

THE COALITION FOR ACCOUNTABILITY AND INTEGRITY - AMAN

FINANCIAL STATEMENTS

DECEMBER 31, 2016

Independent Auditor's Report To the Board of Trustees 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, 2016, 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 financial statements present fairly, in all material respects, the financial position of AMAN as at December 31, 2016, 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 the 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 the 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 7, 2017
Ramallah, Palestine

Statement of Financial Position

As at December 31, 2016

	<u>Notes</u>	<u>2016</u> U.S. \$	<u>2015</u> U.S. \$
<u>Assets</u>			
Non-current assets			
Property and equipment	3	20,284	29,161
		<u>20,284</u>	<u>29,161</u>
Current assets			
Contributions receivable	4	274,906	533,235
Other current assets	5	53,814	52,265
Cash and cash equivalents	6	517,114	567,461
		<u>845,834</u>	<u>1,152,961</u>
Total assets		<u><u>866,118</u></u>	<u><u>1,182,122</u></u>
<u>Net assets and liabilities</u>			
Net assets			
Unrestricted net assets		230,601	131,194
Total net assets		<u>230,601</u>	<u>131,194</u>
Non-current liabilities			
Deferred revenues	7	20,284	29,161
Provision for employees' indemnity	8	211,541	191,937
		<u>231,825</u>	<u>221,098</u>
Current liabilities			
Accounts payable and accruals	9	169,983	116,880
Temporarily restricted contributions	10	233,709	712,950
		<u>403,692</u>	<u>829,830</u>
Total liabilities		<u>635,517</u>	<u>1,050,928</u>
Total Net Assets and Liabilities		<u><u>866,118</u></u>	<u><u>1,182,122</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, 2016

	<u>Notes</u>	<u>2016</u> <u>U.S. \$</u>	<u>2015</u> <u>U.S. \$</u>
Revenues			
Temporarily restricted contributions released from restriction	10	1,165,266	1,168,955
Deferred revenues recognized	7	14,095	20,015
Unrestricted Contributions	11	93,382	11,738
Currency exchange differences		7,949	-
Total revenues		<u>1,280,692</u>	<u>1,200,708</u>
Expenses			
Projects' expenses	12	(1,165,266)	(1,168,955)
Depreciation of property and equipment	3	(14,095)	(20,015)
Other expenses		(1,924)	(8,928)
Total expenses		<u>(1,181,285)</u>	<u>(1,197,898)</u>
Increase in net assets		99,407	2,810
Net assets, beginning of the year		<u>131,194</u>	<u>128,384</u>
Net assets, end of year		<u>230,601</u>	<u>131,194</u>

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

Statement of Cash Flows

For the year ended December 31, 2016

	Notes	<u>2016</u> U.S. \$	<u>2015</u> U.S. \$
<u>Operating activities:</u>			
Increase in net assets		99,407	2,810
<u>Adjustments:</u>			
Depreciation of property and equipment		14,095	20,015
Provision for employee's indemnity		38,176	41,170
Deferred revenues recognized		<u>(14,095)</u>	<u>(20,015)</u>
		137,583	43,980
Contributions receivable		258,329	817,403
Other current assets		(1,549)	(15,829)
Temporarily restricted contributions		(474,023)	(917,700)
Accounts payable and accruals		53,103	(6,430)
Employee's indemnity paid		<u>(18,572)</u>	<u>(19,987)</u>
Net cash flows used in operating activities		<u>(45,129)</u>	<u>(98,563)</u>
<u>Investing activities:</u>			
Purchase of property and equipment		<u>(5,218)</u>	<u>(6,773)</u>
Net cash used in investing activities		<u>(5,218)</u>	<u>(6,773)</u>
Decrease in cash and cash equivalents		(50,347)	(105,336)
Cash and cash equivalents, beginning of year		<u>567,461</u>	<u>672,797</u>
Cash and cash equivalents, end of year	6	<u><u>517,114</u></u>	<u><u>567,461</u></u>

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

Notes to the Financial Statements

December 31, 2016

1. General

AMAN was officially registered on February 9, 2004 under registration number RA-22234-5.5 in Ramallah. AMAN was found by a group of Palestinian organizations working in Human Rights and Democracy field.

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, 2016 were authorized for issuance by the Board of Trustees on May 7, 2017.

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 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 Estimates and assumptions

AMAN's financial position and changes in assets, liabilities, revenues and expenses 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, 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.

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 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

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 property and equipment.

Expenses recognition

Expenses are recognized when incurred based on the accrual basis of accounting.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at banks.

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.

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.

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:

	<u>Useful Life (Years)</u>
Office furniture	6-7
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.

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

	<u>Office furniture</u> U.S. \$	<u>Office equipment</u> U.S. \$	<u>Total</u> U.S. \$
<u>Cost:</u>			
At January 1, 2016	38,483	144,546	183,029
Additions	815	4,403	5,218
At December 31, 2016	<u>39,298</u>	<u>148,949</u>	<u>188,247</u>
<u>Accumulated depreciation:</u>			
At January 1, 2016	28,602	125,266	153,868
Depreciation charge for the year	3,066	11,029	14,095
At December 31, 2016	<u>31,668</u>	<u>136,295</u>	<u>167,963</u>
<u>Net book value:</u>			
At December 31, 2016	<u>7,630</u>	<u>12,654</u>	<u>20,284</u>
At December 31, 2015	<u>9,881</u>	<u>19,280</u>	<u>29,161</u>

Property and equipment include U.S. \$ 130,191 and U.S. \$ 112,279 of fully depreciated assets that are still being used in AMAN's activities as at December 31, 2016 and 2015, 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 exchange differences	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Government of Norway, Netherlands and Luxembourg	391,685	614,280	(759,261)	-	9,444	256,148
Transparency International	51,305	16,296	(37,328)	(30,273)	-	-
Oxfam Novib -UK	4,347	100,835	(89,127)	-	(2,355)	13,700
European Commission	28,618	-	-	(28,618)	-	-
British Council	-	103,772	(103,772)	-	-	-
World Bank	29,160	-	(26,160)	(3,000)	-	-
United Nations Development Programme	28,120	-	(25,571)	(2,549)	-	-
The Central Election Commission	-	26,705	(21,551)	-	(96)	5,058
	<u>533,235</u>	<u>861,888</u>	<u>(1,062,770)</u>	<u>(64,440)</u>	<u>6,993</u>	<u>274,906</u>

5. Other current assets

	<u>2016</u>	<u>2015</u>
	U.S. \$	U.S. \$
Employees' receivables	36,401	25,780
Prepaid expenses	13,420	19,942
Other receivables	3,993	6,543
	<u>53,814</u>	<u>52,265</u>

6. Cash and cash equivalents

	<u>2016</u>	<u>2015</u>
	U.S. \$	U.S. \$
Cash on hand	3,814	252
Cash at banks	513,300	567,209
	<u>517,114</u>	<u>567,461</u>

7. Deferred revenues

Movement on deferred revenues during the year was as follows:

	<u>2016</u>	<u>2015</u>
	U.S. \$	U.S. \$
Balance, beginning of year	29,161	42,403
Additions (note 10)	5,218	6,773
Deferred revenues recognized	(14,095)	(20,015)
Balance, end of year	<u>20,284</u>	<u>29,161</u>

8. Provision for employees' indemnity

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

	<u>2016</u>	<u>2015</u>
	U.S. \$	U.S. \$
Balance, beginning of year	191,937	170,754
Additions during the year	38,176	41,170
Payments during the year	(18,572)	(19,987)
Balance, end of year	<u>211,541</u>	<u>191,937</u>

9. Accounts payable and accruals

	<u>2016</u>	<u>2015</u>
	U.S. \$	U.S. \$
Accounts payable	116,580	70,584
Postponed checks	44,436	38,815
Accrued expenses	2,997	4,048
Accrued employees' payroll tax	2,208	3,433
Accrued professional fees	3,762	-
	<u>169,983</u>	<u>116,880</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, 2016 is as follows:

	Balance, beginning of year	Additions	Temporarily restricted contributions released from restriction	Deferred revenues	Returned to Donors	Transferred to unrestricted contributions	Written- off	Currency exchange differences	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Government of Norway, Netherlands and Luxembourg Transparency International Budget Partnership	512,103	614,280	(961,753)	(5,218)	-	-	-	(7,667)	151,745
European Commission	26,126	16,296	(14,876)	-	(1,434)	-	(30,273)	4,161	-
Oxfam Novib -UK	2,378	-	(1,380)	-	-	(998)	-	-	-
British Council	34,327	-	-	-	(4,903)	-	(28,618)	(806)	-
World Bank	4,440	100,835	(16,825)	-	-	-	-	(7,009)	81,441
United Nations Development Programme	63,838	103,772	(92,016)	-	-	(75,594)	-	-	-
The Central Election Commission	24,976	-	(10,478)	-	-	(11,498)	(3,000)	-	-
	44,762	-	(42,213)	-	-	-	(2,549)	-	-
	-	26,705	(25,725)	-	-	-	-	(457)	523
	<u>712,950</u>	<u>861,888</u>	<u>(1,165,266)</u>	<u>(5,218)</u>	<u>(6,337)</u>	<u>(88,090)</u>	<u>(64,440)</u>	<u>(11,778)</u>	<u>233,709</u>

11. Unrestricted Contributions

	<u>2016</u>	<u>2015</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Unrestricted contributions	5,292	11,738
Transferred from temporarily restricted contributions*	88,090	-
	<u>93,382</u>	<u>11,738</u>

* This item represents projects expenses transferred from temporarily restricted contributions to unrestricted contributions during 2016 under donor's consent (note 10).

12. Projects' Expenses

	Enhancing Integrity, Transparency and Accountability in the Palestinian Society	National Integrity Systems Assessment with the Middle East and North Africa	Budget Monitoring	Transparency in Financing Election Campaign	Tax Justice, Budget Monitoring and Citizens' Participation Pilot Project in OPT	Tajawob	Strengthening Complaints Handling Mechanisms	Enhancing Social Accountability Culture and Citizens Participation in Combating Corruption	Total	
	Governments of Norway, Netherlands and Luxembourg	Transparency International	International Budget Partnership	Central Election Committee	Oxfam	British Council	World Bank	United Nations Development Programme	2016	2015
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and related expenses	433,383	4,072	-	-	4,431	22,990	-	14,149	479,025	489,830
Projects' expenses*	55,509	-	-	-	-	-	-	-	55,509	59,487
Employees' indemnity	34,070	339	-	-	369	1,980	-	1,418	38,176	41,171
Experts honoraria and training fees	77,647	4,630	-	7,803	6,573	23,290	3,000	9,803	132,746	138,901
Utilities, stationery and supplies	19,880	275	-	1,631	1,607	2,663	-	836	26,892	24,651
Professional fees	13,524	-	-	-	-	-	-	-	13,524	12,728
Office equipment and hall rental	31,536	-	-	200	159	400	-	-	32,295	33,840
Workshops and training expenses	49,744	2,039	-	2,467	316	15,328	-	2,295	72,189	67,842
Travel and accommodation	34,809	310	-	10,290	252	6,864	-	434	52,959	51,031
Information and publications	189,382	3,049	1,380	2,827	1,394	18,402	7,454	13,047	236,935	220,222
Postage, telephone, fax and internet	14,056	156	-	369	469	99	-	231	15,380	19,066
Sundry	8,213	6	-	138	1,255	-	24	-	9,636	10,186
Total	961,753	14,876	1,380	25,725	16,825	92,016	10,478	42,213	1,165,266	1,168,955

*This item represents amounts given to small institutions to implement projects related to AMAN.

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>2016</u>	<u>2015</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Key management personnel compensation:</u>		
Key management share of salaries and related benefits	<u>76,693</u>	<u>70,938</u>
Key management share of employee's indemnity	<u>3,279</u>	<u>3,303</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. \$	Effect on statement of activities and changes in net assets
	<u>%</u>	<u>U.S. \$</u>
<u>2016</u>		
EURO	10	(3,587)
ILS	10	(270)
<u>2015</u>		
EURO	10	7,231
ILS	10	(428)

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.