

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

Financial Statements

Auditors' Report

**For the Year Ended
31 August 2005**

Institute of Law of Birzeit University
" IOL "

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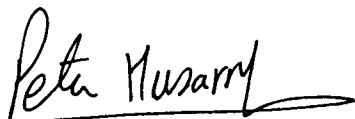
Messrs
Institute of Law of Birzeit University
Ramallah

Auditors' Report

We have audited the accompanying balance sheet of the *Institute of Law of Birzeit University* as of *31 August 2005* and the related statements of activities, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the institute's management. 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Institute of Law of Birzeit University* as of *31 August 2005*, its activities, changes in net assets and cash flows for the year then ended in conformity with *International Financial Reporting Standards*.



Saba & Co. – Deloitte & Touche (M.E)
Ramallah

27 April 2006

Institute of Law of Birzeit University
Balance Sheet

As of 31 August 2005

With Comparative Figures for 2004

	Note	<u>2005</u> U.S \$	<u>2004</u> U.S \$
Assets			
Current assets:			
Cash on hand and deposits with banks	5	669,538	812,245
Contributions receivable	7	279,622	176,742
Due from endowment funds of Birzeit University		226,250	215,125
Total Current Assets		1,175,410	1,204,112
Deposits with banks restricted for endowment funds	6	1,306,764	1,409,202
Properties and equipment - net of accumulated depreciation	8	940,489	953,769
Library books		600,259	639,420
Total Assets		4,022,922	4,206,503
Liabilities and Net Assets			
Current Liabilities:			
Payables and accruals	9	4,640	122,151
Due to (from) Birzeit University		486,863	449,695
Total Current Liabilities		491,503	571,846
Staff benefits' Liabilities	10	159,026	151,352
Total Liabilities		650,529	723,198
Net Assets:			
General Funds:			
Unrestricted		67,236	(22,685)
Board designated		37,764	37,764
Tuition and training fund		46,792	38,628
Investments in fixed assets and library books		1,540,748	1,593,190
Total General Funds		1,692,540	1,646,897
Temporarily restricted		373,089	561,874
Permanently restricted-Endowment fund	11	1,306,764	1,274,534
Total Net Assets (Statement-C)		3,372,393	3,483,305
Total Liabilities and Net Assets		4,022,922	4,206,503

See Notes to Financial Statements

Institute of Law of Birzeit University
Statement of Activities
For the Year Ended 2005
With Comparative Figures for 2004

	Temporarily		Total	
	Unrestricted	Restricted	2005	2004
	U.S \$	U.S \$	U.S. \$	U.S \$
Revenues :				
<i>Operating Income:</i>				
Tuition and registration fees, net of scholarships	74,525		74,525	12,024
Contribution to tuition fees (Belgium Consulate)	-		-	35,500
Other income	63,622		63,622	56,500
Total Operating Income	138,147	-	138,147	104,024
Grants and contributions (note-12)		619,307	619,307	667,731
Net assets released from restrictions	830,022	(830,022)	-	
	968,169	(210,715)	757,454	771,755
Program and Administrative Expenses :				
Administrative, technicians and coordinators salaries	322,017		322,017	314,354
Academic salaries and honoraria	24,254		24,254	35,261
Salaries related expenses	60,213		60,213	66,023
Staff development and training costs	15,164		15,164	15,948
Total Personnel Expenses	421,649	-	421,649	431,585
External Professional Services:				
Training of outside professionals	-		-	6,384
Professional services, including consultancy, translation and editing	216,766		216,766	194,982
Total External Professional Services	216,766	-	216,767	201,365
Library Resources	20,611	-	20,611	15,560
Other Expenses:				
Occupancy costs, maintenance and utilities	12,454		12,454	13,485
Office supplies and consumables	15,951		15,951	18,489
Hospitality	14,077		14,077	17,133
Travel, per diem and accommodation	43,362		43,362	29,760
Communication costs	44,777		44,777	19,750
Others including overhead	40,376		40,376	100,368
Total Other Expenses	170,996	-	170,996	198,986
Total Expenses	830,022	-	830,023	847,496
Depreciation of properties and books	107,753		107,753	125,553
Total Expenses	937,775	-	937,776	973,049
Gain (Loss) on currency differential and Interest	85		85	(1,264)
Net Decrease in Net Assets during the year (Statement-C)	30,479	(210,715)	(180,237)	(202,558)

See Notes to Financial Statements

Institute of Law of Birzeit University
Statement of Changes in Net Assets
For the Year Ended 2005
With Comparative Figures for 2004

	General Funds		Tuition		Fixed Assets		Total All Funds U.S \$
	Unrestricted	Board Designated	and Training Fund	Temporarily Restricted	& Library Fund	Endowment Fund	
	U.S \$	U.S \$	U.S \$	U.S \$	U.S \$	U.S \$	
Balances at Beginning of Year, as Restated	(22,685)	37,764	38,628	561,874	1,593,190	1,274,534	3,483,305
Increase (Decrease) in Net Assets During the Year (Statement - B)	30,479			(210,715)			(180,236)
Institute's Participation in Tuition Fees			15,164				15,164
Training and Staff Development Costs	7,000		(7,000)				-
Contributions and interest income earned on endowments				21,930		32,230	54,160
Transfer to investment in fixed assets	(55,311)					55,311	-
Transfer of current and prior years depreciation	107,753				(107,753)		-
Net Assets (Deficit) at End of Year (Statement - A)	67,236	37,764	46,792	373,089	1,540,748	1,306,764	3,372,393

See Notes to Financial Statements

Institute of Law of Birzeit University
Statement of Cash Flows
Year Ended 31 August 2005

	<u>2005</u>	<u>2004</u>
	<u>U.S \$</u>	<u>U.S \$</u>
Cash flows from operating activities:		
Contributions received	516,427	955,108
Other revenues received	138,147	104,024
Cash paid to employees and suppliers	<u>(741,969)</u>	<u>(311,221)</u>
Net cash provided by operating activities	<u>(87,395)</u>	<u>747,911</u>
Cash flows from investing activities:		
Procurement of fixed assets	<u>(55,311)</u>	<u>(186,092)</u>
Net cash flows used in investing activities	<u>(55,311)</u>	<u>(186,092)</u>
Increase in cash during the year	(142,707)	561,819
Cash on hand and deposits with banks at beginning of year	<u>812,245</u>	<u>250,426</u>
Cash on hand and deposits with banks at end of year	<u>669,538</u>	<u>812,245</u>
Adjustments to reconcile change in net assets		
to net cash provided by operating activities:		
Change in net assets	(110,912)	3,948
Payments net of provision for staff benefits	7,674	(23,037)
Depreciation and amortization	107,753	125,553
Decrease (Increase) in contributions receivable	(102,880)	287,377
Decrease (Increase) in Due from endowment funds of Birzeit University	(11,125)	(15,125)
Decrease (Increase) in Deposits with banks restricted for endowment funds	102,438	(171,410)
Increase (Decrease) in Due from Birzeit University	37,168	-
Increase (Decrease) in payables and accruals	<u>(117,511)</u>	<u>540,605</u>
Net cash provided by operating activities	<u>(87,395)</u>	<u>747,911</u>

See Notes to Financial Statements

Institute of Law of Birzeit University (IOL)

Notes to Financial Statements Year Ended 31 August 2005 (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 respond to them.

The main activities consist of the following:

- Conducting applied legal research;
- Offering continuing legal education;
- Offering a master degree in law;
- Developing and offering comprehensive legal information and documentation through its data bank, library and publications.

The activities of "IoL" have been and are currently funded by several international funding agencies including among others, the UNDP (with Funding from USAID, France and Japan), the European Commission, the Consulates of Belgium and France, the Ford Foundation, the Konrad Adenauer Foundation. In addition to that the IoL provides services to local and international organizations. It also benefits from an endowed Chair of International Law.

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 total cost of the building, excluding the cost of land amounted to U.S \$ 1,107,872. The allocation of the cost among funding sources is as follows:

	<u>U.S \$</u>
Sheikh Hamad Ibn Khalifah AL Thani	600,000
Government of France	297,184
Contribution of Birzeit University	210,688
	<u>1,107,872</u>

The by-laws of the Board of Trustees provide that 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 Director appointed by the appropriate level of authority at the university and assisted by a council.
- 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" are prepared on the accrual basis of accounting under the historical cost convention and in conformity with International Accounting Standards.
- 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 the university which are prepared on the modified accrual basis of accounting and which are maintained in Jordan Dinar. 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 represent* net assets whose use by "IOL" is not subject to donor-imposed restrictions.
- *Board designated* - represents unrestricted resources designated by the management of "IOL" to contribute to the long-term sustainability of current programs.
- *Temporarily restricted net assets* - Net assets whose use by "IOL" is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and released by actions of "IOL" pursuant to those donor-imposed stipulations. Income from certain endowment funds is included in this account group.
- *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".
- *Plant expansion funds* – represent net assets whose use by "IOL" is limited by donor-imposed stipulations to be expendable only for construction costs or expansion of properties. Upon completion of the expansion projects, the cost of related property is released from this fund and is reported as an increase in the unrestricted net assets.
- *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.
- *Deferred grants* represent amounts of cash received under grants and contracts in advance of incurring the related expenses.
- *Contributions* which include unconditional promises are recognized as revenues when received.

4. Basis of accounting and presentation (Continued)

- *Revenues* are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified as “unrestricted net assets” and reported as “net assets released from restrictions”.
- *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:

Building	50 Years
Office equipment and furniture	5 Years
Computers	3 Years
Books	14 Years

4.4 *Library Books:* The balance of this account includes the cost of all books, encyclopedias and periodicals acquired by “IOL” and fair values of donated books at the date of donation.

4.5 *Staff benefits’ Liabilities*

- **Severance pay:** The policy of the University is to provide for staff severance pay in accordance with the Palestinian labor law and the administrative and academic scale and benefits 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 after that the provision becomes one and half month 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 2004 contribution percentages by employees and the university became 3% and 6%, respectively.

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 balance sheet date. Rates as of 31 August 2005 are as set below:

	<u>JOD</u>
U.S Dollar	0.709
Israeli Shekel	0.154
Euro	0.839

4. Basis of accounting and presentation (continued)

- 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 2005 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. 2005</u> U.S Dollar	<u>31 Aug. 2004</u> U.S Dollar
Cash on hand in Israeli Shekel	378	659
Cash on hand in Jordan Dinnar	-	3,258
Deposits with banks in Israeli Shekel	70,515	47,846
Deposits with banks in U.S. Dollar	326,775	322,552
Deposits with banks in Euro	256,745	378,744
Deposits with banks in U.S. Dollar-Board Designated Fund	-	29,979
Deposits with banks in Jordan Dinnar	15,125	29,207
	<u>669,538</u>	<u>812,245</u>

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. 2005</u> U.S Dollar
Arab Bank - London - Fixed Deposit	382,514
Arab Bank - Geneva - Current Account	34,250
Arab Bank - Geneva - Fixed Deposits	890,000
	<u>1,306,764</u>

Fixed deposits with the Arab Bank bears interests; interest earned during the year amounted to U.S \$ 32,230 net of bank charges.

7. Contributions receivable

Composition of this account by funding source is as follows:

	<u>31 Aug. 2005</u> U.S Dollar	<u>31 Aug. 2004</u> U.S Dollar
European Union-Legal Training Unit	17,310	17,310
European Union-Criminal Justice	-	53,088
European Union-Secretariat of Human Rights	-	47,867
The French Consulate	-	6,477
Representative Office of Netherlands and Belgium Consulate	139,284	-
UNDP	65,267	-
Swedish International Development Association	22,429	-
Belgium Consulate	35,332	52,000
Total	<u>279,622</u>	<u>176,742</u>

8. Properties and equipment

Composition:

	Equipment and Furniture U.S.Dollar	Building U.S.Dollar	Total U.S.Dollar
Cost:			
Balance as of 1 September 2004	151,344	1,107,872	1,259,216
Additions during the year	41,412	-	41,412
Total Costs	192,756	1,107,872	1,300,628
Depreciation:			
Balance as of 1 September 2004	109,618	195,829	305,447
Depreciation for the year	32,535	22,157	54,692
Accumulated Depreciation	142,153	217,986	360,139
Book Value	50,603	889,886	940,489

9. Payables and accruals:

Composition:

	31 Aug. 2005 U.S Dollar	31 Aug. 2004 U.S Dollar
Due to employees for unpaid portions of salaries and remuneration	-	21,921
Due to Institute of Community and Public Health (ICPH) of BZU (*)	-	100,230
Accrued expenses	4,640	-
	4,640	122,151

(*): This amount represents deposit received by error in the IOL bank account for the interest of ICPH.

10. Staff benefits' liability

Composition

	31 Aug. 2005 U.S Dollar	31 Aug. 2004 U.S Dollar
Reserve for severance pay	127,368	124,439
Provident fund liability	31,658	26,913
	159,026	151,352

11. 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.

11. Permanently restricted funds (Continued)

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 2005, the endowment fund including the matched funds and interest income amounted to U.S 1,306,764.

B. Endowment of Sheikh Hamad Ibn Khalifah AL Thani:

- Activity in this Endowment through the year ended 31 August 2005 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.

• 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".

12. Grants and Contributions:

Grants by funding source are as follows:

	31 August 2005	31 August 2004
	U.S Dollar	U.S Dollar
Gent University	-	1,245
International Commission of Jurists	-	129,834
Konrad Adenauer Foundation	73,564	29,111
European Commission, net of U.S \$ 100,958 booked in 2004	21,744	-
Flemish Inter University Council – VLIR	50,889	-
Representative Office of Netherlands and Belgium Consulate	139,284	92,989
Heinrich Boll Foundation	-	40,864
Tamkeen	-	59,800
UNDP	65,267	-
Palestinian Ministry of Labor	-	38,809
The French Consulate, net of U.S \$ 6,477 booked in 2004	24,327	-
University of Windsor	25,646	-
Swedish International Development Association (SIDA)	88,898	-
Belgium Consulate, net of U.S \$ 52,000 booked in 2004	78,547	134,961
International Development Research Center IDRC	51,141	140,118
	619,307	667,731