Jerusalem Legal Aid and Human Rights Center

Financial Statements

December 31, 2017

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Independent Auditor's Report
To the Members of the General Assembly of Jerusalem Legal Aid and Human Rights Center

Opinion

We have audited the financial statements of Jerusalem Legal Aid and Human Rights Center (the Center), which comprise the statement of financial position as at December 31, 2017, and the statement of activities and changes in net assets and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Center in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA) Code, and we have fulfilled our other ethical responsibilities in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the Financial Statements

Board of Directors 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 Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Board of Directors is responsible for assessing the Center's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless Board of Directors either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Center's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Center's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Center's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Center to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Ernst + Young

March 29, 2018
Ramallah, Palestine

Statement of Financial Position
As at December 31, 2017

	Notes	2017	2016
		U.S. $	U.S. $
Assets			
Non-current assets			
Property and equipment	3	222,901	214,516
		222,901	214,516
Current assets			
Contributions receivable	4	917,955	934,508
Other current assets	5	24,180	23,257
Cash and cash equivalents	6	1,118,241	1,160,846
		2,060,376	2,118,611
Total assets		2,283,277	2,333,127
Net assets and liabilities			
Unrestricted net assets		127,317	-
Special reserve	7	427,709	389,522
Total net assets		555,026	389,522
Non-current liabilities			
Provision for employees' benefits	8	688,027	598,022
Deferred revenues	9	70,453	79,538
		758,480	677,560
Current liabilities			
Other current liabilities	10	61,168	43,452
Temporarily restricted contributions	11	908,603	1,222,593
		969,771	1,266,045
Total liabilities		1,728,251	1,943,605
Total net assets and liabilities		2,283,277	2,333,127

Statement of Activities and Changes in Net Assets
For the year ended December 31, 2017

	Notes	2017	2016
		U.S. $	U.S. $
Revenues			
Temporarily restricted contributions released from restriction	11	1,245,388	1,074,930
Unrestricted Revenue	12	62,077	-
Deferred revenues recognized	9	20,946	20,789
Other revenues	13	148,199	62,754
Total revenues		1,476,610	1,158,473
Expenses			
Project's expenses	14	(1,051,511)	(924,929)
General and administrative expenses	14	(193,877)	(150,001)
Depreciation of property and equipment	3	(26,394)	(26,205)
Other expenses	15	(39,324)	(58,143)
Total expenses		(1,311,106)	(1,159,278)
Increase (decrease) in net assets		165,504	(805)
Net assets, beginning of the year		389,522	390,327
Net assets, end of the year		555,026	389,522

Statement of Cash Flows
For the year ended December 31, 2017

	Notes	2017	2016
		U.S. $	U.S. $
<u>**Operating activities:**</u>			
Increase (decrease) in net assets		165,504	(805)
Adjustments:			
Depreciation of property and equipment		26,394	26,205
Provision for employees' benefits		112,928	105,974
Deferred revenues recognized		(20,946)	(20,789)
Gain on sale of property and equipment		-	(21,250)
Other non-cash items		5,804	-
		289,684	89,335
Working capital adjustments:			
Contributions receivable		16,553	(252,944)
Other current assets		(4,577)	5,453
Temporarily restricted contributions		(313,990)	405,676
Deferred revenues		11,861	53,408
Other current liabilities		15,566	(5,322)
Provision for employees' indemnity paid		(22,923)	(77,344)
Net cash flows (used in) from operating activities		(7,826)	218,262
<u>**Investing activities:**</u>			
Sale of property and equipment		–	24,947
Purchase of property and equipment		(34,779)	(57,106)
Net cash flows used in investing activities		(34,779)	(32,159)
(Decrease) increase in cash and cash equivalents		(42,605)	186,103
Cash and cash equivalents, beginning of the year		1,160,846	974,743
Cash and cash equivalents, end of the year	6	1,118,241	1,160,846

Notes to the Financial Statements
December 31, 2017

1. General

The Jerusalem Legal Aid and Human Rights Center (the Center), started as the Quaker Service Information and Legal Aid 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 and resulted in a 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 the Center's activities.

The Center's objectives are to offer 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. The Center's activities are being implemented through two offices in Jerusalem and Ramallah. The Center is officially registered with all concerned authorities in Jerusalem and Palestinian Authority Area.

The Center's financial statements as of December 31, 2017 were approved by the Board of Directors on March 29, 2018.

2 Accounting Polices

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, 2016, except that the Center applied certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2017. The application of these amendments has no effect on the Center's financial position and performance, or the disclosures of the financial statements of the Center.

2.1 Basis of preparation

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

The financial statements have been prepared on a historical cost basis.

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

2.2 Changes in accounting policies

The IASB issued standards and interpretations that are not yet effective, and have not been adopted by the Center. These standards are those that the Center reasonably expects to have an impact on the financial position, performance or disclosures of the financial statements of the Center, when applied. The Center intends to adopt these standards when they become effective.

2.3 Estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions, It also requires the Center's management to exercise its judgment in the process of applying the accounting policies, the Center's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates,

Useful lives of Property and equipment
The Center's management reassesses the useful lives of property and equipment, and makes adjustments if applicable, at each financial year end.

Management believes that the estimations and assumptions used are reasonable.

2.4 Summary of significant accounting policies

Revenue Recognition

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.

Current versus non-current classification

The Center presents assets and liabilities in the statement of financial position based on current/non-current classification, an asset is classified as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Center classifies all other liabilities as non-current.

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.

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.

Cash and cash equivalents

For the purpose of the statement of cash flow, cash and cash equivalents consist of cash on hand, bank balances, and short term deposits with an original maturity of three months or less, net of restricted bank deposits.

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
Software	3,3
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.

Provisions

Provisions are recognized when the Center 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.

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.

Income taxes

The Center is a not-for-profit organization; accordingly, it is not subject to Palestinian income tax, provided meeting the required conditions in accordance with Palestinian Income Tax Law.

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

2017	Buildings U.S. $	Office furniture U.S. $	Office equipment U.S. $	Software U.S. $	Motor vehicles U.S. $	Total U.S. $
Cost:						
Balance, begin of the year	180,000	39,071	164,562	16,700	40,897	441,230
Additions	22,918	3,156	8,705	-	-	34,779
Disposals	-	-	-	-	-	-
Balance, end of the year	202,918	42,227	173,267	16,700	40,897	476,009
Accumulated Depreciation:						
Balance, begin of the year	45,026	29,007	135,567	12,492	4,622	226,714
Depreciation charge for the year	5,448	2,732	10,146	1,933	6,135	26,394
Disposals	-	-	-	-	-	-
Balance, end of the year	50,474	31,739	145,713	14,425	10,757	253,108
Net book value						
At December 31, 2017	152,444	10,488	27,554	2,275	30,140	222,901
At December 31, 2016	134,974	10,064	28,995	4,208	36,275	214,516

Property and equipment include U.S. $ 152,204 and U.S. $ 132,422 of fully depreciated assets that are still being used in the Center's activities as of December 31, 2017 and 2016, respectively.

4. Contributions receivable

	Balance, beginning of the year	Additions	Cash received	Write offs	Currency exchange differences	Balance, end of year
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
2017						
United Nations Development Programme	–	40,000	(20,000)	–	–	20,000
Norwegian Refugee Council	46,381	617,601	(546,012)	–	–	117,970
Bread for the World -EED	474,396	–	(164,227)	(49,800)	51,032	311,401
European Union	386,331	–	–	–	55,190	441,521
Human Rights & International Humanitarian Law Secretariat	27,400	201,700	(229,100)	–	–	–
The Catholic Agency for Overseas Development	–	39,038	(19,935)	–	3,940	23,043
Irish Aid	–	88,407	(88,407)	–	–	–
Gruppo di Volontariato Civile (GVC)	–	6,313	(2,360)	–	67	4,020
	934,508	993,059	(1,070,041)	(49,800)	110,229	917,955

5. Other current assets

	2017	2016
	U.S. $	U.S. $
Advances to employees	12,652	18,495
Prepaid expenses	5,202	2,202
Checks under collection	4,320	-
Others	2,006	2,560
	24,180	23,257

6. Cash and cash equivalents

	2017	2016
	U.S. $	U.S. $
Cash on hand and current accounts at banks	179,697	346,627
Term deposits at banks*	938,544	814,219
	1,118,241	1,160,846

* Average interest rate on USD term deposits for the year ended December 31, 2017 and 2016 was 1.75%.

As of December 31, 2017, the Center designated deposits at banks for the following reserves:

	2017	2016
	U.S. $	U.S. $
Employees' savings fund	367,134	319,000
End of service benefits	346,619	285,697
Special reserve (Note 7)	224,791	209,522
	938,544	814,219

7. Special reserve

During previous years, the Board of Directors appropriated part of unrestricted net assets to special reserve to be used for purposes to be set by the Board of Directors. In accordance with the Board of Directors' decision in the previous years, the Center used part of the reserve to purchase the Center's buildings, the remaining amount was held as a deposit.

The following table shows the details of this account:

	2017	2016
	U.S. $	U.S. $
Term deposits at banks (Note 6)	224,791	209,522
Property and equipment (Note 3)	202,918	180,000
	427,709	389,522

8. Provision for employees' benefits

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

2017	Balance, beginning of the year	Additions	Payments	Balance at December 31
	U.S. $	U.S. $	U.S. $	U.S. $
End of service benefits	285,403	49,695	(1,423)	333,675
Employees' savings fund**	312,619	63,233	(21,500)	354,352
	598,022	112,928	(22,923)	688,027

2016	Balance, beginning of the year	Additions	Payments	Balance at December 31
	U.S. $	U.S. $	U.S. $	U.S. $
End of service benefits	287,937	46,460	(48,994)	285,403
Employees' savings fund*	281,455	59,514	(28,350)	312,619
	569,392	105,974	(77,344)	598,022

* Provision for employee's indemnity is provided for in accordance with the labor law prevailing in Palestine and the Company's human resources policies based on one-month salary for each year of employment. The Palestinian Social Security Law is expected to be applied during 2018, which obligates the employer to settle the end of service benefits for the periods preceding the application of the provisions of this law.

**This item represents the Center's commitment to the employees' saving fund according to the saving fund's instructions where the Center deducts 5% per month from the total basic salary for each employee and contributes 10% from each employee's basic salary.

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:

	2017	2016
	U.S. $	U.S. $
Balance, beginning of the year	79,538	46,919
Additions (Note 11)	11,861	53,408
Deferred revenues recognized	(20,946)	(20,789)
Balance, end of the year	70,453	79,538

10. Other current liabilities

	2017	2016
	U.S. $	U.S. $
Accounts payable	40,148	39,470
Vacation provision	18,870	-
Others	2,150	3,982
	61,168	43,452

11. Temporarily restricted contributions

This item comprises of temporarily restricted contributions subject to purpose or time 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 during the year was as follows:

			Temporarily restricted contributions released from restriction				
	Balance, beginning of the year	Additions	Project's expenses	General and administrati ve expenses	Deferred revenue	Write off	Balance, end of the year
2017	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
United Nations Development Programme	41,560	40,000	(57,851)	-	-	-	23,709
Norwegian Refugee Council	-	617,601	(530,776)	-	(4,012)	-	82,813
Bread for the World -EED	463,613	-	-	(115,016)	(621)	(49,800)	298,176
European union	538,535	-	(175,824)	-	(4,600)	-	358,111
Human Rights & International Humanitarian Law Secretariat	-	201,700	(199,628)	-	(2,072)	-	-
The Catholic Agency for Overseas Development	-	39,038	(14,929)	-	-	-	24,109
Spanish Cooperation - AECID	99,469	-	(72,503)	-	-	-	26,966
Irish Aid	79,416	88,407	-	(78,861)	(556)	-	88,406
Gruppo di Volontariato Civile (GVC)	-	6,313	-	-	-	-	6,313
	1,222,593	993,059	(1,051,511)	(193,877)	(11,861)	(49,800)	908,603

12. Unrestricted contributions

Following are the details of unrestricted contributions:

	2017	2016
	U.S. $	U.S. $
Welfare	50,000	-
Gruppo di Volontariato Civile (GVC)	4,458	-
Union of Agricultural Work Committees	4,248	-
Palestinian Business Committee for Peace and Form	3,371	-
	62,077	-

13. Other revenues

	2017	2016
	U.S. $	U.S. $
Foreign currencies differences	120,200	-
Interest revenues	14,788	12,672
Workshops revenue	7,524	6,520
Court refundable insurance charges	3,180	11,351
Application and court fees	1,979	10,190
Gain on sale of property and equipment	-	21,250
Others	528	771
	148,199	62,754

14. Projects and general and administrative expenses

	Norwegian Refugee Council			UNDP	Spanish Cooperation - AECID	IHL Secretary	European Union	Support of the main program	Total	
	Legal Assistance for Protection of Palestinians Affected by force displacement			Strengthening the rule of law in the Opt- Justice and security for Palestinian People	protecting the Rights of Jerusalemist "Economic and Social Aspects"	Human Rights & International Humanitarian law-core fund	Protecting Palestinian communities in Jerusalem and C Areas through legal support, raising awareness and advocacy	General and Administrativ e expenses	2017	2016
Salaries and staff related benefits	265,548	95,142	25,324	37,635	56,687	141,655	143,623	138,880	904,494	795,921
Legal assistance	53,765	22,811	10,000	11,678	7,085	24,052	30,033	17,358	176,782	135,408
Building capabilities	–	1,328	–	–	4,127	7,745	814	337	14,351	5,274
activities, conferences and legal advocacy services	–	–	–	3,610	–	–	14,866	1,217	19,693	37,807
Rent and utilities	15,159	14,580	2,474	1,422	523	9,270	–	7,867	51,295	40,060
Travel and communication	7,480	4,220	1,201	2,449	1,102	5,907	1,236	4,812	28,407	14,360
Maintenance	7,758	1,162	130	397	311	6,410	–	4,385	20,553	10,375
Professional fees	–	–	–	–	2,445	2,215	137	8,957	13,754	9,162
Other administrative expenses	1,566	757	371	660	223	2,374	44	10,064	16,059	26,563
	351,276	140,000	39,500	57,851	72,503	199,628	190,753	193,877	1,245,388	1,074,930

15. Other expenses

	2017	2016
	U.S. $	U.S. $
Foreign currencies differences	-	58,143
Provision for vacation	18,870	-
Income tax settlements	9,582	-
Others	10,872	-
	39,324	58,143

16. Related party transactions

This item represents transactions with related parties. Related parties represent the Center's Board of directors, key management and entities controlled, jointly controlled or significantly influenced by such parties.
The statement of activities and changes in net assets included the following transactions with related parties:

	2017	2016
Key management personnel compensation:	U.S. $	U.S. $
Short-term benefits	97,524	87,373
End of service benefits and employees' saving fund	19,716	17,156

17. Fair values of financial instruments

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

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

18. Risk management

Risks affecting the operation of the Center are credit risk, interest rate risk, foreign currency risk and liquidity risk. The Center's Board of Directors reviews and approves policies and procedures to manage these risks which summaries as followings:

Credit Risk

Credit risk related to contribution receivable is the risk that the donors or other parties will be unable to fulfil their obligations of transferring the amounts under the signed contracts, which comprise their carrying value.

With respect to credit risk arising from other financial assets including cash and cash equivalents and other financial assets, exposure to credit risk arises from the default of the counterparty. The maximum exposure is equal to the carrying amount of these financial assets.

Interest rate risk

The Center exposure to the risk of changes in interest rates relates primarily to financial assets and liabilities with floating interest rates. The financial assets and liabilities of the Center are subject to fixed interest rates, therefore the Center assets and liabilities are not subject to interest rate risk.

Foreign currency risk

The table below indicates the Center's foreign currency exposure, as a result of its monetary assets and liabilities, The analysis calculates the effect of a reasonably possible movement of the U.S. $ currency rate against the foreign currencies with all other variables held constant, on the statement of activities and changes in net assets, The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to the effect of the increase shown.

	Increase exchange rate against the USD	Effect on the statement of activities and changes in net assets
	%	U.S. $
<u>2017</u>		
EURO	10	97,063
ILS	10	(716)
<u>2016</u>		
EURO	10	(91,742)
ILS	10	(951)

Liquidity risk

The Center limits its liquidity risk by maintaining adequate cash balances and funds from multiple donors to meet its current obligations and to finance its activities, Most of the Center's financial liabilities are due within a period of less than one year from the date of the financial statements.

19. Concentration of risk in geographic area

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