

**ADALAH**  
**The Legal Center for Arab Minority Rights in Israel**  
**Association # 58-031-224-7**

**Financial Statement  
and  
Auditor's Report**

**31 December 2006**

**Adalah**  
**The Legal Center for Arab Minority Rights in Israel**

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To the Board of Directors/Director of  
Adalah: The Legal Center for Arab  
Minority Rights in Israel

**Auditor's Report**

I have audited the balance sheet of **Adalah: The Legal Center for Arab Minority Rights in Israel (Not-for-Profit Organization)** as of 31 December 2006 and 2005, and the related statements of activities and changes in net assets. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Auditing Standards. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Adalah: The Legal Center for Arab Minority Rights in Israel** as of 31 December 2006 and 2005, the results of its operations and changes in its net assets for the years then ended.

  
**Nazeeh Bocaie**  
Certified Public Accountant (Isr.)

Date 23 May 2007

**ADALAH**  
The Legal Center for Arab Minority Rights in Israel

**Balance Sheet**  
**Year Ended 31 December 2006**

	Note	2006		2005	
		NIS	USD	NIS	USD
<b>Assets</b>					
Cash on Hand and at Bank	3	3,522,015	833,613	4,351,204	945,297
Accounts Receivable	4	139,263	32,962	148,632	32,290
		<u>3,661,278</u>	<u>866,575</u>	<u>4,499,836</u>	<u>977,587</u>
Pre-Paid Expenses		29,050	6,876	25,918	5,631
Fixed Assets-Net of Accumulated Depreciation	5	351,105	79,110	187,595	41,783
<b>TOTAL ASSETS</b>		<b><u>4,041,433</u></b>	<b><u>952,561</u></b>	<b><u>4,713,349</u></b>	<b><u>1,025,001</u></b>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Payable Checks		32,449	7,680	25,362	5,510
Salaries and Taxes	6	158,541	37,525	220,519	47,908
Suppliers		195,903	46,368	49,708	10,799
Deferred Grants	7	633,832	154,268	1,825,067	401,081
		<u>1,020,725</u>	<u>245,841</u>	<u>2,120,656</u>	<u>465,298</u>
<b>Net Assets</b>					
General Fund		1,341,114	313,175	1,758,898	377,533
Fixed Assets		351,105	79,110	187,595	41,783
Reserve for Building Fund	8	1,328,489	314,435	646,200	140,387
		<u>3,020,708</u>	<u>706,720</u>	<u>2,592,693</u>	<u>559,703</u>
<b>Total Liabilities and Net Assets</b>		<b><u>4,041,433</u></b>	<b><u>952,561</u></b>	<b><u>4,713,349</u></b>	<b><u>1,025,001</u></b>

See Notes to Financial Statements

**Authorized Signatures**

Prof. Marwan Dwairy  
Chairperson, Adalah

Date: 23 May 2007

Dr. Mahmoud Yazbak  
Board Member, Adalah

Date: 23 May 2007

**ADALAH**  
The Legal Center for Arab Minority Rights in Israel

**Statement of Activities**  
**Year Ended 31 December 2006**

	Note	2006		2005	
		NIS	USD	NIS	USD
Grants and Other Revenue	9	4,580,564	1,004,766	4,476,679	1,003,595
Salaries and Social Benefits	10	-2,729,925	-613,108	-2,564,331	-571,642
Program Expenses	11	-937,495	-210,437	-823,838	-183,435
General/Institutional Expenses	12	-511,975	-114,982	-450,523	-100,431
Gain/(Loss)		401,169	66,239	637,987	148,087
Procurement of Fixed Assets *		-261,844	-59,298	-137,326	-30,691
Deprication		98,334	21,971	102,290	22,586
		237,659	28,912	602,951	139,982
Currency Differential from Translation of Reports from NIS to USD		-	61,864	-	-33,505
Net Assets at Beginning of the Year		1,758,898	377,533	1,155,947	271,056
Set Aside for Building Fund	8	-655,443	-155,134	-	-
Net Assets at End of the Year		<b>1,341,114</b>	<b>313,175</b>	<b>1,758,898</b>	<b>377,533</b>

\* See Statement of Changes in Net Assets (page 4)

See Notes to Financial Statement

**ADALAH**  
The Legal Center for Arab Minority Rights in Israel

**Statement of Changes in Net Assets**  
**Year Ended 31 December 2006**

	<u>Used for Activities</u>		<u>Used for Fixed Assets</u>		<u>Reserve for Building</u>		<u>Total</u>	
	<u>NIS</u>	<u>USD</u>	<u>NIS</u>	<u>USD</u>	<u>NIS</u>	<u>USD</u>	<u>NIS</u>	<u>USD</u>
<b><u>2005</u></b>								
Balance 1.1.2005	1,155,947	271,056	152,559	33,678	646,200	150,000	1,954,706	454,734
Net Income 2005	637,987	114,582				-9,613	637,987	104,969
Remaining Cost of Sold Assets								
Procurement of Fixed Assets	-137,326	-30,691	137,326	30,691				
Deprication	102,290	22,586	-102,290	-22,586				
Set Aside for Building								
Balance 31.12.2005	<b>1,758,898</b>	<b>377,533</b>	<b>187,595</b>	<b>41,783</b>	<b>646,200</b>	<b>140,387</b>	<b>2,592,693</b>	<b>559,703</b>
<b><u>2006</u></b>								
Net Income 2006	401,169	128,103			26,846	18,914	428,015	147,017
Procurement of Fixed Assets	-261,844	-59,298	261,844	59,298				
Deprication	98,334	21,971	-98,334	-21,971				
Set Aside for Building								
Balance 31.12.2006	<b>1,341,114</b>	<b>313,175</b>	<b>351,105</b>	<b>79,110</b>	<b>1,328,489</b>	<b>314,435</b>	<b>3,020,708</b>	<b>706,720</b>

**ADALAH**  
**The Legal Center for Arab Minority Rights in Israel**

**Notes to Financial Report**  
**Year Ended 31 December 2006**

**Note 1: Organization:**

Adalah: The Legal Center for Arab Minority Rights in Israel was registered as an independent association ('amutah') at the end of December 1997, and started operating as such in the beginning of January 1998.

The main goals of the association are:

- 1) To advance the issue of Arab minority rights in Israel through litigation and other legal means;
- 2) To advance Arab minority rights in Israel through education and other public activities.

**Note 2: Summary of Significant Accounting Policies**

The financial statements have been prepared according to Israeli Accounting Standards related to not-for-profit organizations.

- 1) The income and expenses are registered on the accrual basis.
- 2) Investment in fixed assets are presented in the financial statements at historical cost of the related assets net of accumulated depreciation (See Note 5).
- 3) Foreign Currency Transactions:
  - (i) The accounts of Adalah are maintained in Israeli Shekels. Transactions which are denominated in foreign currencies are converted into Israeli Shekels as follows:

- Transactions, including grants and donations received, which are expressed or denominated in foreign currencies are converted to Israeli Shekels at the actual rate of exchange of the related currency prevailing at the date of each transaction.
- Foreign currency assets and liabilities as of the balance sheet date are converted into Israeli Shekels at the rate of exchange of the related currency prevailing at the balance sheet date.
- Conversion differences arising from the conversion of foreign currency balances are charged to the related statements of activities.

(ii) Translation of Local Currency Financial Statements:

Adalah's reporting currency is New Israeli Shekels (NIS). Basis of translation to US Dollars is as follows:

- Transactions, which are denominated or expressed in US Dollars, are presented at the actual US dollar rate received.
- Assets and liabilities that are denominated or expressed in foreign currencies other than the US dollar are translated to the US dollar equivalent at the rate of exchange of the related currency prevailing on the same date.

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**Notes to Financial Report**  
**Year Ended 31 December 2006**

- Fixed assets, prepaid expenses and the related accounts of the statement of activities are translated to USD at historical rates.
- All other assets and liabilities are translated to the US Dollar at the rate of exchange prevailing on the balance sheet date.
- All other income and expenses in Israeli Shekels are translated to US Dollar equivalent at the average rate of exchange which prevailed during the year.

Currency	2006		2005	
	End of Year Rate (NIS)	Average Rate (NIS)	End of Year Rate (NIS)	Average Rate (NIS)
US Dollar	4.225	4.4526	4.603	4.4859
Euro	5.5643	5.5916	5.4465	5.5826

**Note 3: Cash on Hand and at Bank**

Composition

	31/12/2006		31/12/2005	
	NIS	USD	NIS	USD
Cash on hand	7,191	1,702	10,168	2,209
Cash Held in STERLING Acct	2,652	628	2,541	552
Cash Held in NIS Acct	1,936,379	458,314	207,949	45,177
Cash Held in USD Acct	1,134,100	268,426	2,963,439	643,806
Cash Held in EURO Acct	441,693	104,543	1,167,107	253,553
	<u>3,522,015</u>	<u>833,613</u>	<u>4,351,204</u>	<u>945,297</u>



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**Notes to Financial Report**  
**Year Ended 31 December 2006**

**Note 4 - Accounts Receivable:**

**Composition**

	2006		2005	
	NIS	USD	NIS	USD
Welfare Association	104,721	24,786	114,090	24,786
LAW (EED)	34,542	8,176	34,542	7,504
	<b>139,263</b>	<b>32,962</b>	<b>148,632</b>	<b>32,290</b>

**Note 5 - Fixed Assets:**

**Net Composition**

**Historical Cost**

	2006	2005	2006	2005
Opening Balance 1.1	764,644	175,503	627,318	144,812
Procurement of Fixed Assets	261,844	59,298	137,326	30,691
Cost of Sale of Fixed Assets	-183,575	-43,575	-	-
Total Historical Cost 31.12	<b>842,913</b>	<b>191,226</b>	<b>764,644</b>	<b>175,503</b>

**Accumulated Depreciation**

	2006	2005	2006	2005
Opening Balance 1.1	577,049	133,720	474,759	111,134
Depreciation for the Year	98,334	21,971	102,290	22,586
Accu. Deprec. Of Sold Assets	-183,575	-43,575	-	-
Total Accumulated Depreciation	<b>491,808</b>	<b>112,116</b>	<b>577,049</b>	<b>133,720</b>
Net fixed assets 31/12	<b>351,105</b>	<b>79,110</b>	<b>187,595</b>	<b>41,783</b>

**Note 6 - Salaries & Taxes:**

**Composition**

	2006	2005	2006	2005
Net Salaries	4,621	1,094	109,283	23,742
Taxes & National Insurance	125,538	29,713	61,868	13,441
Managers' Insurance	28,382	6,718	49,368	10,725
	<b>158,541</b>	<b>37,525</b>	<b>220,519</b>	<b>47,908</b>

**Note 7 - Deferred Grants:**

**Composition**

	2006	2005	2006	2005
European Union	-	-	764,637	166,009
FDA Switzerland	-	-	204,390	45,000
Naomi & Nehemiah Cohen	-	-	218,350	50,000
Ford-Israel Fund	404,550	100,000	225,250	50,000
NOVIB	-	-	412,440	90,072
EED	229,282	54,268	-	-
	<b>633,832</b>	<b>154,268</b>	<b>1,825,067</b>	<b>401,081</b>

**Note 8 - Reserve for Building**

In 2004 and 2006, Adalah's Board of Directors decided to set aside NIS 646,200 and NIS 655,443, respectively, from the accumulated general fund for the period 1997-2003 for the purposes of either building or buying an office for Adalah. Adalah also had income and expenditure in this reserve fund. The composition of this fund is as follows:

	2006		2005	
	NIS	USD	NIS	USD
Opening Balance 1.1	646,200	140,387	646,200	150,000
Funds designated this year	655,443	155,134	-	-
Funds designated from NOVIB	50,639	11,311	-	-
Interest income *	14,845	3,334	-	-
Currency differences *	-38,638	4,269	-	-9,613
	<b>1,328,489</b>	<b>314,435</b>	<b>646,200</b>	<b>140,387</b>

\* In 2006, Adalah opened a special interest-bearing bank account in US dollars for the sum of NIS 646,200.

**ADALAH**  
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**Notes to Financial Report**  
**Year Ended 31 December 2006**

**Note 9 - Grants and Other Revenues:**

<b><u>Composition</u></b>	<b>2006</b>		<b>2005</b>	
	<b>NIS</b>	<b>USD</b>	<b>NIS</b>	<b>USD</b>
Ford-Israel Fund	629,800	130,000	901,490	199,931
New Israel Fund (inc. donor-advised)	310,051	69,946	343,713	77,244
NOVIB	783,789	172,725	856,625	194,902
EED	108,206	20,294	545,341	122,186
Oxfam-GB	-	-	197,096	45,079
Foundation for Middle East Peace	35,033	7,500	43,660	10,000
European Union	764,637	166,009	-	-
Ministry of Foreign Aff.-Switzerland	204,390	45,000	-	-
Euro-Med HR Network	6,036	1,381	7,512	1,630
Court Award Judgments	32,842	7,376	15,566	3,470
Sales of Adalah's Publications	1,232	277	2,800	624
Other Income	216,042	48,520	89,582	19,970
Naomi and Nehemiah Cohen Foundation	218,350	50,000	-	-
Open Society Development Foundation	893,543	201,660	892,400	200,000
Welfar Association	274,596	61,958	271,803	59,568
Christian Aid	102,017	22,120	88,040	20,000
Swedish Int'l Development Agency (SIDA)	-	-	221,051	48,991
	<b><u>4,580,564</u></b>	<b><u>1,004,766</u></b>	<b><u>4,476,679</u></b>	<b><u>1,003,595</u></b>

**ADALAH**  
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**Notes to Financial Report**  
**Year Ended 31 December 2006**

**Note 10 - Salaries and Social Benefits**

	2006				2005	
	NIS	USD	USD	%	NIS	USD
	Actual	Actual	Budget	Used	Actual	Actual
Salaries	2,036,392	457,349			1,867,538	416,313
Taxes & Social Insurance	365,368	82,057			340,600	75,927
Study Fund	98,469	22,115			104,158	23,219
Managers' Insurance	110,379	24,790			123,068	27,434
Provision for Staff Benefits	119,317	26,797			128,967	28,749
<b>TOTAL SALARY EXPENSES</b>	<b>2,729,925</b>	<b>613,108</b>	<b>720,000</b>	<b>85%</b>	<b>2,564,331</b>	<b>571,642</b>

**Note 11 - Program Expenses**

1) Legal Action

Filing Fees, Experts & Case Expenses	34,574	7,765	15,000	52%	40,899	9,117
Law Library & Subscriptions	49,814	11,188	15,000	75%	40,807	9,097
International Advocacy/Conferences	46,094	10,352	20,000	52%	91,156	20,321
Sub-Total	130,482	29,305	50,000	59%	172,862	38,535

2) Legal Education

Seminars, Study Days, Workshops	83,556	18,766	30,000	63%	36,993	8,247
Publications & Reports	286,240	64,286	65,000	99%	217,906	48,576
Internet	32,449	7,288	15,000	49%	8,913	1,987
Ad Campaigns & PR	50,808	11,411	20,000	57%	38,370	8,553
Freelancers (Naqab Video)	2,356	529	10,000	5%	26,548	5,918
Sub-Total	455,409	102,280	140,000	73%	328,730	73,281

3) Institutional Development

Staff Development & Policy Workshops	75,469	16,949	20,000	85%	58,707	13,087
Board & Gen'l Assembly Expenses	62,320	13,996	20,000	70%	8,140	1,815
Volunteers Expenses	-	-	-	0%	710	158
Institutional Expenses	-	-	10,000	0%	-	-
Sub-Total	137,789	30,945	50,000	62%	67,557	15,060

4) Travel and Per Diem

	115,481	25,936	40,000	65%	152,399	33,973
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5) Capital Assets

	261,844	59,298	55,000	108%	137,326	30,691
<b>Total Expenditures</b>	<b>1,101,005</b>	<b>247,764</b>	<b>335,000</b>	<b>74%</b>	<b>858,874</b>	<b>191,540</b>
Procurement of Fixed Assets	-261,844	-59,298			-137,326	-30,691
Depreciation	98,334	21,971			102,290	22,586
<b>TOTAL PROGRAM EXPENSES</b>	<b>937,495</b>	<b>210,437</b>			<b>823,838</b>	<b>183,435</b>

**ADALAH**  
The Legal Center for Arab Minority Rights in Israel

**Notes to Financial Report**  
**Year Ended 31 December 2006**

**Note 12 - General/Institutional Expenses**

	2006				2005	
	NIS Actual	USD Actual	USD Budget	% Used	NIS Actual	USD Actual
Audit Fees	33,418	7,505	10,000	75%	24,823	5,534
Office Rent and Occupancy Expenses	191,456	42,999	55,000	78%	177,261	39,515
Repairs of Equipment	22,512	5,056	10,000	51%	30,593	6,820
Telephone and Fax	62,832	14,111	20,000	71%	57,275	12,768
Photocopying	5,754	1,292	4,000	32%	15,519	3,460
Post	16,183	3,635	3,000	121%	6,737	1,502
Stationery and Supplies	37,735	8,475	15,000	56%	46,139	10,285
Hospitality	11,617	2,609	3,000	87%	9,792	2,183
Advertising	9,299	2,088	2,000	104%	3,743	834
Professional Fees and Insurance	47,066	10,570	20,000	53%	54,680	12,189
Exp.-Changes in Exchange Rates	11,315	2,541	-	-	-	-
Tax Differences Agreement	45,579	10,236	-	-	-	-
Bank Charges	17,209	3,865	3,000	129%	23,961	5,341
<b>TOTAL GENERAL/INSTIT. EXPENSES</b>	<b>511,975</b>	<b>114,982</b>	<b>145,000</b>	<b>79%</b>	<b>450,523</b>	<b>100,431</b>
<b>TOTAL SALARIES, PROGRAM &amp; GEN'L INSTITUTIONAL EXPENSES</b>	<b>4,179,395</b>	<b>938,527</b>	<b>1,200,000</b>	<b>78%</b>	<b>3,838,692</b>	<b>855,508</b>