

PALESTINIAN CENTRE FOR HUMAN RIGHTS

FINANCIAL STATEMENTS

DECEMBER 31, 2006

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Independent Auditors' Report to the Board of Directors of the Palestinian Centre for Human Rights

We have audited the accompanying financial statements of the Palestinian Centre for Human Rights (PCHR), which comprise the statement of financial position as of December 31, 2006, and the statement of activities and changes in net assets, and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Palestinian Centre for Human Rights 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.



Gaza, Palestine
August 20, 2007

PALESTINIAN CENTRE FOR HUMAN RIGHTS

STATEMENT OF FINANCIAL POSITION

December 31, 2006

	Notes	2006 U.S. \$	2005 U.S. \$
<u>ASSETS</u>			
Non-current Assets			
Property and equipment	3	56,235	54,781
		<u>56,235</u>	<u>54,781</u>
Current Assets			
Contributions receivable	4	1,333,779	1,212,348
Other current assets	5	22,736	21,762
Cash and cash equivalents	6	188,449	603,976
		<u>1,544,964</u>	<u>1,838,086</u>
TOTAL ASSETS		<u><u>1,601,199</u></u>	<u><u>1,892,867</u></u>
<u>NET ASSETS AND LIABILITIES</u>			
Net Assets			
Unrestricted net assets		148,418	26,398
Total Net Assets		<u>148,418</u>	<u>26,398</u>
Non-current liabilities			
Deferred revenues	7	31,645	16,528
		<u>31,645</u>	<u>16,528</u>
Current liabilities			
Temporarily restricted contributions	8	1,351,449	1,765,890
Other current liabilities	9	69,687	84,051
		<u>1,421,136</u>	<u>1,849,941</u>
Total Liabilities		<u>1,452,781</u>	<u>1,866,469</u>
TOTAL NET ASSETS AND LIABILITIES		<u><u>1,601,199</u></u>	<u><u>1,892,867</u></u>

The attached notes 1 to 15 form part of these financial statements.

PALESTINIAN CENTRE FOR HUMAN RIGHTS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2006

	<u>Notes</u>	<u>2006</u> U.S. \$	<u>2005</u> U.S. \$
<u>Revenues</u>			
Temporarily restricted contributions			
released from restrictions	8	1,537,886	933,744
Deferred revenues recognized	7	7,000	2,126
Unrestricted contributions	10	138,988	325,157
Currency exchange gain		25,485	-
Total revenues		<u>1,709,359</u>	<u>1,261,027</u>
<u>Expenses</u>			
Programs	11	1,168,672	945,689
Administrative and general	11	373,378	331,580
Depreciation	3	45,289	36,427
Total expenses		<u>1,587,339</u>	<u>1,313,696</u>
Increase (decrease) in net assets		122,020	(52,669)
Net assets, beginning of year		<u>26,398</u>	<u>79,067</u>
Net assets, end of year		<u>148,418</u>	<u>26,398</u>

The attached notes 1 to 15 form part of these financial statements.

PALESTINIAN CENTRE FOR HUMAN RIGHTS

CASH FLOW STATEMENT

Year Ended December 31, 2006

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Operating activities		
Increase (decrease) in net assets	122,020	(52,669)
Adjustments:		
Depreciation	45,289	36,427
Deferred revenues recognized	<u>(7,000)</u>	<u>(2,126)</u>
	160,309	(18,368)
Changes in working capital:		
Contributions receivable	(121,431)	(900,617)
Other current assets	(974)	(7,700)
Temporarily restricted contributions	(392,324)	1,377,710
Other current liabilities	<u>(14,364)</u>	<u>10,745</u>
Net cash flows (used in) from operating activities	<u>(368,784)</u>	<u>461,770</u>
Investing activities		
Purchase of property and equipment	<u>(46,743)</u>	<u>(22,358)</u>
Net cash flows used in investing activities	<u>(46,743)</u>	<u>(22,358)</u>
(Decrease) increase in cash and cash equivalents	(415,527)	439,412
Cash and cash equivalents, beginning of year	<u>603,976</u>	<u>164,564</u>
Cash and cash equivalents, end of year	<u>188,449</u>	<u>603,976</u>

The attached notes 1 to 15 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

1. PCHR and its Activities

The Palestinian Centre for Human Rights (PCHR) was established on April 1, 1995 and formally registered in Gaza on August 10, 1995, as a not-for-profit organization, by a group of lawyers and human rights activists aiming at protecting human rights and promoting the rule of law in accordance with international standards. PCHR goals are to develop democratic institutions and an active civil society, while promoting democratic culture within the Palestinian society. PCHR has, in addition to its main office in Gaza city, offices in Jabalia and Khan Younis.

PCHR activities include monitoring, investigating and documenting human rights violations and extending the necessary consultation services to individuals and groups through conducting necessary researches in human rights agreements and international law.

The financial statements were authorized for issuance by PCHR's Board of Directors on August 20, 2007.

2. Summary of Significant Accounting Policies

Basis of preparation

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

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

The financial statements have been presented in U.S. Dollars (U.S. \$).

The financial statements are prepared under the historical cost convention.

Changes in accounting policies

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 a specific purpose or time are recognized when the pledge is obtained.
- Unconditional pledges that are temporarily restricted by the donor for a 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 are recognized as income 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.

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 estimated useful lives of the assets as follows:

	<u>%</u>
Furniture and fixtures	10
Office equipment	15
Computers	25
Motor vehicles	15
Library books	10

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 of 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.

Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized 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 tax

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

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received whether billed by the supplier or not.

Provisions

Provisions are recognized when PCHR has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Employees' end of service benefits

Provision for employees' end of service benefits is calculated in accordance with the labor law prevailing in Palestine, and PCHR internal policies, based on one-month indemnity for each year of employment.

Contributions to a saving fund are made based on the employees' basic salary. The monthly contribution by the employee and the employer is set at 7% and 14% of the basic salary, respectively.

Significant accounting judgments, estimates and assumptions

PCHR financial position and results of activities are sensitive to accounting methods, assumptions, estimates and judgments that underlie the preparation of the financial statements. PCHR 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 translated at the rate of exchange ruling at the statement of financial position date. All differences are recognized in the statement of activities.

Exchange rates of U.S. \$ against the following currencies as of the statement of financial position date were as follows:

	<u>U.S. \$</u>	<u>U.S. \$</u>
	2006	2005
One Israeli Shekel (ILS)	0.23	0.22
One European Monetary Unit (EURO)	1.31	1.18

3. Property and Equipment

	Furniture and fixtures	Office equipment	Computers	Motor vehicle	Library books	Total
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Cost						
At January 1, 2006	91,492	167,640	118,069	35,000	50,949	463,150
Additions	<u>2,451</u>	<u>20,413</u>	<u>23,594</u>	<u>-</u>	<u>285</u>	<u>46,743</u>
At December 31, 2006	<u>93,943</u>	<u>188,053</u>	<u>141,663</u>	<u>35,000</u>	<u>51,234</u>	<u>509,893</u>
Accumulated Depreciation						
At January 1, 2006	67,571	165,336	100,279	34,999	40,184	408,369
Depreciation	<u>9,319</u>	<u>14,833</u>	<u>16,032</u>	<u>-</u>	<u>5,105</u>	<u>45,289</u>
At December 31, 2006	<u>76,890</u>	<u>180,169</u>	<u>116,311</u>	<u>34,999</u>	<u>45,289</u>	<u>453,658</u>
Net carrying amount						
At December 31, 2006	<u>17,053</u>	<u>7,884</u>	<u>25,352</u>	<u>1</u>	<u>5,945</u>	<u>56,235</u>
At December 31, 2005	<u>23,921</u>	<u>2,304</u>	<u>17,790</u>	<u>1</u>	<u>10,765</u>	<u>54,781</u>

Property and equipment includes U.S. \$ 149,071 and U.S. \$ 131,660 of fully depreciated assets as of December 31, 2006 and 2005, respectively, that are still used in the PCHR's activities.

4. Contributions Receivable

Contributions receivable comprise of unconditional pledges to give as of December 31, 2006 from the following donors:

	Beginning balance	Additions / (write off)	Currency translation difference	Cash received	Ending balance
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
European Commission (Via Oxfam NOVIB) and Oxfam NOVIB	414,176	-	4,923	(132,881)	286,218
Oxfam NOVIB	359,863	848	11,416	(99,623)	272,504
Mu'assasat Strengthening Human Rights and Good Governance	-	600,000	-	(200,000)	400,000
Ford Foundation	185,000	-	-	(185,000)	-
Dan Church Aid - Denmark	123,365	12,055	-	(135,420)	-
Al-Quds Association Malaga-Spain	32,558	34,060	-	(9,714)	56,904
ICON - Institute Public Sector GMBH	-	105,000	-	(37,275)	67,725
European Commission	70,544	-	(641)	-	69,903
Austrian Development Agency	16,842	(16,842)	-	-	-
Grassroots International	10,000	21,500	-	(21,500)	10,000
Christian Aid/Development Cooperation Ireland Multi Annual Partnership Scheme (MAPS)	-	174,527	-	(72,127)	102,400
Trocaire	-	38,327	-	(38,327)	-
Kvinna Till Kvinna Foundation	-	78,764	-	(78,764)	-
The Medical Aid for Palestinians (MAP-UK)	-	50,000	-	-	50,000
Welfare Association Consortium for the Management of the Palestinian NGO Project	-	27,000	-	(13,500)	13,500
Karim Rida Said Foundation	-	4,625	-	-	4,625
	<u>1,212,348</u>	<u>1,129,864</u>	<u>15,698</u>	<u>(1,024,131)</u>	<u>1,333,779</u>

5. Other current assets

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Prepaid rent	7,167	9,767
Due from employees	12,328	11,659
Other	3,241	336
	<u>22,736</u>	<u>21,762</u>

6. Cash and cash equivalents

Cash and cash equivalents include the following:

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Cash on hand	561	639
Cash at Banks	187,888	603,337
	<u>188,449</u>	<u>603,976</u>

7. Deferred revenues

This item represents property and equipment acquired during the year out of the temporary restricted contributions. These assets are recorded as deferred revenues and recognized as revenues on systematic basis over there estimated useful life.

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Beginning balance	16,528	-
Additions during the year	22,117	18,654
Deferred revenues recognized	(7,000)	(2,126)
Ending balance	<u>31,645</u>	<u>16,528</u>

8. Temporarily restricted contributions

This item comprises of temporarily restricted contributions subject to purpose restriction. It represents the difference between the donation received and the expenditures made out to satisfy the purpose stipulated by the donor. As of December 31, 2006, movement on temporarily restricted contributions during the year was as follows:

	Beginning balance	Additions / write off	Currency translation difference	Temporarily restricted contribution released from restriction	Deferred revenue (Note 7)	Ending balance
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
European Commission (Via Oxfam NOVIB) and Oxfam NOVIB	414,176	-	4,923	(105,125)	(5,171)	308,803
Oxfam NOVIB	536,845	848	11,416	(276,605)	-	272,504
Mu'assasat Strengthening Human Rights and Good Governance	-	600,000	-	(200,000)	-	400,000
Ford Foundation	185,000	-	-	(179,061)	(5,939)	-
Dan Church Aid - Denmark	123,363	12,055	-	(135,418)	-	-
Al-Quds Association Malaga-Spain	-	34,060	-	(34,060)	-	-
ICON - Institute Public Sector GMBH	-	105,000	-	(37,275)	-	67,725
European Commission	352,726	-	(641)	(198,885)	(11,007)	142,193
Austrian Development Agency	143,780	(16,842)	-	(126,938)	-	-
Grassroots International	10,000	21,500	-	(21,500)	-	10,000
Christian Aid/Development Cooperation Ireland Multi Annual Partnership Scheme (MAPS)	-	174,527	-	(52,127)	-	122,400
Trocaire	-	38,327	-	(38,327)	-	-
Kvinna Till Kvinna Foundation	-	78,764	-	(67,540)	-	11,224
The Medical Aid for Palestinians (MAP-UK)	-	50,000	-	(50,000)	-	-
Welfare Association Consortium for the Management of the Palestinian NGO Project	-	27,000	-	(10,400)	-	16,600
Karim Rida Said Foundation	-	4,625	-	(4,625)	-	-
	<u>1,765,890</u>	<u>1,129,864</u>	<u>15,698</u>	<u>(1,537,886)</u>	<u>(22,117)</u>	<u>1,351,449</u>

9. Other current liabilities

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
Due to employees' fund *	50,950	50,950
Accrued professional fees	11,050	10,573
Accrued salaries	-	12,333
Accrued payroll tax	5,324	8,530
Accrued telephone expenses	935	935
Other	1,428	730
	<u>69,687</u>	<u>84,051</u>

* PCHR maintains separate accounting records for both the provision for employees' indemnity and the saving fund, with a special bank account. The balance of this bank account was U.S. \$ 627,684 and U.S. \$ 524,758 as of December 31, 2006 and 2005, respectively.

10. Unrestricted contributions

Donors' unrestricted contributions during 2006 and 2005 comprise the following:

	<u>2006</u>	<u>2005</u>
	U.S. \$	U.S. \$
The Swedish International Development Cooperation Agency (Sida)	-	157,415
Development Cooperation Ireland- Representative Office of Ireland	127,000	123,653
European Commission / Birzeit University	-	41,324
Other donors	11,988	2,765
	<u>138,988</u>	<u>325,157</u>

11. Programs and administrative expenses

	2006			2005		
	Programs	Administrative & General	Total	Programs	Administrative & General	Total
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries	518,094	278,974	797,068	460,728	248,084	708,812
Saving fund	56,038	30,174	86,212	53,959	29,055	83,014
End of service	34,504	18,579	53,083	36,301	19,547	55,848
Health insurance	28,331	15,255	43,586	18,607	10,019	28,626
International staff expense	8,592	4,636	13,228	5,768	3,106	8,874
Photocopying and printing costs	94,427	-	94,427	67,402	-	67,402
Professional and legal fees	169,520	-	169,520	118,506	-	118,506
Local transportation	29,045	5,126	34,171	18,539	3,272	21,811
Communication costs	42,273	7,460	49,733	37,271	6,577	43,848
Postage and courier	1,415	-	1,415	867	-	867
Training	1,629	-	1,629	5,304	-	5,304
Hosting seminars, conferences and workshops	76,257	-	76,257	6,004	-	6,004
Attending conferences and seminars	17,066	-	17,066	23,460	-	23,460
International travel	18,816	-	18,816	22,159	-	22,159
Hosting delegation	9,123	-	9,123	9,890	-	9,890
Rent	22,822	4,028	26,850	25,330	4,470	29,800
Utilities	8,569	1,512	10,081	6,770	1,195	7,965
Stationery	2,074	366	2,440	6,705	1,183	7,888
Office hospitality	6,463	1,140	7,603	5,690	1,004	6,694
Maintenance	5,716	1,009	6,725	5,314	938	6,252
Vehicle expenses	1,530	270	1,800	2,105	371	2,476
Building maintenance	5,574	984	6,558	966	171	1,137
Subscriptions	9,101	1,606	10,707	6,393	1,128	7,521
Bank charges	-	1,960	1,960	-	1,042	1,042
Currency exchange loss	-	-	-	-	128	128
Miscellaneous	1,693	299	1,992	1,651	290	1,941
	<u>1,168,672</u>	<u>373,378</u>	<u>1,542,050</u>	<u>945,689</u>	<u>331,580</u>	<u>1,277,269</u>

12. Fair values of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and cash equivalents and contributions receivable. Financial liabilities consist of other current liabilities.

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

13. Related party transactions

Related parties represent directors and key management personnel of PCHR, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by PCHR's management.

The statement of activities includes the following related party transactions:

	<u>2006</u>	<u>2005</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Compensation of key management personnel		
Salaries	<u>230,182</u>	<u>220,558</u>
End of service benefits and saving fund	<u>48,735</u>	<u>47,765</u>

14. Risk management

Liquidity risk

PCHR limits its liquidity risk by maintaining adequate cash balances to meet its current obligations and to finance its activities. In addition, PCHR's activities are financed by multiple donors.

Foreign currency risk

PCHR is exposed to the risk of changes in foreign currency exchange rates as a portion of PCHR's assets and liabilities are maintained in Euro.

15. Concentration of risk in geographic area

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