

Jerusalem Legal Aid and Human Rights Center
(JLAC)

Financial Statements

December 31, 2012

Independent Auditors' Report to the Board of Directors of Jerusalem Legal Aid and Human Rights Center (JLAC)

We have audited the accompanying financial statements of Jerusalem Legal Aid and Human Rights Center (JLAC), which comprise the statement of financial position as at December 31, 2012, the statement of activities and changes in net assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 in 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 present fairly, in all material respects, the financial position of JLAC as at December 31, 2012 and the results of its activities and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The financial statements of JLAC for the year ended December 31, 2011 were audited by other auditors whose report dated April 19, 2012 expressed an unqualified opinion before the restatements depicted in note (18) to the accompanying financial statements.

Ernst & Young - Middle East

A handwritten signature in blue ink that reads "Ernst + Young". The signature is written in a cursive, flowing style with a plus sign between the two names.

Ramallah, Palestine

May 29, 2013

Statement of Financial Position

As at December 31, 2012

	<u>Notes</u>	<u>December 31,</u> <u>2012</u> <u>U.S. \$</u>	<u>December 31,</u> <u>2011</u> <u>U.S. \$</u> <u>Restated</u> <u>(Note 18)</u>
<u>Assets</u>			
Non-current assets			
Property and equipment	3	200,640	230,947
		<u>200,640</u>	<u>230,947</u>
Current assets			
Contributions receivable	4	82,012	293,680
Other current assets	5	72,273	147,725
Cash and cash equivalents	6	664,930	508,235
		<u>819,215</u>	<u>949,640</u>
Total assets		<u>1,019,855</u>	<u>1,180,587</u>
<u>Net assets and liabilities</u>			
Net assets			
Unrestricted net assets		112,922	103,421
Board designated reserve	7	363,379	290,652
Total net assets		<u>476,301</u>	<u>394,073</u>
Non-current liabilities			
Provision for employees' benefits	8	388,335	308,061
Deferred revenues	9	36,840	58,122
		<u>425,175</u>	<u>366,183</u>
Current liabilities			
Other current liabilities	10	60,081	111,763
Temporarily restricted contributions	12	58,298	308,568
		<u>118,379</u>	<u>420,331</u>
Total liabilities		<u>543,554</u>	<u>786,514</u>
Total net assets and liabilities		<u>1,019,855</u>	<u>1,180,587</u>

The attached notes 1 to 19 form part of these financial statements

Statement of Activities and Changes in Net Assets

For the year ended December 31, 2012

	<u>Notes</u>	<u>December 31, 2012 U.S. \$</u>	<u>December 31, 2011 U.S. \$</u> <u>Restated (Note 18)</u>
<u>Revenues</u>			
Temporarily restricted contributions released from restriction	12	892,885	841,679
Deferred revenues recognized	9	30,403	14,897
Unrestricted contributions		3,246	-
Other revenues	11	89,791	31,561
Total revenues		<u>1,016,325</u>	<u>888,137</u>
<u>Expenses</u>			
Projects expenses	13	629,741	420,851
General and administrative expenses	13	263,144	420,828
Depreciation expense	3	39,428	22,072
Loss from foreign currency exchange		1,784	4,070
Total expenses		<u>934,097</u>	<u>867,821</u>
Increase in net assets		82,228	20,316
Net assets, beginning of the year		<u>394,073</u>	<u>373,757</u>
Net assets, end of the year		<u><u>476,301</u></u>	<u><u>394,073</u></u>

Statement of Cash Flows

For the year ended December 31, 2012

	<u>Notes</u>	<u>December 31, 2012 U.S. \$</u>	<u>December 31, 2011 U.S. \$ Restated (Note 18)</u>
<u>Operating activities:</u>			
Increase in net assets		82,228	20,316
Adjustments:			
Depreciation		39,428	22,072
Provision for employees' benefits		83,946	73,188
Deferred revenues recognized		<u>(30,403)</u>	<u>(14,897)</u>
		175,199	100,679
Working capital adjustments:			
Contributions receivable		211,668	(153,649)
Other current assets		75,452	90,383
Temporarily restricted contributions		(250,270)	173,082
Deferred revenues		9,121	18,005
Other current liabilities		(51,682)	82,037
Provision for employees' indemnity paid		<u>(3,672)</u>	<u>(3,200)</u>
Net cash flows from operating activities		<u>165,816</u>	<u>307,337</u>
<u>Investing activities:</u>			
Purchase of property and equipment		<u>(9,121)</u>	<u>(198,005)</u>
Net cash flows used in investing activities		<u>(9,121)</u>	<u>(198,005)</u>
Increase in cash and cash equivalents		156,695	109,332
Cash and cash equivalents, beginning of the year		<u>508,235</u>	<u>398,903</u>
Cash and cash equivalents, end of the year	6	<u><u>664,930</u></u>	<u><u>508,235</u></u>

Notes to the Financial Statements

For the year ended December 31, 2012

1. General

The Jerusalem Legal Aid and Human Rights Center (JLAC), begun as the Quaker Service Information and Legal Aid Center (the Center) which was founded in Jerusalem in 1974 by the Philadelphia American Friends Service Committee (AFSC). Procedures were taken to transfer governance of the Center to a local body; accordingly, the managing board was restructured, resulting in joint governance between ASFC and a local Board of Directors. By October 1997, the process was completed and the local board assumed full responsibility for JLAC's activities.

JLAC is a public interest law center; its main objectives are to offer its legal services to the Palestinian community by handling different types of cases such as land related cases and travel restriction cases, dealing with cases related to Palestinian Authority and promote the rule of law. JLAC's activities are being implemented through its two offices in Jerusalem and West Bank. JLAC is officially registered with all concerned authorities in Jerusalem and West Bank.

JLAC's financial statements as at December 31, 2012 were approved by the Board of Directors on May 29, 2013.

2.1 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention.

The financial statements have been presented in the United States Dollar (U.S. \$) which is the functional currency of JLAC.

2.2 Changes in accounting policies

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2011.

Many standards have been issued but are not yet mandatory, and have not been adopted by JLAC. These standards are those that JLAC's management reasonably expects to have no major impact on disclosures, financial position or performance when applied at a future date.

2.3 Judgements and estimation uncertainty

JLAC financial position and results of operations are sensitive to accounting methods, assumptions, estimates and judgments that underlie the preparation of the financial statements. JLAC 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.

2.4 Summary of significant accounting policies

Donation revenues

Donor's unconditional contributions are those contributions where donor does not specify prerequisites that have to be carried out by the recipient before obtaining the fund. Contributions revenues from unconditional contributions are recognized as follows:

- Unconditional contributions that are not restricted by donor for a specific purpose or time are recognized as revenue when the contribution is obtained.
- Unconditional contributions that are temporarily restricted by donor for a specific purpose or time are recognized as revenue when such purpose or time is satisfied.

Deferred revenue

Contributions 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 asset.

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 contributions. An estimate for the uncollectible amount is made when the collection of full unconditional contribution is no longer probable.

Fair value

The fair value of financial assets and financial liabilities recorded in the statement of financial position approximate their carrying amounts largely due to the short-term maturities of these instruments. Where the fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Impairment of financial assets

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

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

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits with an original maturity of three months or less, less deposits which are restricted in use.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the statement of activities and changes in net assets as incurred.

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

	Useful lives (years)
Buildings	20
Office furniture	6.6
Office equipment	3-5
Motor vehicles	5

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of activities and changes in net assets when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Income taxes

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

Other current liabilities

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the statement of financial position date. All differences are recognized in the statement of activities and changes in net assets.

3. Property and equipment

	<u>Buildings</u> U.S. \$	<u>Office furniture</u> U.S. \$	<u>Office equipment</u> U.S. \$	<u>Motor vehicles</u> U.S. \$	<u>Total</u> U.S. \$
Cost:					
At January 1, 2012	180,000	28,271	112,138	34,000	354,409
Additions	-	1,713	7,408	-	9,121
At December 31, 2012	<u>180,000</u>	<u>29,984</u>	<u>119,546</u>	<u>34,000</u>	<u>363,530</u>
Accumulated Depreciation:					
At January 1, 2012	7,175	11,190	91,670	13,427	123,462
Depreciation charge for the year	9,025	7,107	12,001	11,295	39,428
At December 31, 2012	<u>16,200</u>	<u>18,297</u>	<u>103,671</u>	<u>24,722</u>	<u>162,890</u>
Net book value					
At December 31, 2012	<u>163,800</u>	<u>11,687</u>	<u>15,875</u>	<u>9,278</u>	<u>200,640</u>
At December 31, 2011	<u>172,825</u>	<u>17,081</u>	<u>20,468</u>	<u>20,573</u>	<u>230,947</u>

Property and equipment include U.S. \$ 90,377 and U.S. \$ 77,140 of fully depreciated assets that are still being used in JLAC's activities as of December 31, 2012 and 2011, respectively.

During 2012, JLAC's management changed the estimated useful life of office furniture from 14 years to 6.6 years, and motor vehicles from 6.6 years to 5 years, according to the new estimates of useful life for these assets. This change in estimate took effect prospectively and has resulted in an increase in the depreciation expense for 2012 by U.S. \$ 14,745.

4. Contributions receivable

	Balance, beginning of the year	Additions	Cash received	Balance, end of year
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2012				
United Nations Development Programme	40,000	78,830	(63,030)	55,800
Norwegian Refugee Counsel	162,631	361,202	(511,821)	12,012
Consulate General France	-	24,669	(24,669)	-
NGO Development Center	78,100	-	(63,900)	14,200
The Catholic Agency for Overseas Development	-	45,990	(45,990)	-
Irish Aid	-	76,614	(76,614)	-
Institute of Political Studies for Latin America and Africa -IEPALA	12,949	9,522	(22,471)	-
Bread for the World	-	54,909	(54,909)	-
	<u>293,680</u>	<u>651,736</u>	<u>(863,404)</u>	<u>82,012</u>

5. Other current assets

	2012	2011
	U.S. \$	U.S. \$
Advances to employees	66,187	67,647
Prepaid expenses	1,742	1,810
Others	4,344	78,268
	<u>72,273</u>	<u>147,725</u>

6. Cash and cash equivalents

Cash and cash equivalents include the following:

	2012	2011
	U.S. \$	U.S. \$
Cash on hand	666	1,292
Current accounts at banks	613,677	456,375
Term deposits at banks	50,587	50,568
	<u>664,930</u>	<u>508,235</u>

The average interest rate on term deposits was 0.06% for the years ended December 31, 2012 and 2011.

7. Board designated reserve

This item represents unrestricted resources, designated by JLAC Board of Directors to contribute to the long-term sustainability of JLAC or for any other purpose to be set by the Board of Directors. During 2012, the Board of Directors decided to transfer an amount of U.S. \$ 72,727 from the trust fund, which comprises of unrestricted donations that have not been used by JLAC (Note 10).

8. Provision for employees' benefits

Following is a summary of the movement on the provision for employees' benefits:

	Balance at January 1	Additions during the year	Paid	Balance at December 31
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2012				
End of service benefits	143,005	38,452	(3,672)	177,785
Employees' savings fund	165,056	45,494	-	210,550
	<u>308,061</u>	<u>83,946</u>	<u>(3,672)</u>	<u>388,335</u>

	Balance at January 1	Additions during the year	Paid	Balance at December 31
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
2011				
End of service benefits	108,260	36,240	(1,495)	143,005
Employees' savings fund	129,813	36,948	(1,705)	165,056
	<u>238,073</u>	<u>73,188</u>	<u>(3,200)</u>	<u>308,061</u>

9. Deferred revenues

This item represents property and equipment acquired during the year out of the temporarily restricted contributions. Movement on deferred revenues during the year was as follows:

	2012 U.S. \$	2011 U.S. \$
Balance, beginning of the year	58,122	55,014
Additions (Note 12)	9,121	18,005
Deferred revenues recognized	(30,403)	(14,897)
Balance, end of the year	<u>36,840</u>	<u>58,122</u>

10. Other current liabilities

	2012 U.S. \$	2011 U.S. \$
Accounts payable	42,132	29,420
Due to employees and researchers	11,859	3,318
Accrued expenses	6,090	6,298
Due to a trust fund	-	72,727
	<u>60,081</u>	<u>111,763</u>

11. Other revenues

	2012 U.S. \$	2011 U.S. \$
Transferred from a trust fund (Notes 7 & 10)	72,727	-
Application and court fees	9,238	2,107
Consultancy fees	4,506	29,410
Others	3,320	44
	<u>89,791</u>	<u>31,561</u>

12. Temporarily restricted contributions

This item comprises of temporarily restricted contributions subject to purpose restriction. These amounts represent the excess of donations pledged 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 the year	Additions	Temporarily restricted contributions released from restriction			Balance, end of the year
			Projects cost	General and administrative expenses	Deferred revenue	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
United Nations Development Programme	99,965	78,830	(138,275)	-	(2,700)	37,820
Norwegian Refugee Counsel	130,503	361,202	(466,797)	-	(4,430)	20,478
Consulate General France	-	24,669	(24,669)	-	-	-
NGO Development Center	78,100	-	-	(77,141)	(959)	-
The Catholic Agency For Overseas Development	-	45,990	-	(45,990)	-	-
Irish Aid	-	76,614	-	(75,582)	(1,032)	-
Institute of Political Studies for Latin America and Africa -IEPALA	-	9,522	-	(9,522)	-	-
Bread for the World	-	54,909	-	(54,909)	-	-
	<u>308,568</u>	<u>651,736</u>	<u>(629,741)</u>	<u>(263,144)</u>	<u>(9,121)</u>	<u>58,298</u>

13. Projects and general and administrative expenses

	United Nations	Norwegian Refugee Council				Consulate	Total	General and	Total	Total
	Development Programme	Legal Assistance for the Protection of Palestinians Affected by Forced Displacement in Area C of the West Bank- 2012	Legal Assistance for the Protection of Palestinians Affected by Forced Displacement in Area C of the West Bank- 2011	Information, Counselling and Legal Assistance Programme for IDPs- 2012	Information, Counselling and Legal Assistance Programme for IDPs- 2011	General France				
	Project cooperation agreement	Displacement in Area C of the West Bank- 2012	Displacement in Area C of the West Bank- 2011	Information, Counselling and Legal Assistance Programme for IDPs- 2012	Information, Counselling and Legal Assistance Programme for IDPs- 2011	Protection of civilians in areas C	Project expenses	General and administrative expenses	Total 2012	Total 2011
	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Salaries and staff related benefits	115,243	185,076	28,576	83,360	63,045	13,618	488,918	181,626	670,544	609,172
Applications and maps	3,951	26,951	23,845	-	1,026	7,759	63,532	5,796	69,328	8,137
High court expenses	-	-	-	-	-	-	-	-	-	22,583
Postage and telephone	2,000	3,350	126	1,589	607	740	8,412	861	9,273	9,491
External consultants	5,813	-	-	-	900	-	6,713	7,987	14,700	51,415
Offices supplies, stationary and hospitality	-	2,742	421	869	452	740	5,224	6,309	11,533	10,792
Printing and photocopies	3,000	-	-	-	-	-	3,000	4,290	7,290	21,836
Professional fees and subscription	-	-	-	-	-	-	-	8,393	8,393	8,342
Public awareness	-	-	-	3,216	2,239	-	5,455	6,382	11,837	4,932
Rent expenses	4,800	882	655	2,100	1,250	-	9,687	9,155	18,842	22,054
Repairs and maintenance	-	3,093	4,348	814	1,180	-	9,435	15,310	24,745	11,953
Researcher	-	5,369	-	-	-	-	5,369	620	5,989	4,651
Training Sessions	347	-	-	1,430	-	-	1,777	-	1,777	15,044
Translation	-	-	-	-	143	-	143	3,410	3,553	2,942
Transportation	1,400	6,259	609	1,510	159	1,036	10,973	8,371	19,344	23,066
Sundry	1,721	6,495	541	1,188	382	776	11,103	4,634	15,737	15,269
Total	138,275	240,217	59,121	96,076	71,383	24,669	629,741	263,144	892,885	841,679

14. Related party transactions

Related party transactions represent transactions with key management personnel, following are the related party transactions:

	<u>2012</u>	<u>2011</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Key management personnel compensation:		
Short-term benefits	<u>60,895</u>	<u>44,850</u>
Terminations benefits	<u>15,599</u>	<u>11,527</u>

15. Fair values of financial instruments

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

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

16. Risk management

Risks affecting the operation of JLAC are interest rate risk, liquidity risk and foreign currency risk. Management of JLAC sets policies and procedures to manage these risks.

Interest rate risk

JLAC is exposed to interest rate risk on its interest bearing short-term deposits at banks (Note 6).

Liquidity risk

JLAC limits its liquidity risk by maintaining cash balances and funds from multiple donors to meet its current obligations and to finance its activities.

Foreign currency risk

Most of JLAC's financial assets and liabilities are maintained in U.S. \$, therefore, JLAC's management believes that fluctuations in foreign currencies rates against the U.S. \$ have no material effect on its statement of activities and changes in net assets.

17. Concentration of risk in geographic area

JLAC is carrying out all of its activities in Palestine. The political and economical situation in the area increases the risk of carrying out its activities and might adversely affect JLAC's performance.

18. Restatement adjustments

During 2012, JLAC corrected accounting treatments related to property and equipment, contributions receivable, temporarily restricted contributions, deferred revenues, unrestricted net assets.

Following are the effects of restatements on the statement of financial position and the statement of activities and changes in net assets for the year 2011:

	Before restatement	Restatement	After restatement
	U.S. \$	U.S. \$	U.S. \$
Property and equipment	218,122	12,825	230,947
Contributions receivable	12,949	280,731	293,680
Other current assets	9,582	138,143	147,725
Unrestricted net assets	49,578	53,843	103,421
Provision for employees' benefits	250,016	58,045	308,061
Deferred revenues	-	58,122	58,122
Other current liabilities	64,504	47,259	111,763
Temporarily restricted net assets	34,173	(34,173)	-
Temporarily restricted contributions	59,965	248,603	308,568
Net assets	374,403	19,670	394,073

19. Comparative figures

The corresponding figures for December 31, 2011 have been reclassified in order to conform with the presentation for the current year. Except for the adjustments noted in note (18), such reclassifications do not affect previously reported net assets.