

Institute of Law of Birzeit University
" IOL "

Financial Statements
and
Independent Auditor's Report

For the Year Ended

31 August 2007

Institute of Law of Birzeit University
" IOL "

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INDEPENDENT AUDITOR'S REPORT

Messrs
Institute of Law of Birzeit University
Ramallah

We have audited the accompanying financial statements of **Institute of Law of Birzeit University**, which comprise of the statement of financial position as at August 31, 2007, the statement of activities and 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. 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 institute'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 institute'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 **Institute of Law of Birzeit University** as of August 31, 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche
Deloitte & Touche (M.E.)

10 July 2008

Institute of Law of Birzeit University
Statement of Financial Position
As of 31 August 2007

	<u>Note</u>	<u>2007</u> U.S \$	<u>2006</u> U.S \$
Assets			
Current assets:			
Cash and cash equivalent	5	783,928	359,560
Due from Birzeit University and employees advances		44,371	-
Contributions receivable	7	70,164	221,056
Due from endowment funds of Birzeit University		256,000	213,066
Total Current Assets		1,154,463	793,682
Deposits with banks restricted for endowment funds	6	1,619,013	1,553,597
Properties and equipment - net of accumulated depreciation	8	841,589	940,667
Library books		622,383	612,889
Other Assets		15,013	-
Total Assets		4,252,461	3,900,835
Liabilities and Net Assets			
Current Liabilities:			
Accrued expenses		6,464	4,640
Due to Birzeit University		-	56,167
Total Current Liabilities		6,464	60,807
Staff benefits' Liabilities	9	175,978	172,202
Total Liabilities		182,442	233,009
Net Assets:			
General Funds:			
Unrestricted		321,198	197,129
Tuition and training fund		59,523	57,878
Investments in fixed assets and library books		1,463,972	1,553,556
Total General Funds		1,844,693	1,808,563
Temporarily restricted		606,313	305,666
Permanently restricted-Endowment fund	10	1,619,013	1,553,597
Total Net Assets (Statement-C)		4,070,019	3,667,826
Total Liabilities and Net Assets		4,252,461	3,900,835

See Notes to Financial Statements

Institute of Law of Birzeit University

Statement of Activities

For the Year Ended 31 August 2007

	Temporarily		Total	
	Unrestricted	Restricted	2007	2006
	U.S \$	U.S \$	U.S. \$	U.S \$
Revenues :				
Tuition and registration fees, net of scholarships and auxiliary services	107,023		107,023	113,841
Grants and contributions (note-11)	15,156	1,359,421	1,374,577	949,839
Net assets released from restrictions (note-12)	1,058,774	(1,058,774)	-	-
Total Revenues	1,180,953	300,647	1,481,600	1,063,680
Program and Administrative Expenses :				
Administrative, technicians and coordinators salaries	480,297		480,297	385,811
Academic salaries and honoraria	3,250		3,250	11,253
Salaries related expenses	59,212		59,212	54,613
Staff development and training costs	18,328		18,328	14,742
Travel, per diem and accommodation	65,602		65,602	180,127
Total Personnel Expenses	626,689	-	626,689	646,546
External Professional Services:				
Professional services, including consultancy, translation and editing	141,214		141,214	163,103
Total External Professional Services	141,214	-	141,214	163,103
Library Resources	32,771	-	32,771	31,388
Other Expenses:				
Occupancy costs, maintenance and utilities	34,662		34,662	20,298
Office supplies and consumables	35,129		35,129	14,249
Hospitality	7,991		7,991	13,235
Communication costs	13,482		13,482	11,052
Others including overhead and depreciation of properties and books	152,070		152,070	159,990
Total Other Expenses	243,334	-	243,334	218,824
Total Expenses	1,044,008	-	1,044,008	1,059,861
Gain on currency differential and Interest	3,535		3,535	3,275
Net Increase in Net Assets during the year (Statement-C)	140,480	300,647	441,127	7,094

See Notes to Financial Statements

Institute of Law of Birzeit University
Statement of Changes in Net Assets
For the Year Ended 31 August 2007

	General Funds		Temporarily Restricted	Fixed Assets & Library		Endowment Fund	Total All Funds
	Unrestricted	Tuitions and Training Fund		Fund	Fund		
	U.S \$	U.S \$	U.S \$	U.S \$	U.S \$	U.S \$	U.S \$
Balances at Beginning of Year, as Restated	197,129	57,878	305,666	1,553,556	1,553,597	3,667,826	
Increase in Net Assets During the Year (Statement - B)	140,480		300,647			441,127	
Training and Staff Development Costs	(1,645)	1,645				-	
Interest income earned on endowments, net of interest expense					65,416	65,416	
Revaluation of Fixed Assets				(104,350)		(104,350)	
Costs of fixed assets and books	(74,341)			74,341		-	
Current year depreciation and amortization of books	59,575			(59,575)		-	
Net Assets at End of Year (Statement - A)	321,198	59,523	606,313	1,463,972	1,619,013	4,070,019	

See Notes to Financial Statements

Institute of Law of Birzeit University
Statement of Cash Flows
Year Ended 31 August 2007

	<u>2007</u>	<u>2006</u>
	<u>U.S \$</u>	<u>U.S \$</u>
Cash flows from operating activities:		
Contributions received	1,525,469	1,008,405
Other revenues received	107,023	113,841
Cash paid to employees and suppliers	<u>(1,133,783)</u>	<u>(1,363,632)</u>
Net cash used by operating activities	<u>498,709</u>	<u>(241,386)</u>
Cash flows from investing activities:		
Procurement of fixed assets	<u>(74,341)</u>	<u>(68,592)</u>
Net cash flows used in investing activities	<u>(74,341)</u>	<u>(68,592)</u>
Decrease in cash during the year	424,368	(309,978)
Cash on hand and deposits with banks at beginning of year	<u>359,560</u>	<u>669,538</u>
Cash on hand and deposits with banks at end of year	<u>783,928</u>	<u>359,560</u>
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Change in net assets	506,543	295,433
Provision for staff benefits, net of payments	3,776	13,176
Depreciation and amortization	59,575	55,784
Decrease (Increase) in Due from Birzeit University and employees advances	(100,538)	(430,696)
Decrease (Increase) in contributions receivable	150,892	58,566
Decrease (Increase) in Due from endowment funds of Birzeit University	(42,934)	13,184
Decrease (Increase) in Deposits with banks restricted for endowment funds	(65,416)	(246,833)
Decrease (Increase) in Other Assets	(15,013)	-
Increase (Decrease) in payables and accruals	<u>1,824</u>	<u>-</u>
Net cash used by operating activities	<u>498,709</u>	<u>(241,386)</u>

See Notes to Financial Statements

Institute of Law of Birzeit University (IOL)

Notes to Financial Statements

Year Ended 31 August 2007

(Amounts are Expressed in U.S Dollar)

1. Organization and purpose

The Institute of Law of Birzeit University (IOL) was established as a law center at Birzeit University in 1993, the Institute contributes to the modernization of Palestinian legal structures, while building human capacities, both at the academic and professional levels. Over the years, it has developed a thorough understanding of the Palestinian legislative, legal and judicial situation, the experience to identify the actual needs of the community and the skill to benefit from the knowledge of visiting scholars and researchers.

The main activities consist of the following:

- Conducting applied legal research;
- Offering continuing legal education through conferences, seminars and training courses;
- Establishing comprehensive facilities and resources on legal information and documentation.

The activities of "IOL" have been and are currently funded by several international funding agencies including among others, the European Union, The French Government, Ford Foundation, Konrad Adenauer Foundation, Belgium Consulate, IDRC and University of Windsor.

2. Properties of the Institute

Prior to 1996, the University succeeded in raising necessary funds for the construction of a building for the Institute of Law. The building was constructed on a parcel of land, which is legally owned and officially registered in the name of the Board of Trustees of the University.

The main contributor to that construction were Sheikh Hamad Ibn Khalifah Al Thani and the Government of France who contributed the amounts of U.S \$ 600,000 and U.S \$ 297,184 respectively. The construction of the building was completed in August 1996 and was devoted solely to the operations of "IOL".

The by-laws of the Board of Trustees provide that the ownership and title to all lands and buildings of the university are to be legally registered in the name of the Board of Trustees of the university.

3. Administration of "IOL"

- "IOL" operates within the general administrative and financial framework of the University, while the programs and the specific activities of "IOL" are being managed by a board and Director appointed by the appropriate level of authority at the university.
- The financial affairs are directly managed and supervised by the finance department of the university. The responsibility of "IOL" contractual liabilities toward third parties and employees such as severance pay and provident fund are also supervised and managed by the university's finance department.
- Financial transactions of "IOL" are being maintained by the finance department of the university under a separate cost center. The financial position and results of operations of the "IOL" are incorporated, on an annual basis, with the general purpose financial statements of the University. The fiscal year of the University ends on 31 August of each year.

4. Basis of accounting and presentation

- The financial statements of IOL have been prepared on the historical cost convention except for buildings, which are stated at their revalued values on 31 August 2004 and are presented in accordance with International Financial Reporting Standards and Statement on Financial Accounting Standards No. 117 "Financial Statements of Not-For-Profit Organizations".
- Under the provisions of the above-mentioned standards, IOL maintains its accounts in accordance with the principles of fund accounting under which net assets, revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions.
- These financial statements include certain estimates and judgments made by management that affect the reported amounts of assets and expenses. Actual results could differ from those estimates. Estimates used are limited to rates of depreciation of property, furniture and equipment.
- These financial statements are prepared in US Dollar and have been extracted from the general-purpose financial statements of Birzeit University. The significant accounting policies used to prepare the financial statements of "IOL" are summarized below:

4.1 Net Assets and related accounts - Net Assets and changes therein are classified and reported as follows:

- **Unrestricted net assets** include unrestricted revenue and contribution received without donor-imposed restrictions. These net assets are available for the operation of IOL and include both internally designated and undesignated resources and they also include the net investment made in fixed assets.
- **Temporarily restricted net assets** – include revenue and contributions subject to donor-imposed stipulations that will be met by actions of the IOL and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of Activities and Changes in Net Assets as net asset released from restrictions.
- **Permanently restricted net assets**- "Endowment Funds" – represent net assets subject to donor-imposed stipulations, that they be maintained permanently by "IOL". The donors permit "IOL" to use all or part of the income earned on these assets for general or specific purposes of "IOL".
- **Contributions Receivable** represents amounts due from funding organizations for reimbursable expenses incurred. This account also includes the present value of contributions remaining under grant contracts signed before the end of the fiscal year.

4. Basis of accounting and presentation (Continued)

- **Estimates and assumptions:** The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:
 - Depreciation Rates.
 - Provision for doubtful accounts
 - Values of buildings which was estimated at U.S Dollar 500 per square meter
 - Allowance for inventory obsolescence
 - Common expenditures allocated between functions
- **Contributions and grants,** revenues from government, private grant and contract agreements are recognized as they are earned through expenditures incurred in accordance with the agreement. Any funding received in advance of expenditures is recorded as temporally restricted net assets in the statement of financial position.
- **Donated materials and services** are reported as contributions and expenses in amounts equal to the estimated fair value on the date of receipt.

4.2 **Cash and cash equivalents** include cash on hand at banks with maturity dates of 90 days or less.

4.3 **Property and equipment:** The university is capitalizing the cost of all fixed assets items acquired since 1 September 1999. Costs of fixed assets items acquired prior to 1 September 1999 are not included in the balance of this account group. The capitalized amount is stated in the attached financial statements at historical cost net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets as follows:

Component	Estimated Service Life	Valuation Basis
Building	50 years	Average cost at U.S \$ 500 per square meter
Office equipment	4 years	Historical Cost
Office Furniture	7 years	Historical Cost
Books	14 years	Historical Cost and Current Market Price for Donated Items

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

4.5 Reserves for employees' end of service benefits

- **Severance pay:** The University provides for employees end of service severance benefits in accordance with the administrative and academic scale adopted by the universities operating in the Palestinian Territories. The provision is made by accruing for one-month compensation for each year of service using the last salary paid during the year for the first sixteen years of service and thereafter the provision becomes one and half months for each year of service.
- **Provident fund:** The University has a defined provident fund scheme that covers permanent employees only. Contributions into the scheme by the employees and the university were 2.7% and 5.4% of basic salaries respectively. Effective 1 January 2005 contribution percentages by employees and the university became 3% and 6%, respectively.

4. Basis of accounting and presentation (continued)

4.6 Foreign currency transactions

The books of accounts of "IOL" are maintained by the finance department of the university. Financial transactions of "IOL" are summarized and reported by the university under a separate cost center. Transactions of assets, liabilities, revenues and expenses are denominated in Jordan Dinar. Transactions, which are denominated in currencies other than Jordan Dinar, are converted into Jordan Dinar equivalents in the books of accounts of the university by using the spot exchange rate prevailing at the date of each transaction.

Translation of Jordan Dinar to U.S Dollar financial statements

For the purpose of presentation to donors and other foreign interested parties, "IOL" uses the U.S. \$ as its reporting currency unless otherwise requested. The financial statements are translated to U.S. \$ as follows:

- Transactions and balances, which are denominated or expressed in U.S Dollar, are presented at the actual U.S Dollar received or paid.
- Balances of assets and liabilities (excluding properties and equipment) which are denominated in currencies other than U.S Dollar are translated to U.S Dollar equivalent using the exchange rate prevailing at the statement of financial position date. Rates as of 31 August 2007 are as set below:

	<u>31 August 2007</u>	<u>31 August 2006</u>
	<u>JOD</u>	<u>JOD</u>
U.S Dollar	0.7085	0.708
Israeli Shekel	1.72117	0.1612
Euro	0.968	0.908

- Exchange differences arising from the translation of balances of assets and liabilities are charged to the statement of activities.
- All other income and expenses in Jordan Dinar are translated to U.S. Dollar equivalent at the average rate of exchange prevailing during the year ended 31 August 2007 of JOD 0.709 per U.S Dollar.
- Fixed assets and related depreciation are translated to U.S Dollar equivalent at historical rates. Additions to cost were translated using the average rate of exchange prevailing during the period.

5. Cash and cash equivalents

Composition:

	<u>31 Aug. 2007</u>	<u>31 Aug. 2006</u>
	<u>U.S Dollar</u>	<u>U.S Dollar</u>
Cash on hand in Israeli Shekel	1,943	-
Deposits with banks in Israeli Shekel	390,290	2,628
Deposits with banks in U.S. Dollar	34,567	8,495
Deposits with banks in Euro	357,533	348,688
Deposits with banks in Jordan Dinar	(405)	(405)
Deposits with banks in Other Currencies	-	154
	<u>783,928</u>	<u>359,560</u>

Term deposits with banks matures within three months period.

6. Deposits with banks restricted for Endowment Fund:

This account represents FORD Foundation Endowment Fund deposited with the Arab Bank. Composition is as follows:

	<u>31 Aug. 2007</u>	<u>31 Aug. 2006</u>
	<u>U.S Dollar</u>	<u>U.S Dollar</u>
Arab Bank - London - Fixed Deposit	419,815	399,107
Arab Bank - Geneva - Current Account	1,231	1,490
Arab Bank - Geneva - Fixed Deposits	1,197,967	1,153,000
	<u>1,619,013</u>	<u>1,553,597</u>

Term deposits with banks matures after three months period.

7. Contributions receivable

Composition of this account by funding source is as follows:

	<u>31 Aug. 2007</u>	<u>31 Aug. 2006</u>
	<u>U.S Dollar</u>	<u>U.S Dollar</u>
European Union	17,251	17,310
Flemish Interuniversity Council – VLIR	5,331	-
UNDP	--	131,882
Swedish International Development Association	--	-
University of Windsor	--	53,958
Konrad Adnena Foundation	10,707	6,390
International Development. Research Center IDRC	--	11,516
Belgium Consulate	36,875	-
	<u>70,164</u>	<u>221,056</u>

8. Properties and equipment - net of accumulated depreciation:

Composition:

	<u>31 August</u>			
	<u>2007</u>			
	<u>Equipment and Furniture</u>	<u>Building</u>	<u>Total</u>	<u>2006</u>
	<u>U.S.Dollar</u>	<u>U.S.Dollar</u>	<u>U.S.Dollar</u>	<u>U.S.Dollar</u>
Cost:				
Balance at beginning of year	246,552	1,107,872	1,354,424	1,300,628
Additions during the year	62,552	--	62,552	53,796
Revaluation of Assets	--	(295,748)	(295,748)	--
Total Cost	<u>309,104</u>	<u>812,124</u>	<u>1,121,228</u>	<u>1,354,424</u>
Depreciation:				
Balance at beginning of year	179,540	234,217	413,757	360,139
Depreciation for the year	41,049	16,231	57,280	53,618
Revaluation of Assets	(87,132)	(104,266)	(191,398)	--
Accumulated Depreciation	<u>133,457</u>	<u>146,182</u>	<u>279,639</u>	<u>413,757</u>
Book Value	<u>175,647</u>	<u>665,942</u>	<u>841,589</u>	<u>940,667</u>

9. Staff benefits' liability

a. Composition:

	<u>31 Aug. 2007</u>	<u>31 Aug. 2006</u>
	<u>U.S Dollar</u>	<u>U.S Dollar</u>
Reserve for severance pay	144,348	134,527
Provident fund liability	31,630	37,675
	<u>175,978</u>	<u>172,202</u>

B. Details of activities in these reserves during the year ended December 31, 2007 are as follows:

	<u>Provident</u>	<u>Severance</u>
	<u>Fund</u>	<u>Pay</u>
<i>Balance as of 1 September 2006</i>	37,675	134,527
Provision charged for the period	11,355	47,857
	49,030	182,384
Payments	(17,400)	(38,036)
<i>Balance as of 31 August 2007</i>	<u>31,630</u>	<u>144,348</u>

10. Permanently restricted funds

A. Ford Foundation Endowment Fund

This account group consists of an Endowment fund contribution of USD 1 Million to "IOL" by Ford Foundation and is restricted for specific objectives and specified conditions.

- Nature and Characteristics of the Endowment:

Type of Endowment: Expendable Endowment Fund

Purpose of the Endowment: To support the sustainability of "IOL,

Beneficiary: Institute of Law of Birzeit University

Restrictions and conditions:

The University is required to match this fund on one to one basis within three years starting 1 September 2001 and then extended to June 30, 2006. In case the matching requirement is not fulfilled within the specified period, Ford Foundation has the alternatives of whether to extend the matching period, request the refund of unmatched funds or discuss other alternatives.

The Fund including all interest, dividends, realized and unrealized appreciation in the assets of the fund may not be expended, except for administrative costs of the fund. After meeting the matching requirement, the Board of trustees of Birzeit University may utilize up to 5% of the fund and its income annually without any written consent of Ford Foundation.

As of 31 August 2007, the endowment fund including the matched funds and interest income amounted to U.S \$ 1,619,013 compared to U.S \$ 1,553,597 as of 31 August 2006.

B. Endowment of Sheikh Hamad Ibn Khalifah AL Thani:

- Activity in this Endowment through the year ended 31 August 2007 is limited to accounting for interest income under temporary restricted funds. Accumulated interest on this endowment amounted to U.S Dollar 225,000, which is reported under temporarily restricted fund. The principal amount of this Endowment is not reported in the "IOL attached financial statements due to the fact that the immediate beneficiary of the endowment is Birzeit University.

10. Permanently restricted funds (continued)

• Nature and Characteristics of the Endowment:

Type of Endowment:	Non-expendable Endowment Fund
Beneficiary:	Birzeit University
Date of endowment:	1 July 1996

Amount and Purpose of the endowment:

The principal of the Endowment was designated by the donor for Birzeit University in the amount of U.S Dollar 750,000. Income of the Endowment was designated to fund the costs of researches, conferences, seminars and other expenses relating to "International Laws". The principal amount of this Endowment is not reported in the "IOL attached financial statements due to the fact that the immediate beneficiary of the endowment is Birzeit University.

Restrictions and conditions:

Income of the Endowment is designated for funding the costs of "Kursi Al-Sheikh in study and documentation of the International Laws implemented by IOL".

11. Grants and Contributions:

Grants by funding source are as follows:

	31 August 2007	31 August 2006
	U.S Dollar	U.S Dollar
Konrad Adenauer Foundation	135,285	120,704
European Commission	149,895	132,376
Flemish Inter University Council – VLIR	56,490	-
Representative Office of Netherlands and Belgium Consulate	--	6,488
UNDP	--	340,995
The French Consulate	410,070	22,682
University of Windsor	223,938	53,958
Swedish International Development Association (SIDA)	--	37,429
Belgium Consulate	204,060	187,754
University of Exeter	--	19,084
International Development Research Center IDRC	179,683	28,369
Others	15,156	--
	1,374,577	949,839

12. Net assets released from restrictions:

Composition:

	31 August 2007
	U.S Dollar
Personnel Expenses	626,689
External Professional Services	141,214
Library Resources	32,771
Other Expenses	183,759
Properties, Equipment and Library Books	74,341
	1,058,774