| Additions | 2,097 | 4,409 | - | - | 6,506 |
| At December 31, 2009 | <u>163,499</u> | <u>28,670</u> | <u>9,955</u> | <u>9,916</u> | <u>212,040</u> |
| Accumulated depreciation: | | | | | |
| At January 1, 2009 | 156,335 | 24,261 | 5,443 | 9,916 | 195,955 |
| Depreciation charge for the year | 3,337 | 85 | 1,493 | - | 4,915 |
| At December 31, 2009 | <u>159,672</u> | <u>24,346</u> | <u>6,936</u> | <u>9,916</u> | <u>200,870</u> |
| Net book value | | | | | |
| At December 31, 2009 | <u>3,827</u> | <u>4,324</u> | <u>3,019</u> | <u>-</u> | <u>11,170</u> |
| At December 31, 2008 | <u>5,067</u> | <u>-</u> | <u>4,512</u> | <u>-</u> | <u>9,579</u> |

Property and equipment include U.S. \$ 180,827 and U.S. \$ 180,531 of fully depreciated assets that are still used in ATF's activities as of December 31, 2009 and 2008 respectively.

3. Available - for - sale investments

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

4. Contributions receivable

| | Balance, beginning of year | Additions | Cash received | Balance, end of year |
|-------------------------|----------------------------------|----------------|------------------|-------------------------|
| | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| Netham Project - USAID | - | 73,350 | - | 73,350 |
| Carter Center | - | 119,332 | (95,420) | 23,912 |
| Capital of Arab Culture | - | 45,000 | (25,500) | 19,500 |
| NGO Development Center | 140,000 | - | (122,000) | 18,000 |
| President Office | - | 25,000 | (12,500) | 12,500 |
| Welfare Association | 15,000 | - | (15,000) | - |
| | <u>155,000</u> | <u>262,682</u> | <u>(270,420)</u> | <u>147,262</u> |

5. Cash and cash equivalents

| | 2009 | 2008 |
|---------------|---------------|---------------|
| | U.S. \$ | U.S. \$ |
| Cash on hand | 3,457 | 700 |
| Cash at banks | 12,251 | 11,553 |
| | <u>15,708</u> | <u>12,253</u> |

6. Provision for employees' indemnity

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

| | 2009 | 2008 |
|------------------------------|---------------|---------------|
| | U.S. \$ | U.S. \$ |
| Balance, beginning of year | 24,131 | 25,790 |
| Provided for during the year | 7,469 | 6,584 |
| Payments during the year | (746) | (8,243) |
| Balance, end of year | <u>30,854</u> | <u>24,131</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:

| | 2009 | 2008 |
|------------------------------|---------------|--------------|
| | U.S. \$ | U.S. \$ |
| Balance, beginning of year | 9,579 | 14,090 |
| Additions | 6,506 | 4,990 |
| Deferred revenues recognized | (4,915) | (9,501) |
| Balance, end of year | <u>11,170</u> | <u>9,579</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. \$ |
| Netham Project - USAID | - | 73,350 | (7,298) | - | - | 66,052 |
| Carter Center | - | 119,332 | (85,914) | (1,281) | - | 32,137 |
| Capital of Arab Culture | - | 45,000 | (41,590) | - | (3,410) | - |
| NGO Development Center | 142,973 | - | (132,073) | (5,225) | - | 5,675 |
| President Office | - | 25,000 | (23,188) | - | (1,812) | - |
| Welfare Association | 15,025 | - | (16,327) | - | 1,302 | - |
| | <u>157,998</u> | <u>262,682</u> | <u>(306,390)</u> | <u>(6,506)</u> | <u>(3,920)</u> | <u>103,864</u> |

9. Projects' expenses

Components of projects' expenses are as follows:

| | 2009 | | | | | | | 2008 | |
|--|---|--|--|------------------|--|--|--|----------------|----------------|
| | Welfare Association | Carter Center | Capital of Arab Culture | President Office | Netham Project USAID | NGO Development Center | | Total | Total |
| | Mechanisms for the Development and Support of Jerusalem as Arab's Cultural Capital 2009 | Building Consensus on Electoral Reform | Support of Jerusalem as Arab's Cultural Capital 2009 | | The principles of separation of powers | Development of computer literacy for blind centers | Strengthening human rights and good governance | U.S. \$ | U.S. \$ |
| | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ | U.S. \$ |
| Salaries and related benefits | 14,308 | 56,697 | 12,596 | 9,122 | 6,757 | 7,476 | 24,040 | 130,996 | 119,282 |
| Tax and national insurance | - | - | - | - | - | - | 9,114 | 9,114 | 22,430 |
| Workshops and field work | - | - | - | - | - | 58,777 | - | 58,777 | 6,053 |
| Maintenance, rent and utilities | 438 | 17,813 | 118 | 85 | - | 2,462 | 12,818 | 33,734 | 14,859 |
| Stationery, publications and printings | 344 | 1,370 | 11,767 | 4,450 | 192 | 1,639 | - | 19,762 | 2,168 |
| Travel and Transportation | 464 | 4,057 | 3,957 | 2,865 | 176 | 457 | 3,150 | 15,126 | 7,469 |
| Other services | 76 | 1,884 | 4,913 | 3,511 | - | 1,262 | - | 11,646 | 5,083 |
| Professional fees | - | 288 | 4,452 | 414 | - | - | 8,369 | 13,523 | 10,718 |
| Communication and advertisement | 575 | 2,267 | 920 | 667 | 173 | - | 2,509 | 7,111 | 7,004 |
| Translation | - | 144 | 2,526 | 1,830 | - | - | - | 4,500 | 3,109 |
| Hall rent | 122 | 1,394 | 341 | 244 | - | - | - | 2,101 | 2,148 |
| Library Development | - | - | - | - | - | - | - | - | 1,815 |
| | <u>16,327</u> | <u>85,914</u> | <u>41,590</u> | <u>23,188</u> | <u>7,298</u> | <u>72,073</u> | <u>60,000</u> | <u>306,390</u> | <u>202,138</u> |

10. Administrative expenses

| | <u>2009</u> | <u>2008</u> |
|--|--------------|---------------|
| | U.S. \$ | U.S. \$ |
| Stationery, publications and printings | 1,403 | - |
| Services and other | 1,308 | 2,209 |
| Communication and advertisement | 934 | - |
| Salaries and related benefits | - | 11,217 |
| Maintenance, rent and utilities | - | 6,384 |
| Tax and national insurance | - | 7,967 |
| Transportation | - | 2,975 |
| Sundry | 384 | 984 |
| | <u>4,029</u> | <u>31,736</u> |

11. Related Party Transactions

This item represents transactions with related parties. Related parties represent associated entities, Board of Trustees and key management personnel, and entities controlled, jointly controlled or significantly influenced by such parties.

The financial statements include the following related party transactions.

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|---------------|---------------|
| | U.S. \$ | U.S. \$ |
| Key management personnel compensation | | |
| Short-term benefits | <u>55,323</u> | <u>43,041</u> |
| Termination benefits | <u>4,894</u> | <u>3,300</u> |

12. Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of contributions receivable, available for sale investments, other current assets 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.

13. 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.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or a contract, leading to a financial loss. ATF is exposed to credit risk from its operating activities primarily for contributions receivable as disclosed in note (4).

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.

14. 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.