

Loan Fund for Undergraduate in Palestine
Non – Profit Governmental Unit
Ramallah – Palestine

Independent Auditor’s Report and
Financial Statements
for the year ended December 31, 2013

Talal Abu-Ghazaleh & Co.
Certified Public Accountants



Loan Fund for Undergraduate in Palestine
Non – Profit Governmental Unit
Ramallah – Palestine

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Independent Auditors' Report

To M/s Members and Board of Directors
Loan Fund for Undergraduate in Palestine Non – Profit Governmental Unit
Ramallah – Palestine

We have audited the accompanying financial statements of **Loan Fund for Undergraduate in Palestine Non – Profit Governmental Unit**, which comprise the statement of financial position as of December 31, 2013 and the Statement of Activities and Change in Net Assets, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management responsibility for 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 entity'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 entity'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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion of these financial statements.

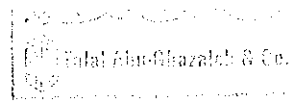
Basis of Qualification:

- Provision for doubtful debts was not created for total student loans balances amounting to 93,764,843 JD, which include non-moving balances (have not changed for more than a year) 68.25% of portfolio.
- We did not receive statements of accounts from universities and colleges; also no reconciliations were prepared for these balances.
- Loans portfolio include amounts under settlement of 1,993,719 JD, Which have not been counted and recorded on the portfolio properly.

Auditor's opinion:

In our opinion, and except for the impact of the above on the financial statements, the financial statements present fairly, in all material respects, the financial position of the **Loan Fund for Undergraduate in Palestine Non – Profit Governmental Unit** as of December 31, 2013 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Talal Abu-Ghazaleh & Co.
Licenses No 251/1997



Jamal Milhem
Certified Accountant License # (100/98)
Ramallah, November 30, 2015



Loan Fund for Undergraduate in Palestine
Non – Profit Governmental Unit
Ramallah – Palestine
Statement of Financial Position as of December 31, 2013 **Exhibit “A”**

<u>Assets</u>	<u>Note</u>	<u>2013</u> JOD	<u>2012</u> JOD
<u>Current assets</u>			
Cash and cash equivalents	(3)	13,039,179	7,708,005
Students Loans	(4 c2)	93,762,559	87,742,377
Other receivables	(5)	594,698	262,969
Due from universities and colleges	(6)	3,064	511,088
Total current assets		107,399,500	96,224,439
<u>Fixed assets</u>			
Net fixed assets	(7)	43,994	--
Total assets		107,443,494	96,224,439
<u>Liabilities and net assets</u>			
<u>Current liabilities</u>			
Accounts payable & accrued expenses	(8)	16,027	5,117
Accrued payables for universities and colleges	(9)	1,464,832	669,754
Total current liabilities		1,480,859	674,871
Total liabilities		1,480,859	674,871
<u>Net assets</u>			
Retained grants for student loans	(10)	103,534,124	93,900,552
Net assets - Exhibit (B)		2,428,511	1,649,016
Net assets		105,962,635	95,549,568
Total liabilities and net assets		107,443,494	96,224,439

“The accompanying notes constitute an integral part of this statement”

Chairman of Board of Directors

General Manager

Loan Fund for Undergraduate in Palestine
Non – Profit Governmental Unit
Ramallah – Palestine
Statement of Activities and Change in Net Assets
for the year ended December 31, 2013 – Exhibit “B”

	<u>Note</u>	<u>2013</u> <u>JOD</u>	<u>2012</u> <u>JOD</u>
<u>Operating revenues</u>			
Government support revenues		197,668	--
Bank interests		796,940	395,086
Other revenues		1,570	6,046
Net interests and commissions		996,178	401,132
<u>Operating expenses</u>			
Grants for Tawjihi Students		--	(35,450)
General & administrative expenses	(11)	(242,706)	(10,039)
Depreciation expenses	(7)	(10,359)	--
Currency exchange		(169)	--
Total operating expenses		(253,234)	(45,489)
Net assets – during the year		742,944	355,643
Prior years adjustments	(7)	36,551	--
Change in net assets during the year		779,495	355,643
Net assets beginning of year		1,649,016	1,293,373
Net assets ending of year – Exhibit “A”		2,428,511	1,649,016

“The accompanying notes constitute an integral part of this statement”

Chairman of Board of Directors

General Manager

Loan Fund for Undergraduate in Palestine
Non – Profit Governmental Unit
Ramallah – Palestine
Statement of Cash flows for the Year Ended December 31, 2013 Exhibit "C"

<u>Item</u>	<u>Note</u>	<u>2013</u> <u>JOD</u>
<u>Cash flow from Operating activities</u>		779,495
Changes in net assets for the year- Exhibit (B)		
Adjustments to reconcile changes in net assets to net cash flows		
<u>Non cash items</u>		
Depreciation expenses	(7)	10,359
Prior years adjustments	(7)	(36,551)
<u>Changes in current assets and liabilities:</u>		
Increase in students loans	(4)	(6,020,182)
(Increase) in other receivables	(5)	(331,729)
Decrease in due from universities and colleges	(6)	508,024
Increase in accounts payable & accrued expenses	(8)	10,910
Increase in accrued payables for universities and colleges	(9)	795,078
Net cash flows used in operating activities		(4,284,596)
<u>Cash flow from investing activities</u>		
Procurement of fixed assets	(7)	(17,802)
Net cash flows used in investing activities		(17,802)
<u>Cash flow from financing activities</u>		
Retained grants for student loans	(10)	9,633,572
Net cash flows provided from financing activities		9,633,572
Net increase in cash and cash equivalents for the year		5,331,174
Cash and cash equivalents – beginning of year	(3)	7,708,005
Cash and cash equivalents – End of year	(3)	13,039,179

"The accompanying notes constitute an integral part of this statement"

Chairman of Board of Directors

General Manager

Loan Fund for Undergraduate in Palestine
Non – Profit Governmental Unit
Ramallah – Palestine
Notes to the financial statements

1. Background:

- The Loan Fund for Undergraduate in Palestine was established on February 19, 2001 pursuant to Resolution No. (1) For the year 2001 issued by the Minister of Education and Higher Education.
- The lending fund is considered as an independent administrative body, which enjoys public legal entity, and financial and administrative independence, The fund considered one of the government institutions that support the building, preparation and development of human resources in Palestine in terms of specializations and scientific rehabilitation in the various theoretical and applied fields, through its set of adopted objectives which are directed to promote and support students in Palestine socially and economically in the Palestinian higher education institutions to build a believer in active community life and to live in peace and quiet.
- The lending Fund mission is to actively participate in promoting, development and supporting of regular Palestinian students in universities and educational institutions in Palestine (universities, institutes and intermediate community colleges), on the two levels: bachelor and diploma in the various fields of scientific, economic, social, cultural and disciplines, without bias or sectarian or religious discrimination, race or political affiliation, everyone either and has the right to education.
- The fund aims to achieve the following:
 - Providing loans to students attending institutions of higher education in Palestine, in accordance with the laws and the mechanisms approved by the board.
 - Contribute to enable students to complete their education in higher education institutions.
 - Contribute to support the student's directions in educational specializations that contribute in building the state institutions and serve the Palestinian community in the light of the approved general educational policy.
- The basic principle for loans given to students at Palestinian universities and colleges depends on that all forms of loans should be a contributing factor in facilitating the enrollment of needy students in institutions of higher education, and to overcome any financial obstacles stand in their way of joining or continuing to attend institutions of higher education.
- The principle of clarity: so that all the information and rules and principles, standards, instructions and procedures related to funds provided by the Fund are clear enough for all parties involved.
 - Principle of Accountability: all individuals associated with the implementation of loans and assistances are responsible for their decisions and their actions.

- The principle of justice and equality: so that the distribution of loans is based on an objective and measurable criteria which enables to define the neediest and needy students taking into account the specificity of the Palestinian situation.
- The Fund's Board of Directors headed by the Minister of Education and Higher Education, which includes a number of competencies consists of twelve members supervise the work of the fund.
- The number of staff was (18) and (17) employees at December 31, 2013 and December 31, 2012 respectively
- The financial statements of the fund for the year ended December 31, 2013 were authorized for issuance in accordance with a resolution of the Board of Directors No. 28 on January 27, 2016.

2. **Significant accounting policies:**

The following is a summary of the significant accounting policies applied:

a. **Basis of preparation:**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board, under the historical cost convention.

The accounting records currency is New Shekel, which has been treated according to what is described in the translation of foreign currencies.

b. **Significant accounting judgments, estimates and assumptions:**

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. The significant estimate which is vulnerable to a remarkable change is related to the determination of the loans provision for doubtful debts.

c. **Loans rescheduling:**

The Fund, in some special cases reschedule the loans due to illness or any other emergency reasons, and applied by either increasing the term of the loan or changing the payments schedule or both for the remaining balance of total loan.

d. **Fixed assets:**

Fixed assets are recorded at cost at the acquisition date or at fair value at the grant date in case of obtaining a grant of fixed assets. Depreciation is calculated by using the straight-line method over the estimated useful lives of the assets at the following estimated annual rates:

- | | |
|-------------------------|--------|
| – Office equipment | 15-25% |
| – Office Furniture | 10% |
| – Tools and supplies | 10-20% |
| – Leasehold improvement | 20% |

e. **Grants and donations:**

Grants and donations which are allocated to support and cover administrative and operational expenses are recorded in the income statement as revenues from grants and donations, while donations which are allocated to finance the lending operations and to purchase fixed assets are recorded in a separate account in equity.

f. **Expenses recognition:**

Expenses are recognized when incurred in accordance with the principle of accrual basis of accounting.

g. **Foreign currencies translation:**

Transactions in foreign currencies other than New Shekel (The basic currency) are initially recorded by the company at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated to New Shekel at the functional currency rates prevailing at the end of the year. All differences are recognized in the income statement.

For the purposes of preparation of financial statements in Jordanian dinar, assets and liabilities items are translated from New Shekel to the Jordanian Dinar according to the exchange rates prevailing at the end of the year, Equity items are translated using the historical exchange rates, and income statement items are translated using the average exchange rates during the year. All differences are recognized in the statement of income and comprehensive income.

The exchange rates against the Jordanian Dinar at the date of the financial statements were as follows:

	<u>2013</u>	<u>2012</u>
	JOD	JOD
US Dollar	0.709	0.709
New Israeli Shekel	0.2041	0.189

The average exchange rates of the year were as follows:

	<u>2013</u>	<u>2012</u>
	JOD	JOD
US Dollar	0.709	0.709
New Israeli Shekel	0.197	0.188

3. Cash and cash equivalents

This item consists of:

	<u>2013</u> <u>JOD</u>	<u>2012</u> <u>JOD</u>
<u>Current accounts at banks</u>		
Cash at banks- ILS	2,300	1,993
Cash at banks- JOD	180,630	251,063
Cash at banks- USD	4,747	3,605
Total current accounts at banks	187,677	256,661
<u>Term Deposits at Banks</u>		
Term deposits maturing within 3 months - JOD	12,722,073	7,308,083
Term deposits maturing within 3 months - USD	129,429	143,261
Total term Deposits at Banks	12,851,502	7,451,344
Total	13,039,179	7,708,005

4. Students Loans:

a. Loans details:

	<u>2013</u> <u>JOD</u>	<u>2012</u> <u>JOD</u>
University students loans	84,216,014	76,776,407
Universities and colleges students loans under settlement	1,993,719	4,157,422
College students loans	7,552,826	6,808,548
Total	93,762,559	87,742,377

b. Changes on the loans during the year 2013:

This item consists of:

<u>Loans Types</u>	<u>Beginning</u> <u>Balance</u> <u>JOD</u>	<u>Issued</u> <u>loans</u> <u>JOD</u>	<u>Payments</u> <u>JOD</u>	<u>Adjustments</u> <u>and</u> <u>reconciliations</u> <u>JOD</u>	<u>Ending</u> <u>balance</u> <u>JOD</u>
University students loans	76,776,407	7,391,003	(1,879,805)	1,928,410	84,216,014
Universities students loans under settlement	4,157,422	--	--	(2,163,703)	1,993,719
Colleges students loans under settlement	6,808,548	735,342	(223,478)	232,414	7,552,826
Total	87,742,377	8,126,345	(2,103,284)	(2,880)	93,762,559

c. **Portfolio quality:**

This item consists of:

<u>Item</u>	<u>2013</u>	
	<u>JOD</u>	<u>Percentage</u>
Active loans	19,730,610	21.04%
Due from 1-30 Day	544,729	0.58%
Due from 31-60 Day	547,202	0.58%
Due from 61-90 Day	576,520	0.61%
Due from 91-180 Day	1,883,008	2.01%
Due from 181-360 Day	4,497,940	4.80%
Due from one to two years	9,318,547	9.94%
More than two years	54,670,284	58.31%
Loans under settlement	1,993,719	2.13%
Total amount	93,762,559	%100

5. **Other Receivables:**

This item consists of:

	<u>2013</u>	<u>2012</u>
	<u>JOD</u>	<u>JOD</u>
Accrued bank interest revenues	594,698	262,833
Deposits	--	136
Total	594,698	262,969

6. **Due from universities and colleges:**

This item consists of:

	<u>2013</u>	<u>2012</u>
	<u>JOD</u>	<u>JOD</u>
Islamic University – Gaza	--	376,995
Al-Quds University	--	120,345
Facility intermediate studies	--	11,221
Talitha Kumi Community College- Beit Jala	232	232
Gaza University	--	10
Palestine Technical College -University College of Applied sciences	547	--
Written off loans for universities students	2,285	2,285
Total	3,064	511,088

7. Net fixed assets:

This item consists of:

<u>Items</u>	<u>Office Equipment</u> JOD	<u>Office Furniture</u> JOD	<u>Tools and Supplies</u> JOD	<u>Leasehold Improvement</u> JOD	<u>Total</u> JOD
Balance as at 1/1/2013	--	--	--	--	--
Additions	8,550	980	24	8,248	17,802
Adjustments*	43,196	40,236	1,279	--	84,711
Balance as at 31/12/2013	51,746	41,216	1,303	8,248	102,513
<u>Accumulated Depreciation:</u>					
Balance as at 1/1/2013	--	--	--	--	--
Depreciations Expense	(5,842)	(3,807)	(163)	(547)	(10,359)
Adjustments	(28,369)	(19,161)	(630)	--	(48,160)
Balance as at 31/12/2013	(34,211)	(22,968)	(793)	(547)	(58,519)
Net book value as at 31/12/2013	17,535	18,248	510	7,701	43,994
Net book value as at 31/12/2012	--	--	--	--	--

* During the year 2013 the fixed assets were recognized and recorded (Whether Received from donors or procured by Loan Fund for Undergraduate in Palestine or received from Palestinian National Authority) which was not recognized previously; it was recognized and recorded according to historical cost on prior year adjustments account. The depreciation for these assets for prior years up to December 12, 2013 was calculated; depreciation up to December 31, 2012 was recognized on prior years adjustment account and depreciation for those assets for the year 2013 was recognized of statement on income. Net prior year adjustment has amounted to JD 36,551.

8. Accounts payable & accrued expenses

This item consists of:

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Suppliers	4,859	--
Refundable loans from students	164	164
Accrued professional fees	8,045	3,545
Accrued stationary and supplies	--	1,408
Accrued Telephone, fax and internet	1,320	--
Accrued advertising	781	--
Accrued maintenance	157	--
Income tax	701	--
Total	16,027	5,117

9. Accrued payables for universities and colleges:

This item consists of:

	<u>2013</u>	<u>2012</u>
	JOD	JOD
Al-Quds Open University	335,587	179,318
Al-Quds University – Abu -Dis	239,441	--
Al-Azhar University	237,615	85,738
An-Najah National University	180,420	106,017
Hebron University	114,620	53,520
Al-Aqsa University	87,534	51,621
University College of Applied Sciences	66,721	90,667
Palestine Polytechnic University	47,849	14,051
Birzeit University	36,480	5,011
Palestine technical university -Kadoorie	24,130	3,518
Arab American University of Jenin	17,516	20,050
University of Palestine	15,733	11,184
Palestine Ahliya university College	11,274	5,570
Islamic University of Gaza	11,213	--
Intermediate College Studies –Al-Azahr	9,307	--
Bethlehem University	6,049	6,381
Polytechnic Community College (Palestine)	5,795	4,777
Rawda College	4,011	5,396
Palestine college of nursing – Khan Younes	3,750	3,921
Wajdi University College of technology	1,840	1,927
Gaza Community College for Tourism	1,784	1,402
Hebron Nursing College	1,353	1,533
Al-Makassed Nursing College	892	892
Andaleeb Al-Amad college	732	800
Gaza University	624	--
Arab College of Applied Sciences	611	2,389

Inash Alusra College	584	584
Hisham Hijjawi College of Technology	449	671
Al-Ummah College	416	416
Modern University College	368	10,944
Palestine Technical College – Ramallah/ Girls	84	75
Palestine Technical College –Al Aroub	50	567
Palestine Technical College – Deir Al Balah	--	377
Dar al-Kalima University College of Arts & Culture	--	156
Dar Al-Kalemah University College for Arts and Culture	--	281
Total	1,464,832	669,754

10. Retained grants for student loans:

This item consists of:

<u>Donor</u>	<u>2013</u>	<u>During the</u>	<u>Cumulative till</u>
	<u>JOD</u>	<u>year 2013</u>	<u>31 December,</u>
		<u>JOD</u>	<u>2012</u>
			<u>JOD</u>
Arab Fund for Economic & Social Development	80,011,319	9,633,572	70,377,747
Islamic Development Bank	12,124,213	--	12,124,213
Islamic Development Bank - Arab Monetary Fund	7,788,000	--	7,788,000
Agricultural investment authority	141,597	--	141,597
His Highness Prince Abdullah Grant	1,206,697	--	1,206,697
Saudi Fund Grant	846,304	--	846,304
OPEC Fund	1,415,994	--	1,415,994
Total	103,534,124	9,633,572	93,900,552

11. General & administrative expenses:

a. This item consists of:

	<u>2013</u> <u>JOD</u>	<u>2012</u> <u>JOD</u>
Salaries and related benefits	181,553	--
Interest expense on commercial loans	456	4,460
Maintenance expenses	2,677	22
Bad debts	3,330	2
Transportation and loading	2,948	--
Hospitality	1,019	188
Telephone, fax and internet	11,264	49
Advertising	755	--
Professional fees	4,500	3,545
Water, electricity and heating	6,830	--
Rent	12,776	--
Stationary and printings	1,850	92
Other	6	41
Rewards	11,219	--
Cleaning materials	1,523	--
Office equipments and furniture	--	1,640
Total	<u><u>242,706</u></u>	<u><u>10,039</u></u>

b. These expenses include items that has been financed by direct government support of 197,590 JOD as salaries and revenues and other items paid directly from the budget of the Palestinian National Authority.

12. Fair value for financial instruments:

- The financial instruments consist of financial assets and liabilities.
- The financial assets consist of cash and cash at banks, Loans receivable.
- The financial liabilities consist of accounts payable and accrued expenses.
- The fair value of financial instruments approximate their carrying amounts as at the financial statement date.

13. Financial Risk Management:**a. Interest rate risk:**

The Fund is exposed to the risk of changes in interest rates relates on short-term deposits (Note 3).

b. Liquidity risk:

The Fund manages liquidity risks by ensuring the availability of sufficient cash to meet its obligations and to fund the operating activities.

c. **Foreign Currency Risk:**

Most of the assets and liabilities of the fund are in Jordanian dinar, and most of its revenues from grants and donations are in US dollars.

d. **Credit risk:**

The Fund manages credit risk as its debts are classified as state funds.

14. Comparative figures:

Some of the financial statements comparative figures were reclassified to correspond with the classification of current year.