

Al-Haq “Law in the Service of Man”

**Financial Statements
and
Independent Auditor’s Report**

**For the Year Ended
31 December 2008**

Al-Haq “Law in the Service of Man”

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Al-Haq "Law in the Service of Man"
Ramallah

We have audited the accompanying financial statements of Al-Haq "Law in the Service of Man" (Not for Profit Organization), which comprise of the statement of financial position as at December 31, 2008, the statement of activities, change in net assets and cash flows 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 and the Statement on Financial Accounting Standards No. 117 "Financial Statements of Not-For-Profit Organizations". 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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 **Al-Haq "Law in the Service of Man"** as of December 31, 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Statement on Financial Accounting Standards No. 117 "Financial Statements of Not-For-Profit Organizations".


Deloitte & Touche (M.E.)

14 April 2009

Al-Haq "Law in the Service of Man"

Statement of Financial Position

As of 31 December 2008

	Note	<u>2008</u> U.S. \$	<u>2007</u> U.S. \$
Assets			
Cash on Hand and at Banks	3	446,651	365,105
Bank Deposits for Specific Purposes	4	466,895	271,956
Grants Receivable	5	37,500	-
Loans and advances	6	39,769	36,243
Other Assets	7	13,291	9,985
Fixed Assets and library resources, net	8	188,943	197,456
Total Assets		<u>1,193,049</u>	<u>880,745</u>
 Liabilities and Net Assets			
Liabilities :			
Payables and Accruals	9	41,809	45,997
Reserves for Severance Pay and Provident Fund	10	354,413	271,775
Total liabilities		<u>396,222</u>	<u>317,772</u>
Net Assets :			
Unrestricted (Statement-C)		207,211	215,529
Temporarily Restricted (Statement-C)		470,272	246,310
Board Designated Fund (Statement-C)		119,344	101,134
Total Net Assets		<u>796,827</u>	<u>562,973</u>
Total Liabilities and Net Assets		<u>1,193,049</u>	<u>880,745</u>

See Notes to Financial Statements

Al-Haq "Law in the Service of Man"

Statement of Activities

Year Ended 31 December 2008

	Note	Temporarily		Total	
		Unrestricted	Restricted	2008	2007
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
Grants and Revenues:					
Grants	11		1,311,480	1,311,480	1,104,142
Interest and Other Revenues		18,210		18,210	19,708
Total		18,210	1,311,480	1,329,690	1,123,850
Net Assets Released From Restrictions	11	1,087,518	(1,087,518)		
		1,105,728	223,962	1,329,690	1,123,850
Administrative Expenses:					
Salaries and Related expenses		158,333		158,333	146,150
Staff Training and Recreation		16,680		16,680	5,542
Professional services		7,023		7,023	6,145
Occupancy costs		18,050		18,050	15,791
Communication and advertisement		20,779		20,779	19,522
Stationery, office supplies and hospitality		7,870		7,870	6,647
Repairs and maintenance		13,004		13,004	8,106
Printings, Publications and Translation		3,885		3,885	1,221
Transportation		1,647		1,647	798
Volunteers Costs		13,355		13,355	12,995
Institutional Development		11,158		11,158	13,581
Other Expenses		3,821		3,821	6,939
Total Administrative Expenses:		275,605	-	275,605	243,437
Program Expenses:					
Salaries and Related expenses		501,388		501,388	459,835
Communication and advertisement		5,795		5,795	6,208
Stationery, office supplies and hospitality		5,977		5,977	4,647
Repairs and maintenance				-	-
Printings, Publications and Translation		13,185		13,185	13,070
Transportation		9,727		9,727	9,437
Library Resources		4,860		4,860	2,046
International Travel and Perdiem		34,803		34,803	28,077
Legal Litigation		20,602		20,602	19,996
Publicity and Media Campaign		14,208		14,208	40,825
Workshops, Local Conferences and Seminars		19,373		19,373	17,807
Total Program Expenses:		629,918	-	629,918	601,948
Other Expenses:					
Special Project	11	155,953		155,953	111,428
Depreciation		34,555		34,555	27,255
Gain on currency fluctuations		(195)		(195)	(8,234)
Total Other Expenses:		190,313	-	190,313	130,449
Total Expenses		1,095,836	-	1,095,836	975,835
Increase in Net Assets During the Year (Statement-D)		9,892	223,962	233,854	148,015

See Notes to Financial Statements

Al-Haq "Law in the Service of Man"
Statement of Changes in Net Assets
Year Ended 31 December 2008

	Net Assets			
	Unrestricted	Temporarily Restricted	Board Designated Fund	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<u>Year Ended 31 December 2008:</u>				
Balances at Beginning of Year	215,529	246,310	101,134	562,973
Change in Net Assets During the Year (Statement-B)	9,892	223,962	-	233,854
Transfer to Board Designated Fund / Other Revenues	(18,210)		18,210	-
Net Assets at End of Year (Statement-A)	<u>207,211</u>	<u>470,272</u>	<u>119,344</u>	<u>796,827</u>
<u>Year Ended 31 December 2007:</u>				
Balances at Beginning of Year	249,655	165,303	-	414,958
Change in Net Assets During the Year (Statement-B)	67,008	81,007	-	148,015
Transfer to Board Designated Fund	(101,134)		101,134	-
Net Assets at End of Year (Statement-A)	<u>215,529</u>	<u>246,310</u>	<u>101,134</u>	<u>562,973</u>

See accompanying notes to financial statements

Al-Haq "Law in the Service of Man"
Statement of Cash Flows
Year Ended 31 December 2008

	2008	2007
	U.S. \$	U.S. \$
Cash flows from operating activities:		
Grants received	1,273,980	1,104,142
Other revenues	18,210	19,708
Cash paid to employees and suppliers	(1,184,602)	(945,208)
Net cash provided by operating activities	107,588	178,642
Cash flows from investing activities:		
Procurement of fixed assets	(26,042)	(66,319)
Increase (Decrease) in cash during the year	81,546	112,323
Cash on hand and deposits with banks at beginning of year	365,105	252,782
Cash on hand and deposits with banks at end of year	446,651	365,105
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	233,854	148,015
Increase in bank deposits restricted for special purposes	(194,939)	(100,012)
Provision for staff benefits, net of indemnities paid	82,638	92,499
Depreciation	34,555	27,255
Decrease (Increase) in grants receivable	(37,500)	
Decrease (Increase) in Loans and advances	(3,526)	(20,454)
Decrease (Increase) in other assets	(3,306)	727
Increase (Decrease) in payables and accruals	(4,188)	30,612
Net cash provided by operating activities	107,588	178,642

See Notes to Financial Statements

Al-Haq “Law in the Service of Man”
Notes to Financial Statements
Year Ended 31 December 2008
(Amounts are presented in U.S Dollar)

1. Organization:

Al-Haq “Law in the Service of Man Incorporated”, (Not For Profit Organization) is an affiliate of the International Commission of Jurists and was formed in 1979 by a group of West Bank Palestinians to develop and uphold the principles of the rule of law in the territory, carry out legal researches and provide legal services for the community.

2. Summary of Significant Accounting Policies:

2.1 The financial statements of Al-Haq have been prepared on the accrual basis of accounting, International Financial Reporting Standard and the Statement on Financial Accounting Standards No. 117 “Financial Statements of Not-For-Profit Organizations”.

2.2 Adoption of New and Revised International Financial Reporting Standards:

The International Accounting Standards Board issued amendments to International Accounting Standards and issued new Financial Reporting Standards which have become effective January 1, 2007. This includes International Financial Reporting Standard No. 7 (Financial Instruments: Disclosures) which replaces IAS No. 30 and certain disclosure provisions in IAS No. 32 (Financial Instruments–Presentation and Disclosure) (effective for annual periods beginning on or after January 1, 2007). Al-Haq had applied the revisions and amendments in its 2007 financial statements and there was no impact on the financial statements.

2.3 Al-Haq maintains its accounts in accordance with the principles of fund accounting under which the resources for various purposes are classified into three classes of net assets as described below:

- *Unrestricted net assets* represent net assets whose use by Al-Haq is not subject to donor-imposed restrictions.
- *Temporarily restricted net assets* whose use by Al-Haq is limited by donor-imposed and restriction that either expire by passage of time or can be fulfilled and released by actions of Al-Haq pursuant to those donor-imposed stipulations.
- *Board designated net assets*- represents resources available for use by Al-Haq according to the needs determined by the Board of Trustees.

2.4 Estimates and assumptions: The financial statements include certain estimates and assumptions made by management relating to reporting of assets, liabilities, at the date of the financial statements, and the reporting of revenues, expenses, gains, and losses during the year. Actual results may differ from those estimates adopted by the Al-Haq's management. Estimates used in the preparation of the financial statements are the useful lives of fixed assets and all other provisions.

2. Summary of Significant Accounting Policies: (Continued)

2.5 Contributions and grants, revenues from private grant and contract agreements are recognized as it is earned through expenditures in accordance with the agreement. Any funding received in advance of expenditures is recorded as deferred contribution in the statement of financial position.

Donated equipment, books and other supplies are reported as non-operating income and are valued at their fair values on the date of receipt.

Contributions Receivable represents amounts due from funding organizations for expenditures incurred prior to receiving related funds.

2.6 Cash and cash equivalents include cash on hand and deposits with banks with maturity dates of 90 days or less.

2.7 Fixed assets and Depreciation:

Furniture and Equipment and Books are stated in the attached financial statements based on historical cost as described below:

<u>Component</u>	<u>Estimated Service Life</u>
Office equipment	5 years
Office Furniture	14 years
Books	14 years

Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets.

2.8 Library Books: Books, encyclopedias and periodicals acquired by Al-Haq or donated by third parties are included in this account. Donated books are presented at their fair values on the date of donation.

2.9 Liabilities toward Staff benefits

- **Severance pay:** The policy of Al-Haq is to provide for staff severance pay by accruing for one-month compensation for each year of service using the last salary paid during the years of service.
- **Provident fund:** Al-Haq has a defined provident fund scheme that covers all employees. Contributions into the scheme by the employees and Al-Haq were 2.5% and 5% of basic salaries respectively. Effective 1 January 2007 contribution percentages by employees and Al-Haq became 4% and 8%, respectively.

2. Summary of Significant Accounting Policies: (Continued)

2.10 Foreign Currency Transactions:

The books of accounts of Al-Haq are maintained in U.S Dollar. Transactions, which are denominated in currencies other than U.S Dollar are converted into U.S Dollar equivalent at the spot exchange rate prevailing on the date of each transaction.

Financial Statements in U.S Dollar

- Transactions and balances, which are originally expressed in U.S Dollar, are presented at the actual U.S Dollar received or paid.
- Balances of assets and liabilities which are expressed in currencies other than U.S Dollar are translated to U.S Dollar equivalent using the exchange rate prevailing at the date of the financial statements of NIS 3.7892 per U.S Dollar and 0.7095 Euro per U.S Dollar.
- Exchange differences arising from the translation of assets and liabilities is charged to the statement of activities and change in net assets.

3. Cash on Hand and at Banks:

Composition:

	<u>2008</u>	<u>2007</u>
Cash on Hand	340	227
Deposits with banks in Shekel	3,791	2,241
Deposits with banks in US Dollar	350,844	227,308
Deposits with banks in EURO	91,676	135,329
	<u>446,651</u>	<u>365,105</u>

4. Bank Deposits Restricted for Specific Purposes:

Compositions of restricted deposits with banks and related obligations as of December 31, 2008 are as follows:

	<u>Amount of Deposit</u>	<u>Amount of Obligation</u>	<u>Excess (Deficit)</u>
Board Designated fund	112,476	119,344	(6,868)
Staff Benefits	354,419	354,413	6
	<u>466,895</u>	<u>473,757</u>	<u>6,862</u>

5. Grants Receivable:

Composition of this account is as follows:

	<u>2008</u>	<u>2007</u>
Representative Office of the Kingdom of the Netherlands	37,500	-
	<u>37,500</u>	<u>-</u>

6. Loans and Advances:

Composition of this account is as follows:

	<u>2008</u>	<u>2007</u>
Advances to Staff	36,628	32,680
Travel and Workshop Advances	3,141	3,563
	<u>39,769</u>	<u>36,243</u>

7. Other Assets:

Composition:

	<u>2008</u>	<u>2007</u>
Prepaid Expenses	7,682	4,376
Key money right	5,609	5,609
	<u>13,291</u>	<u>9,985</u>

8. Fixed Assets and library resources, Net:

	<u>Furniture</u>	<u>Equipment</u>	<u>Library Books</u>	<u>Total</u>
<u>Year Ended 31 December 2008:</u>				
Cost:				
Beginning 2008	14,609	146,743	153,461	314,813
Additions	330	17,081	8,631	26,042
Disposals	-	-	-	-
Ending 2008	<u>14,939</u>	<u>163,824</u>	<u>162,092</u>	<u>340,855</u>
Accumulated Depreciation:				
Beginning 2008	5,042	75,264	37,051	117,357
Additions	1,038	22,408	11,109	34,555
Disposals	-	-	-	-
Ending 2008	<u>6,080</u>	<u>97,672</u>	<u>48,160</u>	<u>151,912</u>
Net Book Value	<u>8,859</u>	<u>66,152</u>	<u>113,932</u>	<u>188,943</u>
<u>Year Ended 31 December 2007:</u>				
Cost:				
Beginning 2007	14,076	90,953	143,465	248,494
Additions	533	55,790	9,996	66,319
Disposals	--	--	--	--
Ending 2007	<u>14,609</u>	<u>146,743</u>	<u>153,461</u>	<u>314,813</u>
Accumulated Depreciation:				
Beginning 2007	4,032	59,448	26,622	90,102
Additions	1,010	15,816	10,429	27,255
Disposals	--	--	--	--
Ending 2007	<u>5,042</u>	<u>75,264</u>	<u>37,051</u>	<u>117,357</u>
Net Book Value	<u>9,567</u>	<u>71,479</u>	<u>116,410</u>	<u>197,456</u>

9. Payables and Accruals:

Composition:

	<u>2008</u>	<u>2007</u>
Audit Fees	6,298	6,145
Income Tax withheld	-	3,752
Due to service Providers and employees	32,423	36,100
Accrued Expenses	3,088	--
	<u>41,809</u>	<u>45,997</u>

10. Reserves for Severance Pay and Provident Fund:

a. Composition:

	<u>2008</u>	<u>2007</u>
Provident Fund	142,474	101,546
Severance Pay	211,939	170,229
	<u>354,413</u>	<u>271,775</u>

B. Details of activities in these reserves during the year ended December 31, 2008 are as follows:

	<u>Provident Fund</u>	<u>Severance Pay</u>
<i>Balance as of 1 January 2008</i>	101,546	170,229
Provision charged for the year	44,101	51,172
	<u>145,647</u>	<u>221,401</u>
Payments	(3,173)	(9,462)
<i>Balance as of 31 December 2008</i>	<u>142,474</u>	<u>211,939</u>

11. Special Project:

The composition of expenses of the “Education and Monitoring of IHL in the Palestinian Territory” a project funded by Diakonia are as follows:

	<u>2008</u>	<u>2007</u>
Salaries and Related expenses	63,776	54,768
Printings, Publications and Translation	6,448	173
Transportation	1,704	939
Workshops, Local Conferences and Seminars	84,025	55,548
Total Expenses (statement-B)	<u>155,953</u>	<u>111,428</u>
Capital Additions (note-12)	2,325	30,626
	<u>158,278</u>	<u>142,054</u>

12 - Releases from temporarily restricted assets by funding source for the year ended December 31, 2008 is as follows:

	Unexpended	Grants Received	Available	Releases		Total Released in 2008	Unexpended
	Grant as of		Grants	Fixed Assets	Program /		Grant as of
	31-12-07		2008	and Library	Administration		31-12-08
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Ford Foundation	60,000	120,000	180,000	2,570	82,141	84,711	95,289
Representative Office of the Kingdom of the Netherlands	-	461,201	461,201	9,878	451,323	461,201	-
EED	-	33,675	33,675	721	32,954	33,675	-
OSI Development Foundation	7,799	92,500	100,299	1,981	37,985	39,966	60,333
Christian Aid	28,209	61,445	89,654	1,316	26,893	28,209	61,445
Diakonia (note-10)	18,824	204,134	222,958	2,325	155,953	158,278	64,680
Irish Aid	48,044	97,761	145,805	2,094	45,950	48,044	97,761
Representative Office of Norway	83,434	90,764	174,198	1,944	81,490	83,434	90,764
NGO Development Center	-	150,000	150,000	3,213	146,787	150,000	-
Total	246,310	1,311,480	1,557,790	26,042	1,061,476	1,087,518	470,272

12. Financial instruments, fair values and risks management:

- **Operational Risk**

The costs of the programs, administrative as well as fixed assets procurement are significantly financed by donors through donations. The management believes that the funding level in the year 2009 will be sufficient to finance all of its disbursements and will be consistent with the funding level in the prior years. Furthermore, the management believes that the political and economical conditions prevailing in the area will not materially affect its operations.

- **Fair Values of Financial Assets and Liabilities:**

The carrying book value of financial assets and liabilities are not materially different from their fair values at the date of the statement of financial position.

- **Credit Risk:**

Al-Haq credit risk is primarily attributable to its liquid funds and receivables. The credit risk on liquid funds is limited because they are placed with reputable financial institutions. The Receivables are stated in the statement of financial position net of allowances for doubtful debts, if any, which is estimated by Al-Haq management based on prior experience and the current economic environment.

- **Interest Rate Risk**

Al-Haq interest rate risk arises from the possibility that changes in market interest rates may affect the value of its interest bearing assets. The management of Al-Haq usually monitor the fluctuation in interest rates in every individual currency in order to maximize the benefits from placements.

- **Currency Risk:**

Currency risk arises from the possibility that changes in the exchange rates may affect negatively the value of the financial assets and liabilities in case Al-Haq does not hedge its currency exposure by means of hedging instruments. The management usually distributes its liquid assets over its functional currencies to minimize any possible loss from currency rates fluctuation.

13. Commitment Toward Acquisition of Land:

During 2007, the board of Trustees had decided to enter into a partnership agreement with three local NGO's in a parcel of land currently owned by the three NGO's. As soon as the agreement and the official registration is completed, Al-Haq will own 357 square meter which represents one fourth of the land with a total cost of U.S Dollar 85,680.

At the end of year 2008 and due to certain obstacles, Al-Haq and the three NGOs agreed to terminate the agreement and their previous understanding.