

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF
GLOBAL DIALOGUE AND DEMOCRACY (MIFTAH)
FINANCIAL STATEMENTS
DECEMBER 31, 2008

**Independent Auditors' Report to the Board of Trustees of
The Palestinian Initiative for the Promotion of Global Dialogue and Democracy
(MIFTAH)**

We have audited the accompanying financial statements of the Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH), which comprise the statement of financial position as of December 31, 2008, and the statement of activities and changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH) as of December 31, 2008 and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



May 31, 2009
Ramallah, Palestine

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF GLOBAL
DIALOGUE AND DEMOCRACY (MIFTAH)

Statement of Financial Position
As of December 31, 2008

	<u>Notes</u>	<u>2008</u> <u>U.S. \$</u>	<u>2007</u> <u>U.S. \$</u>
<u>Assets</u>			
Non - current assets			
Property and equipment	3	60,856	62,949
Current assets			
Contributions receivable	4	131,956	243,784
Due from related party	5	85,000	10,000
Other current assets		3,533	8,710
Cash and cash equivalents	6	<u>653,692</u>	<u>646,721</u>
		<u>874,181</u>	<u>909,215</u>
Total Assets		<u><u>935,037</u></u>	<u><u>972,164</u></u>
<u>Net Assets and Liabilities</u>			
Net assets			
Unrestricted net assets		<u>284,059</u>	<u>274,472</u>
Total net assets		<u>284,059</u>	<u>274,472</u>
Non - current liabilities			
Deferred revenues	7	53,878	57,281
Provision for severance pay	8	<u>104,732</u>	<u>84,825</u>
		<u>158,610</u>	<u>142,106</u>
Current liabilities			
Accounts payable and accruals	9	60,407	44,068
Temporarily restricted contributions	10	<u>431,961</u>	<u>511,518</u>
		<u>492,368</u>	<u>555,586</u>
Total Liabilities		<u>650,978</u>	<u>697,692</u>
Total Net Assets and Liabilities		<u><u>935,037</u></u>	<u><u>972,164</u></u>

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

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF GLOBAL
DIALOGUE AND DEMOCRACY (MIFTAH)

Statement of Activities and Changes in Net Assets

Year ended December 31, 2008

	<u>Notes</u>	<u>2008</u> <u>U.S. \$</u>	<u>2007</u> <u>U.S. \$</u>
Revenues			
Temporarily restricted contributions			
released from restriction	10	810,124	732,991
Unrestricted contributions		83,113	75,000
Deferred revenues recognized	7	19,923	15,997
Foreign exchange gain		-	7,029
Other revenues		9,269	7,636
		<u>922,429</u>	<u>838,653</u>
Expenses			
Projects' expenses	11	810,124	732,991
Administrative expenses	12	67,015	-
Depreciation expense		21,993	18,165
Foreign exchange loss		13,710	-
		<u>912,842</u>	<u>751,156</u>
Increase in net assets		9,587	87,497
Net assets, beginning of year		<u>274,472</u>	<u>186,975</u>
Net assets, end of year		<u>284,059</u>	<u>274,472</u>

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

THE PALESTINIAN INITIATIVE FOR THE PROMOTION OF GLOBAL
DIALOGUE AND DEMOCRACY (MIFTAH)

Cash Flow Statement

Year ended December 31, 2008

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Operating Activities:		
Increase in net assets	9,587	87,497
Adjustments:		
Depreciation	21,993	18,165
Deferred revenues recognized	(19,923)	(15,997)
Loss from disposal of property and equipment	-	424
Provision for severance pay	28,456	32,904
Write-off of contribution receivable	450	-
	<u>40,563</u>	<u>122,993</u>
Changes in working capital		
Contributions receivable	111,378	(81,284)
Due from Board of Trustees	(75,000)	90,000
Other current assets	5,177	(4,584)
Temporarily restricted contributions	(79,557)	(125,942)
Accounts payable and accruals	16,339	(8,425)
Deferred revenues	16,520	45,763
Payment of employees' severance pay	(8,549)	(19,526)
Net cash flows from operating activities	<u>26,871</u>	<u>18,995</u>
Investing Activities:		
Purchase of property and equipment	<u>(19,900)</u>	<u>(50,451)</u>
Net cash used in investing activities	<u>(19,900)</u>	<u>(50,451)</u>
Increase (Decrease) in cash and cash equivalents	6,971	(31,456)
Cash and cash equivalents, beginning of year	<u>646,721</u>	<u>678,177</u>
Cash and cash equivalents, end of year	<u><u>653,692</u></u>	<u><u>646,721</u></u>

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

Notes to the Financial Statements

December 31, 2008

1. General

The Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH) was established in December 1998 as a non-governmental non-partisan Jerusalem-based institution dedicated to fostering democracy and good governance within the Palestinian society through promoting public accountability, transparency, the free flow of information and ideas, and challenging of stereotyping at home and abroad. MIFTAH's aim is to serve as a Palestinian platform for global dialogue and cooperation guided by the principles of democracy, human rights, gender equity, and participatory governance. To this end, MIFTAH undertakes the pro-active generation and presentation of policy proposals and the focused dissemination of reliable information. Since its establishment, MIFTAH has established the cogency of its positions in Palestine and in the region, and has formulated long and short-term policies and strategies to deal with particular pressing issues. Through networking with like-minded organizations locally, regionally and internationally, and with Palestinian expatriate communities, MIFTAH maintains lasting relationships and partnerships in pursuit of a common vision of dialogue and democracy.

MIFTAH's financial statements as of December 31, 2008 were approved by the Board of Trustees on May 31, 2009.

2. Summary of Significant Accounting Policies

Basis of preparation

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

The financial statements have been presented in U.S. Dollars.

Donation revenues

Donors' unconditional pledges are those pledges where donors do not specify prerequisites that have to be carried out by the recipient before obtaining the fund.

Donation revenues from unconditional pledges are recognized as 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 asset.

Expenses recognition

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

Impairment and uncollectibility of financial assets

An assessment is made at each financial statement date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of activities and changes in net assets. Impairment is determined as follows:

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short-term deposits with an original maturity of three months or less.

Contributions receivable

Contributions receivable are stated at the original amount of the unconditional 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.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

	Useful life (years)
Office equipment	4-5
Office furniture	6-7
Leasehold improvements	4

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 or their value in use.

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

Income taxes

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

Provision for severance pay

Provision for severance pay is calculated in accordance with the labour law prevailing in Palestine, and MIFTAH'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.

Judgements and estimation uncertainty

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

Foreign currency transactions

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

3. Property and Equipment

	<u>Office equipment</u> U.S. \$	<u>Office furniture</u> U.S. \$	<u>Leasehold improvements</u> U.S. \$	<u>Total</u> U.S. \$
Cost:				
At January 1, 2008	169,096	64,420	28,495	262,011
Additions	19,900	-	-	19,900
At December 31, 2008	<u>188,996</u>	<u>64,420</u>	<u>28,495</u>	<u>281,911</u>
Depreciation:				
At January 1, 2008	152,029	40,776	6,257	199,062
Depreciation charge for the year	13,880	2,893	5,220	21,993
At December 31, 2008	<u>165,909</u>	<u>43,669</u>	<u>11,477</u>	<u>221,055</u>
Net carrying value:				
At December 31, 2008	<u>23,087</u>	<u>20,751</u>	<u>17,018</u>	<u>60,856</u>
At December 31, 2007	<u>17,067</u>	<u>23,644</u>	<u>22,238</u>	<u>62,949</u>

Property and equipment include U.S. \$ 180,234 and U.S. \$ 156,022 of fully depreciated assets that are still operational as of December 31, 2008 and 2007, respectively.

4. Contributions receivable

	Balance, beginning of year	Additions	Cash received	Currency difference	Write Off	Balance end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Arab Fund for economic and social development	-	170,000	(60,885)	-	-	109,1
The European Community and Ford Foundation through KESHEV	3,686	116,353	(100,531)	-	(450)	19,05
Danish Representative Office	-	105,550	(101,767)	-	-	3,78
International Republican Institute (IRI)	221,600	3,550	(225,150)	-	-	
Henrich Boell Foundation	16,742	-	(17,837)	1,095	-	
United Nation Population Fund (UNFPA)	1,756	70,230	(70,871)	(1,115)	-	
National Endowment for Democracy (NED)	-	30,000	(30,000)	-	-	
Representative office of Norway	-	129,870	(129,870)	-	-	
Konrad Adenauer Stiftung (KAS)	-	138,022	(129,385)	(8,637)	-	
Special donations	-	4,142	(4,142)	-	-	
	<u>243,784</u>	<u>767,717</u>	<u>(870,438)</u>	<u>(8,657)</u>	<u>(450)</u>	<u>131,9</u>

5. Due from related party

During 2008 and 2007, a number of MIFTAH's Board of Trustees made commitments to donate unrestricted contributions of U.S. \$ 75,000 and U.S. \$ 75,000, respectively. As of December 31, 2008 unrestricted contributions of U.S. \$ 85,000 were still uncollected.

6. Cash and cash equivalents

	2008	2007
	U.S. \$	U.S. \$
Cash in hand and at banks	214,116	200,850
Short-term deposits	439,576	445,871
	<u>653,692</u>	<u>646,721</u>

Short term deposits in U.S. \$ are due within one month after the financial statements date with an average interest rate of 0.8 %, and 2.5% during the years ended December 31, 2008 and 2007, respectively.

Short-term deposits as of December 31, 2008 and 2007 include U.S. \$ 104,732 U.S. \$ 84,825, respectively as restricted deposits against employees' severance pay.

7. Deferred revenues

This item represents the value of property and equipment acquired during the year using the temporarily restricted contributions. Such property and equipment are recorded as deferred revenues and recognized as revenues on a systematic basis over the useful lives of the property and equipment. Movement on deferred revenues during the year was as follows:

	2008	2007
	U.S. \$	U.S. \$
Balance, beginning of year	57,281	27,515
Additions (Note 10)	16,520	45,763
Deferred revenues recognized	(19,923)	(15,997)
Balance, end of year	<u>53,878</u>	<u>57,281</u>

8. Provision for severance pay

Following is a summary of the movement on the provision for severance pay during the year:

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Balance, beginning of year	84,825	71,447
Additions	28,456	32,904
Payments	(8,549)	(19,526)
Balance, end of year	<u>104,732</u>	<u>84,825</u>

9. Accounts payable and accruals

	<u>2008</u>	<u>2007</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Postponed checks	39,962	20,073
Accrued expenses	14,415	16,598
Accounts payable	6,030	7,397
	<u>60,407</u>	<u>44,068</u>

10. Temporarily restricted contributions

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

	Balance, beginning of year	Additions	Temporarily restricted contributions released from restriction	Deferred revenues	Returned to donor	Currency difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Arab Fund for economic and social development	-	170,000	(25,349)	(65)	-	-	144,586
Representative Office of Norway	-	129,870	(66,960)	(1,670)	-	-	61,240
National Endowment for Democracy (NED)	-	30,000	(29,094)	-	-	-	906
International Republican Institute (IRI)	238,630	3,550	(229,064)	(13,116)	-	-	-
Henrich Boell Foundation	31,223	-	(31,223)	-	-	-	-
United Nation Population Fund (UNFPA)	-	70,230	(66,464)	(1,041)	-	(2,725)	-
The European Community and Ford Foundation through KESHEV	5,171	116,353	(121,360)	(164)	-	-	-
Kvinna Till Kvinna	3,767	-	-	-	(3,767)	-	-
Danish Representative Office	-	105,550	(105,550)	-	-	-	-
Konrad Adenauer Stiftung (KAS)	-	138,022	(123,420)	(464)	-	(14,138)	-
United Nations Development Programme (UNDP)	11,640	-	(11,640)	-	-	-	-
Special donations	221,087	4,142	-	-	-	-	225,229
	<u>511,518</u>	<u>767,717</u>	<u>(810,124)</u>	<u>(16,520)</u>	<u>(3,767)</u>	<u>(16,863)</u>	<u>431,961</u>

11. Projects expenses

Components of projects expenses are as follows:

	<i>IRI</i>	<i>Henrich Boell Foundation</i>	<i>UNFPA</i>	<i>OFID</i>	<i>DRO</i>	<i>NED</i>
	<i>Empowerment of Palestinian Women Leadership - Elections' (Phase II)</i>	<i>Gender Responsive Budget in Local Councils</i>	<i>Gender, Peace and Security</i>	<i>The Empowerment of Palestinian Women and Youth in Rural Areas through Income- Generating Projects</i>	<i>Instituting a Gender- Responsive Palestinian National Budget</i>	<i>Active Palestinian Youth for Democratic Citizenship</i>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Salaries and related expenses	116,200	4,480	25,790	12,719	42,502	11,887
Office, equipment and hall rental	24,837	-	400	5,150	5,450	1,400
Travel and accommodation	11,677	960	1,634	905	4,138	1,890
Information Technology and publications	19,772	20,468	30,816	596	42,379	1,215
Professional fees	1,500	-	-	-	-	650
Training expenses	18,086	2,037	3,866	1,884	780	4,966
Hosting delegations and meetings	17,510	2,851	2,874	2,551	3,841	3,587
Postage, telephone and fax	3,862	240	246	512	3,762	1,096
Utilities	14,899	187	486	1,019	2,688	2,342
Sundry	721	-	352	13	10	61
Total	229,064	31,223	66,464	25,349	105,550	29,094

11. Projects expenses - continued

	<i>The European commission and Ford Foundation through KESHEV</i>	UNDP	<i>Norway</i>	KAS	Total Project Expenses 2008	Total Project Expenses 2007
	Monitoring Incitement in Palestinian Media	Publications	Empowerment of Young Palestinian Political Leadership	<i>Enhancing the Role of Civil Society in the Legislative Process</i>		
	<i>Subtotal</i>					
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and related expenses	213,578	93,527	1,023	34,348	66,469	408,945
Office, equipment and hall rental	37,237	200	-	3,600	441	41,478
Travel and accommodation	21,204	3,172	-	2,478	1,072	27,926
Information technology and publications	115,246	16,504	10,617	17,846	37,526	197,739
Professional fees	2,150	1,500	-	800	9,267	13,717
Training expenses	31,619	-	-	2,520	2,555	36,694
Hosting delegations and meetings	33,214	1,129	-	1,848	6,048	42,239
Postage, telephone and fax	9,718	3,271	-	1,338	-	14,327
Utilities	21,621	1,771	-	2,161	-	25,553
Sundry	1,157	286	-	21	42	1,506
Total	486,744	121,360	11,640	66,960	123,420	810,124
						732,991

12. Administrative expenses

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Salaries and related expenses	55,468	-
Office rent	9,159	-
Utilities	1,375	-
Write off of contribution receivable	450	-
Sundry	563	-
	<u>67,015</u>	<u>-</u>

13. Related party transactions

This represents transaction with key management personnel.

	<u>2008</u>	<u>2007</u>
	U.S. \$	U.S. \$
Due from Board of Trustees	<u>85,000</u>	<u>10,000</u>
Unrestricted contributions	<u>83,113</u>	<u>75,000</u>
Key management personnel compensation		
Short-term benefits	<u>43,522</u>	<u>40,964</u>
Termination benefits	<u>3,764</u>	<u>3,413</u>

14. Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of contributions receivable, due from Board of Trustees and cash and cash equivalents. Financial liabilities consist of accounts payable and accruals.

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

15. Risk management

Interest rate risk

MIFTAH is exposed to interest rate risk on its short-term deposit.

The following table demonstrates the sensitivity of the statement of activities and changes in net assets to reasonably possible changes in interest rates, with all other variables held constant:

	<u>Increase/ decrease in basis points</u>	<u>Effect on results of activities U.S.\$</u>
<u>2008</u>		
U.S. \$	+20	879
U.S. \$	- 50	(2,198)
<u>2007</u>		
U.S. \$	+20	892
U.S. \$	- 50	(2,229)

Liquidity risk

MIFTAH limits its liquidity risk by maintaining adequate cash balances to meet its current obligations and to finance its operating activities. In addition, the activities of MIFTAH are financed by multiple donors.

Most of MIFTAH`s financial liabilities are due within a period of three months.

Foreign currency risk

The table below indicates MIFTAH's foreign currency exposure, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the U.S. \$ currency rate against the Israeli Sheqel (ILS) and European Monetary Unit (Euro) with all other variables held constant, on the statement of activities and changes in net assets.

	Increase / decrease in ILS rate to U.S. \$ <u> %</u>	Effect on results of activities <u> U.S. \$</u>	Increase / decrease in Euro rate to U.S. \$ <u> %</u>	Effect on results of activities <u> U.S. \$</u>
<u>2008</u>				
U.S. \$	+5	1,020	+5	5,443
U.S. \$	-5	(1,020)	- 5	(5,443)
<u>2007</u>				
U.S. \$	+5	3,493	+5	1,057
U.S. \$	-5	(3,493)	- 5	(1,057)

16. Concentration of risk in geographic area

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