

**Institute of Law of Birzeit University  
" IOL "**

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**Financial Statements  
and  
Independent Auditor's Report  
For the Year Ended  
31 August 2008**

**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, 2008, 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.

The audit of accounts of the Institute for the year ended 31 August 2008 was made in conjunction with the audit of the general purpose financial statements of the University as a whole for the year ended 31 August 2008. Further audit procedures were also performed on the accounts of the Institute to ensure the completeness and the validity of the accounts presented in the attached financial statements.

### *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 the Statement on Financial Accounting Standards No. 117 "Financial Statements for Not-For-Profit Organizations". 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, 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Statement on Financial Accounting Standards No. 117 "Financial Statements for Not-For-Profit Organizations".

*Saba & Co.*

**Deloitte & Touche (M.E.) / Saba & Co. Palestine**

**2 May 2009**

**Institute of Law of Birzeit University**  
**Statement of Financial Position**  
As of 31 August 2008

	<u>Note</u>	<u>2008</u> U.S \$	<u>2007</u> U.S \$
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalent	5	1,051,991	783,928
Due from Birzeit University and employees advances		53,522	44,371
Contributions receivable	7	238,929	70,164
Due from endowment funds of Birzeit University		269,001	256,000
<b>Total Current Assets</b>		<b>1,613,443</b>	<b>1,154,463</b>
Deposits with banks restricted for endowment funds	6	1,520,165	1,619,013
Properties and equipment - net of accumulated depreciation	8	864,624	841,589
Library books		662,989	622,383
Construction in Progress		91,802	15,013
<b>Total Assets</b>		<b>4,753,023</b>	<b>4,252,461</b>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities:</b>			
Accrued expenses		4,580	6,464
Due to Birzeit University		392,153	-
<b>Total Current Liabilities</b>		<b>396,733</b>	<b>6,464</b>
Staff benefits' Liabilities	9	225,674	175,978
<b>Total Liabilities</b>		<b>622,407</b>	<b>182,442</b>
<b>Net Assets:</b>			
<b>General Funds:</b>			
Unrestricted		426,873	321,198
Tuition and training fund		65,019	59,523
Investments in fixed assets and library books		1,527,613	1,463,972
<b>Total General Funds</b>		<b>2,019,505</b>	<b>1,844,693</b>
Temporarily restricted		590,946	606,313
Permanently restricted-Endowment fund	10	1,520,165	1,619,013
<b>Total Net Assets (Statement-C)</b>		<b>4,130,616</b>	<b>4,070,019</b>
<b>Total Liabilities and Net Assets</b>		<b>4,753,023</b>	<b>4,252,461</b>

See Notes to Financial Statements

**Institute of Law of Birzeit University**  
**Statement of Cash Flows**  
**Year Ended 31 August 2008**

	<u>2008</u>	<u>2007</u>
	<u>U.S \$</u>	<u>U.S \$</u>
<b>Cash flows from operating activities:</b>		
Contributions received	1,392,873	1,525,469
Other revenues received	100,117	107,023
Cash paid to employees and suppliers	<u>(1,088,399)</u>	<u>(1,133,783)</u>
<b>Net cash used by operating activities</b>	<u>404,591</u>	<u>498,709</u>
<b>Cash flows from investing activities:</b>		
Procurement of fixed assets and library books	<u>(136,528)</u>	<u>(74,341)</u>
<b>Net cash flows used in investing activities</b>	<u>(136,528)</u>	<u>(74,341)</u>
<b>Decrease in cash during the year</b>	268,063	424,368
Cash on hand and deposits with banks at beginning of year	<u>783,928</u>	<u>359,560</u>
<b>Cash on hand and deposits with banks at end of year</b>	<u>1,051,991</u>	<u>783,928</u>
<b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b>		
Change in net assets	60,597	506,543
Provision for staff benefits, net of payments	49,696	3,776
Depreciation and amortization	72,887	59,575
Decrease (Increase) in Due from Birzeit University and employees advances	(9,151)	(100,538)
Decrease (Increase) in contributions receivable	(168,765)	150,892
Decrease (Increase) in Due from endowment funds of Birzeit University	(13,001)	(42,934)
Decrease (Increase) in Deposits with banks restricted for endowment funds	98,848	(65,416)
Decrease (Increase) in Construction in Progress	(76,789)	(15,013)
Increase (Decrease) in Due to Birzeit University	392,153	-
Increase (Decrease) in payables and accruals	<u>(1,884)</u>	<u>1,824</u>
<b>Net cash used by operating activities</b>	<u>404,591</u>	<u>498,709</u>

See Notes to Financial Statements

# Institute of Law of Birzeit University (IOL)

## Notes to Financial Statements

Year Ended 31 August 2008

(Amounts are Expressed in U.S Dollar)

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### 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 was 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 requires 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 the Statement on Financial Accounting Standards No. 117 "Financial Statements for 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 are prepared in US Dollar and have been extracted from the general-purpose financial statements of Birzeit University which are prepared in Jordan dinnar. 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. Estimates used in the preparation of the financial statements include the useful lives of the fixed assets and all other provisions.
- **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:

<u>Component</u>	<u>Estimated Service Life</u>	<u>Valuation Basis</u>
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 2008 are as set below:

	<u>31 August 2008</u>	<u>31 August 2007</u>
	<u>JOD</u>	<u>JOD</u>
U.S Dollar	0.7085	0.7085
Israeli Shekel	0.1979	1.72117
Euro	1.03965	0.968

- 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 Dinnar are translated to U.S. Dollar equivalent at the average rate of exchange prevailing during the year ended 31 August 2008 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. 2008</u>	<u>31 Aug. 2007</u>
	<u>U.S Dollar</u>	<u>U.S Dollar</u>
Cash on hand in Israeli Shekel	2,514	1,943
Deposits with banks in Israeli Shekel	1,997	390,290
Deposits with banks in U.S. Dollar	422,824	34,567
Deposits with banks in Euro	625,061	357,533
Deposits with banks in Jordan Dinnar (Overdrawn)	(405)	(405)
	<u>1,051,991</u>	<u>783,928</u>

Term deposits with banks mature within three months period.

## 6. Deposits with banks restricted for Endowment Funds:

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

	<u>31 Aug. 2008</u> <u>U.S Dollar</u>	<u>31 Aug. 2007</u> <u>U.S Dollar</u>
Arab Bank - London - Fixed Deposit	434,598	419,815
Arab Bank - Geneva - Current Account	-	1,231
Arab Bank - Geneva - Fixed Deposits	1,085,567	1,197,967
	<u>1,520,165</u>	<u>1,619,013</u>

Term deposits with banks mature after three months period.

## 7. Contributions receivable

Composition of this account by funding source is as follows:

	<u>31 Aug. 2008</u> <u>U.S Dollar</u>	<u>31 Aug. 2007</u> <u>U.S Dollar</u>
European Union	17,251	17,251
Flemish Interuniversity Council – VLIR	-	5,331
Konrad Adnenaur Foundation	-	10,707
Canadian International Development through University of Windsor	197,149	--
Belgium Consulate	24,529	36,875
	<u>238,929</u>	<u>70,164</u>

## 8. Properties and equipment - net of accumulated depreciation:

Composition:

	<u>31 August 2008</u>		
	<u>Equipment and Furniture</u> <u>U.S. Dollar</u>	<u>Building</u> <u>U.S. Dollar</u>	<u>Total</u> <u>U.S. Dollar</u>
<b>Cost:</b>			
Balance at beginning of year	309,104	812,124	1,121,228
Additions during the year	93,195	--	93,195
<b>Total Cost</b>	<u>402,299</u>	<u>812,124</u>	<u>1,214,423</u>
<b>Accumulated Depreciation:</b>			
Balance at beginning of year	133,457	146,182	279,639
Depreciation for the year	53,917	16,243	70,160
<b>Accumulated Depreciation</b>	<u>187,374</u>	<u>162,425</u>	<u>349,799</u>
<b>Book Value</b>	<u>214,925</u>	<u>649,699</u>	<u>864,624</u>

**8. Properties and equipment - net of accumulated depreciation: (continued)**

	31 August 2007		
	Equipment and Furniture	Building	Total
	U.S. Dollar	U.S. Dollar	U.S. Dollar
<b>Cost:</b>			
Balance at beginning of year, Adjusted	246,552	812,124	1,058,676
Additions during the year	62,552	-	62,552
<b>Total Cost</b>	<b>309,104</b>	<b>812,124</b>	<b>1,121,228</b>
<b>Accumulated Depreciation:</b>			
Balance at beginning of year, adjusted	92,408	129,951	222,359
Depreciation for the year	41,049	16,231	57,280
<b>Accumulated Depreciation</b>	<b>133,457</b>	<b>146,182</b>	<b>279,639</b>
<b>Book Value</b>	<b>175,647</b>	<b>665,942</b>	<b>841,589</b>

**9. Staff benefits' liability**

a. Composition:

	31 Aug. 2008 U.S Dollar	31 Aug. 2007 U.S Dollar
Reserve for severance pay	182,735	144,348
Provident fund liability	42,939	31,630
	<b>225,674</b>	<b>175,978</b>

b. Details of activities in these reserves during the year ended December 31, 2008 are as follows:

	Provident Fund	Severance Pay
<i>Balance as of 1 September 2007</i>	31,630	144,348
Provision charged for the period	11,309	54,966
	42,939	199,314
Payments	--	(16,579)
<i>Balance as of 31 August 2008</i>	<b>42,939</b>	<b>182,735</b>

## 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 2008, the endowment fund including the matched funds and interest income amounted to U.S \$ 1,520,165 compared to U.S \$ 1,619,013 as of 31 August 2007.

### B. Endowment of Sheikh Hamad Ibn Khalifah AL Thani:

- Activity in this Endowment through the year ended 31 August 2008 is limited to accounting for interest income under temporary restricted funds. Accumulated interest on this endowment amounted to U.S Dollar 269,001, 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.

- 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:

	<b>31 August 2008</b>	<b>31 August 2007</b>
	<b><u>U.S Dollar</u></b>	<b><u>U.S Dollar</u></b>
Konrad Adenauer Foundation	156,283	135,285
European Commission	194,873	149,895
Flemish Inter University Council – VLIR	40,888	56,490
The French Consulate	--	410,070
Canadian International Development Through University of Windsor	738,631	223,938
University of Windsor	58,474	--
Belgium Consulate	120,776	204,060
Foundation for the Future	80,000	--
International Development Research Center IDRC	165,797	179,683
Others	5,916	15,156
	<b><u>1,561,638</u></b>	<b><u>1,374,577</u></b>

**12. Net assets released from restrictions:**

Composition:

	<b>31 August 2008</b>
	<b><u>U.S Dollar</u></b>
Personnel Expenses	971,598
Other Operating Expenses	462,963
Properties, Equipment and Library Books	136,528
	<b><u>1,571,089</u></b>