

**THE PALESTINIAN INITIATIVE FOR THE PROMOTION
OF GLOBAL DIALOGUE AND DEMOCRACY (MIFTAH)
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2004
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**



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Independent Auditors' Report

**To the Board of Trustees
The Palestinian Initiative for the Promotion of Global
Dialogue and Democracy (MIFTAH)**

We have audited the accompanying statement of financial position of the Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH) as of December 31, 2004, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of MIFTAH's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palestinian Initiative for the Promotion of Global Dialogue and Democracy as of December 31, 2004, and the results of its operations, and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

**Ramallah, Palestine
June 1, 2005**

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

Statement of Financial Position

As of December 31, 2004

(Currency: U.S. \$)

	<u>Notes</u>	<u>2004</u>	<u>(Restated Note 16) 2003</u>
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	3	441,932	468,457
Contributions receivable	4	292,141	248,582
Other current assets		8,770	3,989
Total Current Assets		<u>742,843</u>	<u>721,028</u>
Property and equipment, net	5	59,039	65,720
Total Assets		<u><u>801,882</u></u>	<u><u>786,748</u></u>
<u>Liabilities and Net Assets</u>			
Liabilities:			
Current Liabilities			
Accrued expenses		16,907	38,678
Temporarily restricted contributions	6	634,852	581,342
Other accounts payable		23,173	28,502
Total Current Liabilities		<u>674,932</u>	<u>648,522</u>
Deferred revenues	7	36,002	24,581
Provision for severance pay	8	66,348	64,038
Total Liabilities		<u>777,282</u>	<u>737,141</u>
Net Assets:			
Unrestricted net assets		24,600	49,607
Total Net Assets		<u>24,600</u>	<u>49,607</u>
Total Liabilities and Net Assets		<u><u>801,882</u></u>	<u><u>786,748</u></u>

The accompanying notes from 1 to 16 are integral 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
For the Year Ended December 31, 2004**

(Currency: U.S. \$)

	<u>Notes</u>	<u>2004</u>	<u>(Restated Note 16) 2003</u>
Revenues			
Temporarily restricted contributions released from restrictions	9	690,900	462,536
Unrestricted contributions	10	75,000	150,000
Deferred revenues recognized	7	7,505	3,224
Interest revenue		2,196	5,690
Sundry		7,420	195
Total revenues		<u>783,021</u>	<u>621,645</u>
Expenses			
Projects' expenses	11	690,900	462,536
Administration and general	12	117,128	259,787
Total expenses		<u>808,028</u>	<u>722,323</u>
Decrease in net assets		(25,007)	(100,678)
Net assets, beginning of the year		<u>49,607</u>	<u>150,285</u>
Net assets, end of the year		<u>24,600</u>	<u>49,607</u>

The accompanying notes from 1 to 16 are integral part of these financial statements.

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

Statement of Cash Flows
For the Year Ended December 31, 2004

(Currency: U.S. \$)

	<u>2004</u>	<u>(Restated Note 16) 2003</u>
Cash Flows from Operating Activities:		
Decrease in net assets	(25,007)	(100,678)
Adjustments:		
Non cash items:		
Depreciation	25,605	28,616
Provision for severance pay	2,310	16,672
	<u>2,908</u>	<u>(55,390)</u>
(Increase) decrease in assets		
Contributions receivable	(43,559)	(118,582)
Other current assets	(4,781)	(2,243)
Increase (decrease) in liabilities		
Accrued expenses	(21,771)	7,162
Other accounts payable	(5,329)	17,214
Deferred revenues	11,421	24,581
Temporary restricted contributions	53,510	(67,787)
Net cash flows used in operating activities	<u>(7,601)</u>	<u>(195,045)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(18,924)</u>	<u>(28,633)</u>
Net cash flows used in investing activities	<u>(18,924)</u>	<u>(28,633)</u>
Net decrease in cash and cash equivalents	(26,525)	(223,678)
Cash and cash equivalents, beginning of year	<u>468,457</u>	<u>692,135</u>
Cash and cash equivalents, end of year	<u><u>441,932</u></u>	<u><u>468,457</u></u>

The accompanying notes from 1 to 16 are integral part of these financial statements.

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

Notes to the Financial Statements

As of December 31, 2004

(Currency: U.S. \$)

1. General

The Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH) is 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 the challenging of stereotyping at home and abroad. Established in December 1998, with Dr. Hanan Ashrawi as its Secretary General, 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 has forged lasting relationships and partnerships in pursuit of a common vision of dialogue and democracy.

During 2000, MIFTAH with other Palestinian not-for-profit organizations organized the Coalition for Accountability and Integrity – AMAN, which was hosted by MIFTAH from 2001 to 2004. The objective of the coalition is to assess the integrity in the Palestinian organizations. The financial statements of MIFTAH includes the revenues and expenses of AMAN.

The number of the employees in MIFTAH was 27 and 21 as of December 31, 2004 and 2003, respectively.

2. Summary of Significant Accounting Policies

– Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards, issued by International Accounting Standards Board (IASB).

Currently, the International Financial Reporting Standards do not include any specific requirements regarding the not-for-profit organization in connection with the accounting policies or the presentation of the financial statements.

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

- **Change in accounting policy**

During 2004, MIFTAH changed its accounting policy related to contributions from unconditional pledges. The financial statements, including the comparative figures for the prior year, are presented on the assumption that the new accounting policy has been applied from the beginning of 2003. Therefore, 2003 comparative figures are restated in order to reflect the new accounting policy. The nature of the change and the effect of the restatement are depicted in note 16.

Before 2004, donations related to fixed assets were recognized as revenue when obtained. During 2004, MIFTAH changed the accounting policy and started recognizing revenue on a systematic basis over the useful life of the fixed assets. The policy has been applied to the financial statements retrospectively starting 2003 because it was not practicable to determine the cumulative effect from earlier date.

- **Donors' pledges**

- 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.
- Donors' conditional pledges are those pledges where donors stipulate prerequisites that have to be carried out by the recipient before obtaining the fund.

- **Donation revenues**

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 donors for specific purpose or time are recognized when such purpose or time is satisfied.

- **Deferred revenues**

Donations related to property and equipment are stated 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, bank balances and short term deposits with an original maturity of three months or less.

- **Contributions receivable**
Contributions receivable from donors are the amounts not collected from the unconditional pledges less a provision for any uncollectable amounts.

- **Property and equipment**
Property and equipment are stated at cost on the date of acquisition or, in the case of gifts, at fair market value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the property and equipment using the following annual depreciation rates:

	<u>%</u>
Office furniture	15
Office equipment	20
Computers - hardware and software	25
Leasehold improvements	20

The carrying value of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset is included in the statement of activities in the period the item is derecognized.

- **Severance pay**
A provision for severance pay to cover the commitments of MIFTAH towards the employees' end-of-service indemnity was made in accordance with the prevailing labor law in Palestine.
- **Income taxes**
MIFTAH is a not-for-profit organization; accordingly, it is not subject to income tax.
- **Foreign currency transactions**
Transactions, which are expressed or denominated in currencies other than the U.S. Dollar (U.S. \$), are translated to U.S. \$ using exchange rates in effect at the time of each transaction. Monetary assets and liabilities, which are denominated in currencies other than U.S. \$, are translated to U.S. \$ using the prevailing exchange rate as of the balance sheet date. Gains or losses arising from exchange differences are reflected in the statement of activities.

3. Cash and Cash Equivalents

	<u>2004</u>	<u>2003</u>
Cash on hand	469	178
Current accounts at bank in U.S. \$	58,075	25,621
Current accounts at bank in NIS	35,418	17,789
Deposits at bank in U.S. \$	347,970	424,869
	<u>441,932</u>	<u>468,457</u>

The above cash and cash equivalents balance at bank include the following:

- U.S. \$ 68,119 (2003 - U.S. \$ 51,326) restricted for severance pay.
- U.S. \$ 289,680 (2003- U.S. \$ 342,260) restricted-closed for long-term research and special activities.
- Deposits at bank are due within three months from the financial statements date. Interest rate on the deposits as of December 31, 2004 amounted to 0.65%.

4. Contributions Receivable

Contributions receivable comprise pledges to give as of December 31, 2004 and 2003 from the following donors:

	<u>2004</u>	<u>2003</u>
International Republican Institute (IRI)	148,034	38,497
United Nation Population Fund (UNFPA)	24,372	107,830
UNDP – Media and Information Program	10,000	-
UNDP – (An End to Occupation) Conference	-	11,180
National Endowment for Democracy (NED)	30,000	18,000
Kvinna Till Kvinna	28,000	-
International Media Support	18,508	-
Palestine Cellular Communication Company Ltd (Jawwal)	10,500	-
Swiss Federal Department of Foreign Affairs (Swiss)	5,000	-
A.M. Qattan Foundation- London	-	25,000
Consolidated Contractors International Company	-	25,000
UNDP– AMAN	9,126	14,400
British Consulate- AMAN	-	8,000
British Council- AMAN	-	675
Sundry	8,601	-
	<u>292,141</u>	<u>248,582</u>

5. Property and Equipment

Components of property and equipment as of December 31, 2004, and movements during the year are as follows:

	Balance, beginning of year	Additions/ Depreciation	Disposals	Balance, end of year
Cost:				
Office furniture	58,632	2,252	-	60,884
Office equipment	56,309	5,842	-	62,151
Computers – hardware and software	84,911	10,487	-	95,398
Leasehold improvements	2,394	343	-	2,737
	<u>202,246</u>	<u>18,924</u>	<u>-</u>	<u>221,170</u>
Accumulated Depreciation:				
Office furniture	35,351	8,983	-	44,334
Office equipment	40,313	5,920	-	46,233
Computers – hardware and software	59,458	10,348	-	69,806
Leasehold improvements	1,404	354	-	1,758
	<u>136,526</u>	<u>25,605</u>	<u>-</u>	<u>162,131</u>
Net Book Value	<u>65,720</u>			<u>59,039</u>

6. Temporarily Restricted Contributions

This item comprises temporarily restricted contributions subject to purpose or time restriction. These amounts represent the excess of donations received over the expenditures made out to satisfy the purposes stipulated by the donors.

The temporarily restricted contributions comprise the following as of December 31, 2004 and 2003:

	2004	2003
International Republican Institute (IRI)	124,970	-
Special donation	292,126	340,459
National Endowment for Democracy (NED)	26,007	24,738
United Nation Population Fund (UNFPA)	35,791	109,761
Kvinna Till Kvinna	29,450	-
Consolidated Contractors International Company (CCC)	26,759	27,133
International Media Support	14,433	-
Palestine Cellular Communication Company Ltd	11,444	-
Konrad Adenauer Stiftung- AMAN	3,467	-
UNDP- An End to Occupation and Publication	14,363	6,615
UNDP- Miscellaneous	542	542
Norwegian Agency for Development Cooperation and Netherlands Representative Office (Norway and Netherlands) - AMAN	51,877	-
UNDP- AMAN	1,248	2,667
Sundry- AMAN	501	-
Ford Foundation	-	66,665
Sundry	1,874	2,762

634,852 581,342

Movement on temporarily restricted contributions during the year was as follows:

	<u>2004</u>	<u>2003</u>
Beginning balance	581,342	649,129
Additions during the year *	763,336	422,554
Temporarily restricted contributions released from restriction (note 9)	(690,900)	(462,536)
Deferred revenues (note 7)	(18,926)	(27,805)
Ending balance	<u>634,852</u>	<u>581,342</u>

* Additions to temporarily restricted contributions have been received and pledged during the year from the following donors:

	<u>2004</u>	<u>2003</u>
International Republican Institute (IRI)	222,367	140,737
Swiss Federal Department of Foreign Affairs (Swiss)	30,000	30,000
United Nation Population Fund (UNFPA)	12,626	136,454
United Nations Development Programme (UNDP)	38,699	13,680
Representative Office of Norway	71,903	4,165
Friedrich Ebert Stiftung (FES)	17,840	-
Kvinna Till Kvinna	44,980	-
National Endowment for Democracy (NED)	30,000	30,000
International Media Support	19,278	-
The British Consulate and European Commission (BC and EU)	10,154	-
UNDP and Faculty for Israeli Palestinian Peace	8,219	-
The European Commission through Keshev	43,807	-
Palestine Cellular Communications Company Ltd	15,000	-
Norwegian Agency for Development Cooperation and the Netherlands Representative Office – AMAN	159,543	-
Konrad Adenauer Stiftung, Heinrich Boll Foundation and Transparency International (KAS and others)- AMAN	21,380	-
UNDP- AMAN	17,540	36,000
British Consulate- AMAN	-	18,808
British Council- AMAN	-	12,710
	<u>763,336</u>	<u>422,554</u>

7. Deferred Revenues

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

	<u>2004</u>	<u>2003</u>
Beginning balance	24,581	-
Additions (Note 6)	18,926	27,805
Deferred revenues recognized	<u>(7,505)</u>	<u>(3,224)</u>
Ending balance	<u><u>36,002</u></u>	<u><u>24,581</u></u>

Before 2004, donations related to property and equipment were recognized as revenue when obtained. During 2004, MIFTAH changed the policy and started recognizing revenue on a systematic basis over the useful life of the property and equipment. The policy has been applied to the financial statements prospectively starting January 1, 2003 because it was not practicable to determine the cumulative effect from earlier date.

8. Provision for Severance Pay

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

	<u>2004</u>	<u>2003</u>
Balance, Beginning of year	64,038	47,366
Additions during the year	22,188	25,351
Payments during the year	<u>(19,878)</u>	<u>(8,679)</u>
Balance, end of year	<u><u>66,348</u></u>	<u><u>64,038</u></u>

9. Temporarily Restricted Contributions Released from Restrictions

This item represents the revenue recognized as a result of satisfying the purpose of restricted donations during years 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Ford Foundation	66,664	62,318
UNDP- Media and Information	-	29,381
United Nations Development Fund for Women		
Western Asia Regional Office (UNIFEM)	-	35,310
Swiss Federal Department of Foreign Affairs (Swiss)	30,021	30,023
International Republican Institute (IRI)	92,992	139,351
National Endowment for Democracy (NED)	28,731	33,259
United Nation Population Fund (UNFPA)	86,534	25,181
Representative Office of Norway	68,786	4,175
Special donation	48,333	6,096
UNDP- Miscellaneous	31,589	6,523
UNDP and Faculty for Israeli Palestinian Peace	7,581	
Friedrich Ebert Stiftung	17,840	-
British Consulate and European Commission	10,819	-
European Commission through Keshev	37,750	-
Kvinna Till Kvinna	14,267	-
International Media Support	3,541	-
Palestine Cellular Communications Company Ltd	3,556	-
Norwegian Agency for Development Cooperation and the Netherlands Representative Office - AMAN	105,152	-
UNDP- AMAN	18,958	74,209
Konrad Adenauer Stiftung, Heinrich Boll Foundation and Transparency International (KAS and others)- AMAN	15,552	
British Council and the British Consulate- AMAN	-	16,710
Sundry	2,234	-
	<u>690,900</u>	<u>462,536</u>

10. Unrestricted Contributions

	<u>2004</u>	<u>2003</u>
Consolidated Contractors International Company (CCC)	50,000	100,000
A.M. Qattan Foundation - London	25,000	50,000
	<u>75,000</u>	<u>150,000</u>

1. Projects' Expenses

Components of projects' expenses follow:

	<i>Empowerment of Women</i>					<i>Empowerment of Youth</i>				<i>Printing of a Palestinian Photo-Essay</i>
	<i>Empowerment of Women in Elections</i>	<i>Women Electoral Support Points</i>	<i>Empowerment of Women in Peace</i>	<i>Advocacy in Reproductive Health</i>	<i>Training-Gender Based Violence</i>	<i>RAGSNB 1 *</i>	<i>Empowerment of Community Leaders</i>	<i>Empowerment of Young Politicians</i>	<i>Empowerment of Young Leaders through Media</i>	
	<i>IRI</i>	<i>IRI</i>	<i>SWISS</i>	<i>UNFPA</i>	<i>UNFPA</i>	<i>Kvinna Till Kvinna</i>	<i>FES</i>	<i>NED</i>	<i>NED</i>	
Salaries and related expenses	4,000	41,812	20,625	33,784	-	10,762	6,880	11,026	2,830	-
Overseas allowance pay	-	-	-	-	-	-	-	-	300	-
Experts honoraria and training fees	1,000	-	-	-	403	-	-	-	-	-
Office, equipment and hall rental	1,000	6,900	2,210	1,800	-	-	-	2,300	-	-
Workshop expenses	2,800	4,163	667	12,644	1,863	-	5,471	4,655	-	-
Travel and accommodation	1,471	2,735	764	783	660	96	1,177	813	112	-
Information and Publications	8,367	5,306	1,042	23,386	2,181	1,415	1,772	1,883	46	3,500
Professional fees	-	1,049	600	1,404	-	200	-	430	-	-
Training expenses	-	2,200	435	738	478	-	1,574	767	-	-
Hosting delegations and meetings	191	1,582	449	2,481	993	-	539	774	-	52
Postage, telephone and fax	852	5,929	1,809	1,909	-	911	380	1,212	275	-
Information technology expenses	30	61	51	265	-	50	-	102	50	-
Utilities	389	1,027	1,262	614	-	789	-	714	381	4
Laundry	67	61	107	149	-	43	47	62	-	-
Total	20,167	72,825	30,021	79,957	6,578	14,266	17,840	24,738	3,994	3,556

1 * Kvinna Till Kvinna funded the project named "Raising Awareness of Gender – Sensitive National Budget (RAGSNB)".

Projects' Expenses - Continued

	<u>Media Monitoring</u>		<u>Media and Information, Governance & Democracy Programs</u>		<u>Conferences</u>		<u>TOKTEN Palestinian Program</u>	<u>Coalition for Integrity and Accountability "AMAN"</u>				<u>Other Projects</u>	<u>Miscellaneous</u>	<u>2004 Total</u>	<u>2003 Total</u>
	<u>Monitoring Incitement in Palestinian Media</u>	<u>Monitoring Media Coverage during Presidential Elections</u>	<u>Norway</u>	<u>Ford Foundation 2 *</u>	<u>3 *</u>	<u>An End to Occupation UNDP</u>		<u>Norway and Holland</u>	<u>UNDP</u>	<u>KAS, HB, TI 4*</u>	<u>5*</u>				
	<u>Keshev through EC</u>	<u>IMS</u>			<u>BC and EC</u>										
Salaries and related expenses	35,274	2,900	46,316	46,996	3,600	3,150	24,879	49,587	9,795	940	4,482	-	359,638	211,988	
Overseerance pay	-	-	814	795	-	-	-	2,021	1,888	-	-	-	5,818	-	
Experts honoraria and training fees	-	-	-	-	-	-	-	4,550	2,100	900	11,800	-	20,753	3,750	
Office, equipment and hall rental	-	-	10,000	10,000	-	-	-	4,300	-	-	-	-	38,510	25,950	
Workshop expenses	-	-	-	-	-	412	-	242	-	-	-	-	32,917	-	
Travel and accommodation	1	2	849	1,214	141	2,557	-	9,566	533	546	31,469	-	55,489	20,520	
Information and Publications	1,202	225	2,015	1,454	2,623	2,725	-	17,867	58	12,877	-	-	89,944	115,681	
Professional fees	-	-	1,000	1,401	-	-	-	1,638	-	-	-	-	7,722	3,185	
Training expenses	-	-	-	-	-	-	-	10,828	4,447	590	-	-	22,057	24,592	
Hosting delegations and meetings	21	163	682	478	3,099	5,400	-	908	-	1,463	570	-	19,845	12,366	
Postage, telephone and fax	-	252	3,263	2,143	1,080	-	-	1,528	54	-	-	-	21,597	18,378	
Information technology expenses	-	-	278	-	-	-	-	593	25	-	-	-	1,505	12,432	
Utilities	1,155	-	3,255	2,079	220	-	-	1,216	-	-	-	374	13,479	12,603	
Laundry	97	-	314	104	56	47	-	309	58	96	9	-	1,626	1,091	
Total	37,750	3,542	68,786	66,664	10,819	14,291	24,879	105,153	18,958	17,412	48,330	374	690,900	462,536	

2 * Ford Support for years 2002 to 2004.

3 * The British Consultant and the European Commission made funding for MIFTAH's conference on the "Palestinian Critical Review of Arab World Reform".

4 * These donors are Konrad Adanuer, Heinrich Boll Foundation and Transparency International.

5 * Other projects include the expenses of long-term research and special activities.

6 * CCC's donation is restricted for the setup of Ramallah office.

12. Administration and General

	<u>2004</u>	<u>2003</u>
Salaries and related expenses	68,874	172,509
Severance pay	16,370	25,351
Depreciation	25,605	28,616
Office, equipment and hall rental	-	12,050
Professional fees	-	1,495
Hosting delegations and meetings	44	1,308
Postage, telephone and fax	-	3,349
Information technology expenses	-	2,062
Travel and accommodation	1,175	565
Information and publication	-	3,482
Utilities	5,005	7,484
Sundry	55	1,516
	<u>117,128</u>	<u>259,787</u>

13. Fair Values of Financial Instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash and cash equivalents and contributions receivable. Financial liabilities consist of accrued expenses, other accounts payable, temporarily restricted contributions and deferred revenues.

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

14. Risk Management

Interest rate risk

MIFTAH is exposed to interest rate risk on the time deposits that are considered interest-bearing asset. (Note 3).

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 operations of MIFTAH are financed by multiple donors.

Foreign currency risk

MIFTAH maintains its major assets and liabilities in one currency which is the U.S. \$. In addition, its major donation revenues are collected in U.S. \$ and most of its expenses are paid in U.S. \$.

15. Concentration of Risk in Geographic Area

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

16. Restatement adjustments

Starting 2004, MIFTAH started recording the temporarily restricted contributions as liability and recognizing it as revenue upon satisfying the purpose of the restricted donation instead of recognizing the whole amount as revenue upon receiving the contribution. This policy has been applied in the financial statements prospectively starting January 1, 2003 because it was not practicable to determine the cumulative effect from earlier date.

Before 2004, donations related to property and equipment were recognized as revenue when obtained. During 2004, MIFTAH changed the policy and started recognizing revenue on a systematic basis over the useful life of the property and equipment. The policy has been applied in the financial statements prospectively starting January 1, 2003 because it was not practicable to determine the cumulative effect from earlier date.

- The effect of the restatement on the net assets balance as of January 1, 2003 is as follows:

	<u>2003</u>
Net assets, January 1, 2003 - previously reported	799,414
Cumulative effect	<u>(649,129)</u>
Net assets, January 1, 2003 - restated	<u><u>150,285</u></u>

- The effect of the restatement on the change in net assets for the year ended December 31, 2003 is as follows:

	<u>2003</u>
Increase in temporarily restricted contributions released from restrictions	462,536
Increase in deferred revenues recognized	3,224
Restricted contributions of 2003	<u>(422,554)</u>
Change in net assets for the year ended December 31, 2003	43,206
Change in net assets for the year ended December 31, 2003 - previously reported	<u>(143,884)</u>
Change in net assets for the year ended December 31, 2003 - restated	<u><u>(100,678)</u></u>

- The cumulative net effect of the restatement on the net assets balance as of December 31, 2003 is as follows:

	<u>2003</u>
Cumulative effect on net assets balance as of January 1, 2003	<u>(649,129)</u>
Increase in net assets for the year ended December 31, 2003	43,206
Net decrease in net assets as of December 31, 2003	<u>(605,923)</u>
Net assets as of December 31, 2003 - previously reported	<u>655,530</u>
Net assets as of December 31, 2003 - restated	<u><u>49,607</u></u>

**THE PALESTINIAN INITIATIVE FOR THE PROMOTION
OF GLOBAL DIALOGUE AND DEMOCRACY (MIFTAH)
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2004
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**



▪ P.O. Box : 1373
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Independent Auditors' Report

**To the Board of Trustees
The Palestinian Initiative for the Promotion of Global
Dialogue and Democracy (MIFTAH)**

We have audited the accompanying statement of financial position of the Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH) as of December 31, 2004, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of MIFTAH's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Palestinian Initiative for the Promotion of Global Dialogue and Democracy as of December 31, 2004, and the results of its operations, and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

**Ramallah, Palestine
June 1, 2005**

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

Statement of Financial Position

As of December 31, 2004

(Currency: U.S. \$)

	Notes	2004	(Restated Note 16) 2003
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	3	441,932	468,457
Contributions receivable	4	292,141	248,582
Other current assets		8,770	3,989
Total Current Assets		742,843	721,028
Property and equipment, net	5	59,039	65,720
Total Assets		801,882	786,748
<u>Liabilities and Net Assets</u>			
Liabilities:			
Current Liabilities			
Accrued expenses		16,907	38,678
Temporarily restricted contributions	6	634,852	581,342
Other accounts payable		23,173	28,502
Total Current Liabilities		674,932	648,522
Deferred revenues	7	36,002	24,581
Provision for severance pay	8	66,348	64,038
Total Liabilities		777,282	737,141
Net Assets:			
Unrestricted net assets		24,600	49,607
Total Net Assets		24,600	49,607
Total Liabilities and Net Assets		801,882	786,748

The accompanying notes from 1 to 16 are integral 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
For the Year Ended December 31, 2004**

(Currency: U.S. \$)

	<u>Notes</u>	<u>2004</u>	<u>(Restated Note 16) 2003</u>
Revenues			
Temporarily restricted contributions released from restrictions	9	690,900	462,536
Unrestricted contributions	10	75,000	150,000
Deferred revenues recognized	7	7,505	3,224
Interest revenue		2,196	5,690
Sundry		7,420	195
Total revenues		<u>783,021</u>	<u>621,645</u>
Expenses			
Projects' expenses	11	690,900	462,536
Administration and general	12	117,128	259,787
Total expenses		<u>808,028</u>	<u>722,323</u>
Decrease in net assets		(25,007)	(100,678)
Net assets, beginning of the year		<u>49,607</u>	<u>150,285</u>
Net assets, end of the year		<u>24,600</u>	<u>49,607</u>

The accompanying notes from 1 to 16 are integral part of these financial statements.

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

**Statement of Cash Flows
For the Year Ended December 31, 2004**

(Currency: U.S. \$)

	<u>2004</u>	<u>(Restated Note 16) 2003</u>
Cash Flows from Operating Activities:		
Decrease in net assets	(25,007)	(100,678)
Adjustments:		
Non cash items:		
Depreciation	25,605	28,616
Provision for severance pay	2,310	16,672
	<u>2,908</u>	<u>(55,390)</u>
(Increase) decrease in assets		
Contributions receivable	(43,559)	(118,582)
Other current assets	(4,781)	(2,243)
Increase (decrease) in liabilities		
Accrued expenses	(21,771)	7,162
Other accounts payable	(5,329)	17,214
Deferred revenues	11,421	24,581
Temporary restricted contributions	53,510	(67,787)
Net cash flows used in operating activities	<u>(7,601)</u>	<u>(195,045)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(18,924)</u>	<u>(28,633)</u>
Net cash flows used in investing activities	<u>(18,924)</u>	<u>(28,633)</u>
Net decrease in cash and cash equivalents	(26,525)	(223,678)
Cash and cash equivalents, beginning of year	<u>468,457</u>	<u>692,135</u>
Cash and cash equivalents, end of year	<u><u>441,932</u></u>	<u><u>468,457</u></u>

The accompanying notes from 1 to 16 are integral part of these financial statements.

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

Notes to the Financial Statements

As of December 31, 2004

(Currency: U.S. \$)

1. General

The Palestinian Initiative for the Promotion of Global Dialogue and Democracy (MIFTAH) is 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 the challenging of stereotyping at home and abroad. Established in December 1998, with Dr. Hanan Ashrawi as its Secretary General, 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 has forged lasting relationships and partnerships in pursuit of a common vision of dialogue and democracy.

During 2000, MIFTAH with other Palestinian not-for-profit organizations organized the Coalition for Accountability and Integrity – AMAN, which was hosted by MIFTAH from 2001 to 2004. The objective of the coalition is to assess the integrity in the Palestinian organizations. The financial statements of MIFTAH includes the revenues and expenses of AMAN.

The number of the employees in MIFTAH was 27 and 21 as of December 31, 2004 and 2003, respectively.

2. Summary of Significant Accounting Policies

– Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with International Financial Reporting Standards, issued by International Accounting Standards Board (IASB).

Currently, the International Financial Reporting Standards do not include any specific requirements regarding the not-for-profit organization in connection with the accounting policies or the presentation of the financial statements.

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

- **Change in accounting policy**

During 2004, MIFTAH changed its accounting policy related to contributions from unconditional pledges. The financial statements, including the comparative figures for the prior year, are presented on the assumption that the new accounting policy has been applied from the beginning of 2003. Therefore, 2003 comparative figures are restated in order to reflect the new accounting policy. The nature of the change and the effect of the restatement are depicted in note 16.

Before 2004, donations related to fixed assets were recognized as revenue when obtained. During 2004, MIFTAH changed the accounting policy and started recognizing revenue on a systematic basis over the useful life of the fixed assets. The policy has been applied to the financial statements retrospectively starting 2003 because it was not practicable to determine the cumulative effect from earlier date.

- **Donors' pledges**

- 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.
- Donors' conditional pledges are those pledges where donors stipulate prerequisites that have to be carried out by the recipient before obtaining the fund.

- **Donation revenues**

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 donors for specific purpose or time are recognized when such purpose or time is satisfied.

- **Deferred revenues**

Donations related to property and equipment are stated 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, bank balances and short term deposits with an original maturity of three months or less.

- **Contributions receivable**
Contributions receivable from donors are the amounts not collected from the unconditional pledges less a provision for any uncollectable amounts.

- **Property and equipment**
Property and equipment are stated at cost on the date of acquisition or, in the case of gifts, at fair market value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the property and equipment using the following annual depreciation rates:

	<u>%</u>
Office furniture	15
Office equipment	20
Computers - hardware and software	25
Leasehold improvements	20

The carrying value of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset is included in the statement of activities in the period the item is derecognized.

- **Severance pay**
A provision for severance pay to cover the commitments of MIFTAH towards the employees' end-of-service indemnity was made in accordance with the prevailing labor law in Palestine.
- **Income taxes**
MIFTAH is a not-for-profit organization; accordingly, it is not subject to income tax.
- **Foreign currency transactions**
Transactions, which are expressed or denominated in currencies other than the U.S. Dollar (U.S. \$), are translated to U.S. \$ using exchange rates in effect at the time of each transaction. Monetary assets and liabilities, which are denominated in currencies other than U.S. \$, are translated to U.S. \$ using the prevailing exchange rate as of the balance sheet date. Gains or losses arising from exchange differences are reflected in the statement of activities.

3. Cash and Cash Equivalents

	<u>2004</u>	<u>2003</u>
Cash on hand	469	178
Current accounts at bank in U.S. \$	58,075	25,621
Current accounts at bank in NIS	35,418	17,789
Deposits at bank in U.S. \$	347,970	424,869
	<u>441,932</u>	<u>468,457</u>

The above cash and cash equivalents balance at bank include the following:

- U.S. \$ 68,119 (2003 - U.S. \$ 51,326) restricted for severance pay.
- U.S. \$ 289,680 (2003- U.S. \$ 342,260) restricted-closed for long-term research and special activities.
- Deposits at bank are due within three months from the financial statements date. Interest rate on the deposits as of December 31, 2004 amounted to 0.65%.

4. Contributions Receivable

Contributions receivable comprise pledges to give as of December 31, 2004 and 2003 from the following donors:

	<u>2004</u>	<u>2003</u>
International Republican Institute (IRI)	148,034	38,497
United Nation Population Fund (UNFPA)	24,372	107,830
UNDP – Media and Information Program	10,000	-
UNDP – (An End to Occupation) Conference	-	11,180
National Endowment for Democracy (NED)	30,000	18,000
Kvinna Till Kvinna	28,000	-
International Media Support	18,508	-
Palestine Cellular Communication Company Ltd (Jawwal)	10,500	-
Swiss Federal Department of Foreign Affairs (Swiss)	5,000	-
A.M. Qattan Foundation- London	-	25,000
Consolidated Contractors International Company	-	25,000
UNDP– AMAN	9,126	14,400
British Consulate- AMAN	-	8,000
British Council- AMAN	-	675
Sundry	8,601	-
	<u>292,141</u>	<u>248,582</u>

5. Property and Equipment

Components of property and equipment as of December 31, 2004, and movements during the year are as follows:

	Balance, beginning of year	Additions/ Depreciation	Disposals	Balance, end of year
Cost:				
Office furniture	58,632	2,252	-	60,884
Office equipment	56,309	5,842	-	62,151
Computers – hardware and software	84,911	10,487	-	95,398
Leasehold improvements	2,394	343	-	2,737
	<u>202,246</u>	<u>18,924</u>	<u>-</u>	<u>221,170</u>
Accumulated Depreciation:				
Office furniture	35,351	8,983	-	44,334
Office equipment	40,313	5,920	-	46,233
Computers – hardware and software	59,458	10,348	-	69,806
Leasehold improvements	1,404	354	-	1,758
	<u>136,526</u>	<u>25,605</u>	<u>-</u>	<u>162,131</u>
Net Book Value	<u>65,720</u>			<u>59,039</u>

6. Temporarily Restricted Contributions

This item comprises temporarily restricted contributions subject to purpose or time restriction. These amounts represent the excess of donations received over the expenditures made out to satisfy the purposes stipulated by the donors.

The temporarily restricted contributions comprise the following as of December 31, 2004 and 2003:

	2004	2003
International Republican Institute (IRI)	124,970	-
Special donation	292,126	340,459
National Endowment for Democracy (NED)	26,007	24,738
United Nation Population Fund (UNFPA)	35,791	109,761
Kvinna Till Kvinna	29,450	-
Consolidated Contractors International Company (CCC)	26,759	27,133
International Media Support	14,433	-
Palestine Cellular Communication Company Ltd	11,444	-
Konrad Adenauer Stiftung- AMAN	3,467	-
UNDP- An End to Occupation and Publication	14,363	6,615
UNDP- Miscellaneous	542	542
Norwegian Agency for Development Cooperation and Netherlands Representative Office (Norway and Netherlands) - AMAN	51,877	-
UNDP- AMAN	1,248	2,667
Sundry- AMAN	501	-
Ford Foundation	-	66,665
Sundry	1,874	2,762
	<u>634,852</u>	<u>581,342</u>

Movement on temporarily restricted contributions during the year was as follows:

	<u>2004</u>	<u>2003</u>
Beginning balance	581,342	649,129
Additions during the year *	763,336	422,554
Temporarily restricted contributions released from restriction (note 9)	(690,900)	(462,536)
Deferred revenues (note 7)	(18,926)	(27,805)
Ending balance	<u>634,852</u>	<u>581,342</u>

* Additions to temporarily restricted contributions have been received and pledged during the year from the following donors:

	<u>2004</u>	<u>2003</u>
International Republican Institute (IRI)	222,367	140,737
Swiss Federal Department of Foreign Affairs (Swiss)	30,000	30,000
United Nation Population Fund (UNFPA)	12,626	136,454
United Nations Development Programme (UNDP)	38,699	13,680
Representative Office of Norway	71,903	4,165
Friedrich Ebert Stiftung (FES)	17,840	-
Kvinna Till Kvinna	44,980	-
National Endowment for Democracy (NED)	30,000	30,000
International Media Support	19,278	-
The British Consulate and European Commission (BC and EU)	10,154	-
UNDP and Faculty for Israeli Palestinian Peace	8,219	-
The European Commission through Keshev	43,807	-
Palestine Cellular Communications Company Ltd	15,000	-
Norwegian Agency for Development Cooperation and the Netherlands Representative Office – AMAN	159,543	-
Konrad Adenauer Stiftung, Heinrich Boll Foundation and Transparency International (KAS and others)- AMAN	21,380	-
UNDP- AMAN	17,540	36,000
British Consulate- AMAN	-	18,808
British Council- AMAN	-	12,710
	<u>763,336</u>	<u>422,554</u>

7. Deferred Revenues

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

	<u>2004</u>	<u>2003</u>
Beginning balance	24,581	-
Additions (Note 6)	18,926	27,805
Deferred revenues recognized	<u>(7,505)</u>	<u>(3,224)</u>
Ending balance	<u><u>36,002</u></u>	<u><u>24,581</u></u>

Before 2004, donations related to property and equipment were recognized as revenue when obtained. During 2004, MIFTAH changed the policy and started recognizing revenue on a systematic basis over the useful life of the property and equipment. The policy has been applied to the financial statements prospectively starting January 1, 2003 because it was not practicable to determine the cumulative effect from earlier date.

8. Provision for Severance Pay

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

	<u>2004</u>	<u>2003</u>
Balance, Beginning of year	64,038	47,366
Additions during the year	22,188	25,351
Payments during the year	<u>(19,878)</u>	<u>(8,679)</u>
Balance, end of year	<u><u>66,348</u></u>	<u><u>64,038</u></u>

9. Temporarily Restricted Contributions Released from Restrictions

This item represents the revenue recognized as a result of satisfying the purpose of restricted donations during years 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Ford Foundation	66,664	62,318
UNDP- Media and Information	-	29,381
United Nations Development Fund for Women		
Western Asia Regional Office (UNIFEM)	-	35,310
Swiss Federal Department of Foreign Affairs (Swiss)	30,021	30,023
International Republican Institute (IRI)	92,992	139,351
National Endowment for Democracy (NED)	28,731	33,259
United Nation Population Fund (UNFPA)	86,534	25,181
Representative Office of Norway	68,786	4,175
Special donation	48,333	6,096
UNDP- Miscellaneous	31,589	6,523
UNDP and Faculty for Israeli Palestinian Peace	7,581	
Friedrich Ebert Stiftung	17,840	-
British Consulate and European Commission	10,819	-
European Commission through Keshev	37,750	-
Kvinna Till Kvinna	14,267	-
International Media Support	3,541	-
Palestine Cellular Communications Company Ltd	3,556	-
Norwegian Agency for Development Cooperation and the Netherlands Representative Office - AMAN	105,152	-
UNDP- AMAN	18,958	74,209
Konrad Adenauer Stiftung, Heinrich Boll Foundation and Transparency International (KAS and others)- AMAN	15,552	
British Council and the British Consulate- AMAN	-	16,710
Sundry	2,234	-
	<u>690,900</u>	<u>462,536</u>

10. Unrestricted Contributions

	<u>2004</u>	<u>2003</u>
Consolidated Contractors International Company (CCC)	50,000	100,000
A.M. Qattan Foundation - London	25,000	50,000
	<u>75,000</u>	<u>150,000</u>

1. Projects' Expenses

Components of projects' expenses follow:

	<i>Empowerment of Women</i>					<i>Empowerment of Youth</i>				<i>Printing of a Palestinian Photo-Essay</i>
	<i>Empowerment of Women in Elections</i>	<i>Women Electoral Support Points</i>	<i>Empowerment of Women in Peace</i>	<i>Advocacy in Reproductive Health</i>	<i>Training-Gender Based Violence</i>	<i>RAGSNB 1 *</i>	<i>Empowerment of Community Leaders</i>	<i>Empowerment of Young Politicians</i>	<i>Empowerment of Young Leaders through Media</i>	
	<i>IRI</i>	<i>IRI</i>	<i>SWISS</i>	<i>UNFPA</i>	<i>UNFPA</i>	<i>Kvinna Till Kvinna</i>	<i>FES</i>	<i>NED</i>	<i>NED</i>	
Salaries and related expenses	4,000	41,812	20,625	33,784	-	10,762	6,880	11,026	2,830	-
Overseas allowance pay	-	-	-	-	-	-	-	-	300	-
Experts honoraria and training fees	1,000	-	-	-	403	-	-	-	-	-
Office, equipment and hall rental	1,000	6,900	2,210	1,800	-	-	-	2,300	-	-
Workshop expenses	2,800	4,163	667	12,644	1,863	-	5,471	4,655	-	-
Travel and accommodation	1,471	2,735	764	783	660	96	1,177	813	112	-
Information and Publications	8,367	5,306	1,042	23,386	2,181	1,415	1,772	1,883	46	3,500
Professional fees	-	1,049	600	1,404	-	200	-	430	-	-
Training expenses	-	2,200	435	738	478	-	1,574	767	-	-
Hosting delegations and meetings	191	1,582	449	2,481	993	-	539	774	-	52
Postage, telephone and fax	852	5,929	1,809	1,909	-	911	380	1,212	275	-
Information technology expenses	30	61	51	265	-	50	-	102	50	-
Utilities	389	1,027	1,262	614	-	789	-	714	381	4
Laundry	67	61	107	149	-	43	47	62	-	-
Total	20,167	72,825	30,021	79,957	6,578	14,266	17,840	24,738	3,994	3,556

1 * Kvinna Till Kvinna funded the project named "Raising Awareness of Gender – Sensitive National Budget (RAGSNB)".

Projects' Expenses - Continued

	<u>Media Monitoring</u>		<u>Media and Information, Governance & Democracy Programs</u>		<u>Conferences</u>		<u>TOKTEN Palestinian Program</u>	<u>Coalition for Integrity and Accountability "AMAN"</u>				<u>Other Projects</u>	<u>Miscellaneous</u>	<u>2004 Total</u>	<u>2003 Total</u>
	<u>Monitoring Incitement in Palestinian Media</u>	<u>Monitoring Media Coverage during Presidential Elections</u>	<u>Norway</u>	<u>Ford Foundation 2 *</u>	<u>3 *</u>	<u>An End to Occupation UNDP</u>		<u>Norway and Holland UNDP</u>	<u>UNDP</u>	<u>KAS, HB, TI 4*</u>	<u>5*</u>				
	<u>Keshev through EC</u>	<u>IMS</u>			<u>BC and EC</u>										
Salaries and related expenses	35,274	2,900	46,316	46,996	3,600	3,150	24,879	49,587	9,795	940	4,482	-	359,638	211,988	
Overseerance pay	-	-	814	795	-	-	-	2,021	1,888	-	-	-	5,818	-	
Experts honoraria and training fees	-	-	-	-	-	-	-	4,550	2,100	900	11,800	-	20,753	3,750	
Office, equipment and hall rental	-	-	10,000	10,000	-	-	-	4,300	-	-	-	-	38,510	25,950	
Workshop expenses	-	-	-	-	-	412	-	242	-	-	-	-	32,917	-	
Travel and accommodation	1	2	849	1,214	141	2,557	-	9,566	533	546	31,469	-	55,489	20,520	
Information and Publications	1,202	225	2,015	1,454	2,623	2,725	-	17,867	58	12,877	-	-	89,944	115,681	
Professional fees	-	-	1,000	1,401	-	-	-	1,638	-	-	-	-	7,722	3,185	
Training expenses	-	-	-	-	-	-	-	10,828	4,447	590	-	-	22,057	24,592	
Hosting delegations and meetings	21	163	682	478	3,099	5,400	-	908	-	1,463	570	-	19,845	12,366	
Postage, telephone and fax	-	252	3,263	2,143	1,080	-	-	1,528	54	-	-	-	21,597	18,378	
Information technology expenses	-	-	278	-	-	-	-	593	25	-	-	-	1,505	12,432	
Utilities	1,155	-	3,255	2,079	220	-	-	1,216	-	-	-	374	13,479	12,603	
Laundry	97	-	314	104	56	47	-	309	58	96	9	-	1,626	1,091	
Total	37,750	3,542	68,786	66,664	10,819	14,291	24,879	105,153	18,958	17,412	48,330	374	690,900	462,536	

2 * Ford Support for years 2002 to 2004.

3 * The British Consultant and the European Commission made funding for MIFTAH's conference on the "Palestinian Critical Review of Arab World Reform".

4 * These donors are Konrad Adanuer, Heinrich Boll Foundation and Transparency International.

5 * Other projects include the expenses of long-term research and special activities.

6 * CCC's donation is restricted for the setup of Ramallah office.

12. Administration and General

	<u>2004</u>	<u>2003</u>
Salaries and related expenses	68,874	172,509
Severance pay	16,370	25,351
Depreciation	25,605	28,616
Office, equipment and hall rental	-	12,050
Professional fees	-	1,495
Hosting delegations and meetings	44	1,308
Postage, telephone and fax	-	3,349
Information technology expenses	-	2,062
Travel and accommodation	1,175	565
Information and publication	-	3,482
Utilities	5,005	7,484
Sundry	55	1,516
	<u>117,128</u>	<u>259,787</u>

13. Fair Values of Financial Instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets consist of cash and cash equivalents and contributions receivable. Financial liabilities consist of accrued expenses, other accounts payable, temporarily restricted contributions and deferred revenues.

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

14. Risk Management

Interest rate risk

MIFTAH is exposed to interest rate risk on the time deposits that are considered interest-bearing asset. (Note 3).

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 operations of MIFTAH are financed by multiple donors.

Foreign currency risk

MIFTAH maintains its major assets and liabilities in one currency which is the U.S. \$. In addition, its major donation revenues are collected in U.S. \$ and most of its expenses are paid in U.S. \$.

15. Concentration of Risk in Geographic Area

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

16. Restatement adjustments

Starting 2004, MIFTAH started recording the temporarily restricted contributions as liability and recognizing it as revenue upon satisfying the purpose of the restricted donation instead of recognizing the whole amount as revenue upon receiving the contribution. This policy has been applied in the financial statements prospectively starting January 1, 2003 because it was not practicable to determine the cumulative effect from earlier date.

Before 2004, donations related to property and equipment were recognized as revenue when obtained. During 2004, MIFTAH changed the policy and started recognizing revenue on a systematic basis over the useful life of the property and equipment. The policy has been applied in the financial statements prospectively starting January 1, 2003 because it was not practicable to determine the cumulative effect from earlier date.

- The effect of the restatement on the net assets balance as of January 1, 2003 is as follows:

	<u>2003</u>
Net assets, January 1, 2003 - previously reported	799,414
Cumulative effect	<u>(649,129)</u>
Net assets, January 1, 2003 - restated	<u><u>150,285</u></u>

- The effect of the restatement on the change in net assets for the year ended December 31, 2003 is as follows:

	<u>2003</u>
Increase in temporarily restricted contributions released from restrictions	462,536
Increase in deferred revenues recognized	3,224
Restricted contributions of 2003	<u>(422,554)</u>
Change in net assets for the year ended December 31, 2003	43,206
Change in net assets for the year ended December 31, 2003 - previously reported	<u>(143,884)</u>
Change in net assets for the year ended December 31, 2003 - restated	<u><u>(100,678)</u></u>

- The cumulative net effect of the restatement on the net assets balance as of December 31, 2003 is as follows:

	<u>2003</u>
Cumulative effect on net assets balance as of January 1, 2003	<u>(649,129)</u>
Increase in net assets for the year ended December 31, 2003	43,206
Net decrease in net assets as of December 31, 2003	<u>(605,923)</u>
Net assets as of December 31, 2003 - previously reported	<u>655,530</u>
Net assets as of December 31, 2003 - restated	<u><u>49,607</u></u>