

THE PALESTINIAN INITIATIVE FOR THE PROMOTION
OF GLOBAL DIALOGUE AND DEMOCRACY (MIFTAH)
FINANCIAL STATEMENTS
DECEMBER 31, 2006

■ RAMALLAH

P.O. Box 1373
Sixth Floor
Trust Bldg., Jerusalem St.
Ramallah – Palestine
Tel.: (02) 240 – 1011
Fax: (02) 240 – 2324

■ GAZA

P.O. Box 5315, Omar Al Mokhtar
Third Floor, Suite 307
Al Jala' Tower, Ahmad Abdel Aziz St.
Gaza – Palestine
Tel.: (08) 2821004
Fax: (08) 2828647

**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, 2006, and the statement of activities 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, 2006 and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



July 18, 2007
Ramallah, Palestine

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

Statement of Financial Position

December 31, 2006

	<u>Notes</u>	<u>2006</u> U.S. \$	<u>2005</u> U.S. \$
<u>Assets</u>			
Non - current assets			
Property and equipment	3	31,087	33,554
Current assets			
Contributions receivable	4	162,500	291,749
Due from Board of Trustees	5	100,000	-
Other current assets		4,126	26,079
Cash and cash equivalents	6	678,177	583,552
		<u>944,803</u>	<u>901,380</u>
Total Assets		<u>975,890</u>	<u>934,934</u>
<u>Net Assets and Liabilities</u>			
Net assets			
Unrestricted net assets		<u>186,975</u>	<u>100,544</u>
Total net assets		<u>186,975</u>	<u>100,544</u>
Non - current liabilities			
Deferred revenues	7	27,515	26,354
Provision for severance pay	8	71,447	71,345
		<u>98,962</u>	<u>97,699</u>
Current liabilities			
Accounts payable and accruals	9	52,493	61,043
Temporarily restricted contributions	10	637,460	675,648
		<u>689,953</u>	<u>736,691</u>
Total Liabilities		<u>788,915</u>	<u>834,390</u>
Total Net Assets and Liabilities		<u>975,890</u>	<u>934,934</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

Year ended December 31, 2006

	<u>Notes</u>	<u>2006</u> U.S. \$	<u>2005</u> U.S. \$
Revenues			
Temporarily restricted contributions released from restrictions	10	521,762	742,100
Unrestricted contributions	5	162,000	175,000
Deferred revenues recognized	7	10,494	7,695
Sundry		<u>7,861</u>	<u>5,843</u>
		<u>702,117</u>	<u>930,638</u>
Expenses			
Projects' expenses	11	521,762	742,100
Administrative expenses	12	<u>93,924</u>	<u>112,594</u>
		<u>615,686</u>	<u>854,694</u>
Increase in net assets		86,431	75,944
Net assets, beginning of year		<u>100,544</u>	<u>24,600</u>
Net assets, end of year		<u>186,975</u>	<u>100,544</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, 2006

	<u>2006</u>	<u>2005</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Operating Activities:		
Increase in net assets	86,431	75,944
Adjustments:		
Depreciation	14,592	19,062
Deferred revenues recognized	(10,494)	(7,695)
Provision for severance pay	23,898	22,494
	<u>114,427</u>	<u>109,805</u>
Changes in working capital		
Contributions receivable	91,061	41,188
Due from Board of Trustees	(100,000)	-
Other current assets	21,953	(17,309)
Accounts payable and accruals	(8,550)	20,963
Deferred revenues	11,655	(1,953)
Payment of employees' severance pay	(23,796)	(17,497)
Net cash flows from operating activities	<u>106,750</u>	<u>135,197</u>
Investing Activities:		
Purchase of property and equipment	(12,125)	(10,228)
Exclusion of AMAN's balances	-	16,651
Net cash flows (used in) from investing activities	<u>(12,125)</u>	<u>6,423</u>
Increase in cash and cash equivalents	94,625	141,620
Cash and cash equivalents, beginning of year	<u>583,552</u>	<u>441,932</u>
Cash and cash equivalents, end of year	<u><u>678,177</u></u>	<u><u>583,552</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)

Notes to the Financial Statements

December 31, 2006

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 proactive 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, 2006 were approved by the Board of Trustees on July 18, 2007.

2. Summary of Significant Accounting Policies

Basis of preparation

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

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. Dollars.

The accounting policies are consistent with those used in the previous year.

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.

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.

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.

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 at the following annual depreciation rate:

	%
Office equipment	20-25
Office furniture	15
Leasehold improvements	20

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

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 expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditures are recognised in the statement of activities 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.

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 taken to the statement of activities.

3. Property and Equipment

	<u>Office equipment</u>	<u>Office furniture</u>	<u>Leasehold improvements</u>	<u>Total</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Cost:</u>				
At January 1, 2006	143,740	56,680	2,737	203,157
Additions	8,634	1,091	2,400	12,125
Disposals	(2,082)	-	-	(2,082)
At December 31, 2006	<u>150,292</u>	<u>57,771</u>	<u>5,137</u>	<u>213,200</u>
<u>Depreciation:</u>				
At January 1, 2006	132,513	34,909	2,181	169,603
Depreciation charges for the year	11,375	2,705	512	14,592
Disposals	(2,082)	-	-	(2,082)
At December 31, 2006	<u>141,806</u>	<u>37,614</u>	<u>2,693</u>	<u>182,113</u>
<u>Net carrying value:</u>				
At December 31, 2006	<u>8,486</u>	<u>20,157</u>	<u>2,444</u>	<u>31,087</u>
At December 31, 2005	<u>11,227</u>	<u>21,771</u>	<u>556</u>	<u>33,554</u>

Property and equipment include U.S. \$ 149,275 of fully depreciated assets that are still used in MIFTAH's operations as of December 31, 2006.

4. Contributions receivable

	Balance, beginning of year	Additions	Cash received	Write off	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
The Ford Foundation	125,000	-	(125,000)	-	-
International Republican Institute (IRI)	85,253	183,195	(147,100)	(1,348)	120,000
United Nation Population Fund (UNFPA)	5,632	55,600	(40,582)	(650)	20,000
Kvinna Till Kvinna	28,000	-	(28,000)	-	-
National Endowment for Democracy (NED)	20,000	30,000	(27,500)	-	22,500
Representative Office of Norway	-	107,734	(107,734)	-	-
United Nations Development Programme	27,864	-	(27,864)	-	-
The European Community through KESHEV	-	165,028	(165,028)	-	-
Special donations	-	7,088	(7,088)	-	-
	<u>291,749</u>	<u>548,645</u>	<u>(675,896)</u>	<u>(1,998)</u>	<u>162,500</u>

5. Due from Board of Trustees

During 2006 and 2005, a number of MIFTAH's Board of Trustees committed to donate unrestricted contribution of U.S. \$ 162,000 and U.S. \$ 175,000, respectively. As of December 31, 2006 unrestricted contributions of U.S. \$ 100,000 were still uncollected.

6. Cash and cash equivalents

	2006	2005
	U.S. \$	U.S. \$
Cash on hand and at banks	393,157	213,195
Short-term deposits	285,020	370,357
	<u>678,177</u>	<u>583,552</u>

Short term deposits in U.S. \$ are due within one month after the financial statements date with an average interest rate of 3%, and 1.8% during the years ended December 31, 2006 and 2005, respectively.

Short-term deposits as of December 31, 2006 include U.S. \$ 71,913 as restricted deposits against employees' severance pay.

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 lives of the property and equipment. Movement on deferred revenues during the year was as follows:

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Balance, beginning of year	26,354	36,002
Additions (Note 10)	11,655	10,068
Deferred revenues recognized	(10,494)	(7,695)
Exclusion of AMAN's balances	-	(12,021)
Balance, end of year	<u>27,515</u>	<u>26,354</u>

8. Provision for severance pay

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

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Balance, beginning of year	71,345	66,348
Additions during the year	23,898	22,494
Payments during the year	(23,796)	(11,224)
Exclusion of AMAN's balances	-	(6,273)
Balance, end of year	<u>71,447</u>	<u>71,345</u>

9. Accounts payable and accruals

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Postponed checks	26,740	29,877
Accrued expenses	20,153	23,130
Accounts payable	5,600	8,036
	<u>52,493</u>	<u>61,043</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 restrictions	Deferred revenues	Write off	Amount returned to donor	Currency exchange difference	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
The Ford Foundation	174,718	-	(115,825)	(566)	-	-	-	58,327
International Republican Institute (IRI)	-	183,195	(82,293)	-	(1,348)	-	-	99,554
United Nation Population Fund (UNFPA)	9,293	55,600	(66,072)	-	(650)	-	1,829	-
Kvinna Till Kvinna	45,875	-	(44,668)	(1,207)	-	-	-	-
National Endowment for Democracy (NED)	22,702	30,000	(27,700)	(62)	-	-	-	24,940
Representative Office of Norway	70,491	107,734	(65,641)	(4,853)	-	-	-	107,731
United Nations Development Programme (UNDP)	29,269	-	(17,554)	(75)	-	-	-	11,640
The European Community through KESHEV	28,209	165,028	(100,902)	(4,892)	-	-	7,959	95,402
Consolidated Contractors International Company (CCC)	26,759	-	-	-	-	-	-	26,759
Special donations	268,332	7,088	(1,107)	-	-	(61,206)	-	213,107
	<u>675,648</u>	<u>548,645</u>	<u>(521,762)</u>	<u>(11,655)</u>	<u>(1,998)</u>	<u>(61,206)</u>	<u>9,788</u>	<u>637,460</u>

11. Projects expenses

Components of projects' expenses are as follows:

	<i>The Ford Foundation</i>			<i>IRI</i>	<i>UNFPA</i>		<i>Kvinna Till Kvinna</i>	<i>Subtotal</i>
	<i>Institutional Support and Policy Formulation</i>	<i>Empowerment of Women in Peace</i>	<i>Enhancing Accountability in the Public Sector</i>	<i>Empowerment of Women in Elections</i>	<i>Training-Gender Based Violence</i>	<i>Gender, Peace and Security</i>	<i>RAGSNB 1 *</i>	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	
Salaries and related expenses	56,270	1,109	450	46,756	3,680	29,876	27,450	165,591
Severance pay	90	-	1,084	-	-	625	-	1,799
Experts honoraria and training fees	-	-	-	-	-	3,174	-	3,174
Office, equipment and hall rental	6,400	2,000	1,000	10,928	-	-	5,600	25,928
Workshop expenses	-	-	-	-	-	-	-	-
Travel and accommodation	68	7	80	1,418	25	465	301	2,364
Information and publications	5,500	1,400	30,588	2,332	4,534	16,189	2,905	63,448
Professional fees	1,800	-	-	400	-	-	1,000	3,200
Training expenses	-	-	-	8,266	-	-	2,299	10,565
Hosting delegations and meetings	481	555	393	5,675	510	4,948	1,102	13,664
Postage, telephone and fax	1,916	-	-	3,179	229	57	1,965	7,346
Information technology expenses	338	-	-	61	-	163	-	562
Utilities	2,982	-	-	2,425	90	1,122	1,979	8,598
Sundry	1,314	-	-	853	45	340	67	2,619
Total	77,159	5,071	33,595	82,293	9,113	56,959	44,668	308,858

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

11. Projects expenses - continued

	<i>NED</i>			<i>EC through KESHEV</i>	<i>Norway</i>	<i>UNDP</i>			<i>Total Project Expenses 2006</i>	<i>Total Project Expenses 2005</i>
	<i>Continued</i>	<i>Media capacity Building for young Leader</i>	<i>Advocating Young Leader: Issues</i>	<i>Monitoring Incitement in Palestinian Media</i>	<i>Support to MIFTAH's Prospectus for 2006</i>	<i>Mass Media Campaign for the Promotion of Active Citizenship</i>	<i>Publications</i>	<i>Other projects*</i>		
	<i>U.S. \$</i>	<i>U.S. \$</i>	<i>U.S. \$</i>	<i>U.S. \$</i>	<i>U.S. \$</i>	<i>U.S. \$</i>	<i>U.S. \$</i>	<i>U.S. \$</i>		
Salaries and related expenses	165,591	10,450	2,967	90,373	44,430	740	-	-	314,551	355,224
Severance pay	1,799	-	237	-	-	-	-	-	2,036	20,770
Experts honoraria and training fees	3,174	-	-	-	-	-	-	-	3,174	9,218
Office, equipment and hall rental	25,928	1,620	600	-	10,000	-	-	-	38,148	53,163
Workshop expenses	-	-	-	-	-	-	-	-	-	29,289
Travel and accommodation	2,364	587	71	87	(394)	47	-	1,000	3,762	36,437
Information and publications	63,448	761	-	5,188	5,088	12,626	2,354	-	89,465	120,665
Professional fees	3,200	500	-	-	1,000	-	-	-	4,700	6,092
Training expenses	10,565	2,798	-	-	-	507	-	-	13,870	51,012
Hosting delegations and meetings	13,664	2,608	551	2,698	34	745	-	-	20,300	14,545
Postage, telephone and fax	7,346	1,135	171	1,560	2,410	-	-	-	12,622	24,917
Information technology expenses	562	-	-	482	418	-	-	-	1,462	2,032
Utilities	8,598	1,595	413	236	2,595	535	-	-	13,972	14,114
Sundry	2,619	588	48	278	60	-	-	107	3,700	4,622
Total	308,858	22,642	5,058	100,902	65,641	15,200	2,354	1,107	521,762	742,100

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

12. Administrative expenses

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Salaries and related expenses	47,404	77,227
Severance pay	21,862	769
Depreciation	14,592	19,062
Experts honoraria and training fees	1,400	-
Travel and accommodation	1,200	4,244
Information and publications	21	1,069
Professional fees	1,300	-
Postage, telephone and fax	1,280	260
Information technology expenses	-	2,754
Utilities	4,579	1,680
Sundry	286	5,529
	<u>93,924</u>	<u>112,594</u>

13. Related party transactions

This represents transaction with key management personnel.

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Due from Board of Trustees	<u>100,000</u>	<u>-</u>
Unrestricted contributions	<u>162,000</u>	<u>175,000</u>
Key management personnel compensation	<u>44,130</u>	<u>114,580</u>

14. Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of contributions receivable, other current assets 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 the time deposits that are considered interest-bearing asset (Note 6).

Liquidity risk

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

Foreign currency risk

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

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.