

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, 2014

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, 2014 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 99,453,048 JD, which include retained balances (have not changed for more than a year) 77% of loans portfolio value.
- We did not receive statements of accounts from universities and colleges; also no reconciliations were done for these balances.
- Loans portfolio include amounts under settlement of 2,010,632 JD, Which have not been counted and recorded on the portfolio properly.

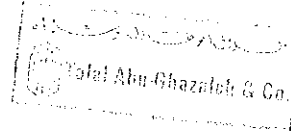
Auditor's opinion:

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, 2014 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, 2014 **Exhibit “A”**

<u>Assets</u>	<u>Note</u>	<u>2014</u>	<u>2013</u>
		<u>JOD</u>	<u>JOD</u>
<u>Current assets</u>			
Cash and cash equivalents	(3)	12,236,761	13,039,179
Students Loans	(4 c2)	99,453,048	93,762,559
Other receivables		473,392	594,698
Due from universities and colleges	(5)	2,869	3,064
Total current assets		112,166,070	107,399,500
<u>Fixed assets</u>			
Net fixed assets	(6)	60,035	43,994
Total assets		112,226,105	107,443,494
<u>Liabilities and net assets</u>			
<u>Current liabilities</u>			
Accounts payable & accrued expenses	(7)	46,752	16,027
Accrued payables for universities and colleges	(8)	1,862,409	1,464,832
Total current liabilities		1,909,161	1,480,859
Total liabilities		1,909,161	1,480,859
<u>Net assets</u>			
Retained grants for student loans	(9)	107,151,515	103,534,124
Net assets - Exhibit (B)		3,165,429	2,428,511
Net assets		110,316,944	105,962,635
Total liabilities and net assets		112,226,105	107,443,494

“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, 2014 *Exhibit "B"*

	<u>Note</u>	<u>2014</u> <u>JOD</u>	<u>2013</u> <u>JOD</u>
<u>Operating revenues</u>			
Government support revenues		215,665	197,668
Bank interests		817,608	796,940
Other revenues		9	1,570
		<hr/>	<hr/>
Net interests and commissions		1,033,282	996,178
		<hr/>	<hr/>
<u>Operating expenses</u>			
General & administrative expenses	(10)	(284,886)	(242,706)
Depreciation expenses	(6)	(12,747)	(10,359)
Currency exchange		1,269	(169)
		<hr/>	<hr/>
Total operating expenses		(296,364)	(253,234)
		<hr/>	<hr/>
Net assets – during the year		736,918	742,944
Prior years adjustments	(6)	—	36,551
		<hr/>	<hr/>
Change in net assets during the year		736,918	779,495
Net assets beginning of year		2,428,511	1,649,016
		<hr/>	<hr/>
Net assets ending of year – Exhibit "A"		3,165,429	2,428,511
		<hr/> <hr/>	<hr/> <hr/>

"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, 2014 Exhibit "C"

<u>Item</u>	<u>Note</u>	<u>2014</u> <u>JOD</u>	<u>2013</u> <u>JOD</u>
<u>Cash flow from Operating activities</u>			
Changes in net assets for the year- Exhibit (B)		736,918	779,495
Adjustments to reconcile changes in net assets to net cash flows			
<u>Non cash items</u>			
Depreciation expenses	(6)	12,747	10,359
Prior years adjustments		--	(36,551)
<u>Changes in current assets and liabilities:</u>			
Increase in students loans	(4)	(5,690,489)	(6,020,182)
Decrease (Increase) in accrued banks interest revenues		121,306	(331,729)
Decrease in due from universities and colleges	(5)	195	508,024
Increase in accounts payable & accrued expenses	(7)	30,725	10,910
Increase in accrued payables for universities and colleges	(8)	397,577	795,078
Net cash flows used in operating activities		(4,391,021)	(4,284,596)
<u>Cash flow from investing activities</u>			
Procurement of fixed assets	(6)	(28,788)	(17,802)
Net cash flows used in investing activities		(28,788)	(17,802)
<u>Cash flow from financing activities</u>			
Retained grants for student loans	(9)	3,617,391	9,633,572
Net cash flows from financing activities		3,617,391	9,633,572
Net (decrease) increase in cash and cash equivalents for the year		(802,418)	5,331,174
Cash and cash equivalents – beginning of year	(3)	13,039,179	7,708,005
Cash and cash equivalents – End of year	(3)	12,236,761	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, and has been reinforced through the issuance of Presidential Decree No. (5) For the year 2013.
- 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 (18) employees at December 31, 2014 and December 31, 2013 respectively
- The financial statements of the fund for the year ended December 31, 2014 were authorized for issuance in accordance with a resolution of the Board of Directors No. 28 on January 16, 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 statement of Activities.

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, Net Assets items are translated using the historical exchange rates, and Activity items are translated using the average exchange rates during the year. All differences are recognized in the statement of Activities.

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

	<u>2014</u>	<u>2013</u>
	JOD	JOD
US Dollar	0,709	0.709
New Shekel	0.181	0.197

3. Cash and cash equivalents

This item consists of:

	<u>2014</u> JOD	<u>2013</u> JOD
<u>Current accounts at banks</u>		
Cash at banks- ILS	4,520	2,300
Cash at banks- JOD	297,896	180,630
Cash at banks- USD	961	4,747
Total current accounts at banks	303,377	187,677
<u>Term Deposits at Banks</u>		
Term deposits maturing within 3 months - JOD	11,847,014	12,722,073
Term deposits maturing within 3 months - USD	86,370	129,429
Total term Deposits at Banks	11,933,384	12,851,502
Total	12,236,761	13,039,179

4. Students Loans:

a. Loans details:

	<u>2014</u> JOD	<u>2013</u> JOD
University students loans	89,476,674	84,216,014
Universities and colleges students loans under settlement	2,010,632	1,993,719
College students loans	7,965,742	7,552,826
Total	99,453,048	93,762,559

b. Changes on the loans during the years 2014 and 2013 is as follows:

<u>Loans Types</u>	<u>Beginning</u> <u>balance</u> <u>year 2014</u> JOD	<u>Issued</u> <u>loans</u> JOD	<u>Payments</u> JOD	<u>Adjustments</u> <u>and</u> <u>reconciliations</u> JOD	<u>Ending</u> <u>balance</u> <u>year 2014</u> JOD
University students loans	84,216,014	7,024,870	1,747,050	(17,160)	89,476,674
Universities students loans under settlement	1,993,719	--	--	16,913	2,010,632
Colleges students loans under settlement	7,552,826	600,548	187,733	101	7,965,742
Total	93,762,559	7,625,418	1,934,783	(146)	99,453,048

c. **Portfolio quality:**

This item consists of:

<u>Item</u>	<u>2014</u>		<u>2013</u>	
	<u>Percentage</u>	<u>JOD</u>	<u>Percentage</u>	<u>JOD</u>
Active loans	17.07%	16,977,392	21.04%	19,730,610
Due from 1-30 Day	0.47%	470,191	0.58%	544,729
Due from 31-60 Day	0.48%	473,214	0.58%	547,202
Due from 61-90 Day	0.48%	482,273	0.61%	576,520
Due from 91-180 Day	1.43%	1,418,751	2.01%	1,883,008
Due from 181-360 Day	3.15%	3,132,610	4.80%	4,497,940
Due from one to two years	8.33%	8,285,307	9.94%	9,318,547
More than two years	66.57%	66,202,678	58.31%	54,670,284
Loans under settlement	2.02%	2,010,632	2.13%	1,993,719
Total amount	%100	99,453,048	%100	93,762,559

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

This item consists of:

	<u>2014</u>	<u>2013</u>
	<u>JOD</u>	<u>JOD</u>
Talitha Kumi Community College- Beit Jala	232	232
Palestine Technical College -University College of Applied sciences	144	547
Written off loans for universities students – Al-Najah University	2,285	2,285
Hisham Hijawi College	208	--
Total	2,869	3,064

6. Net fixed assets:

This item consists of:

<u>Item</u>	<u>Leasehold Improvement</u>	<u>Tools and Supplies</u>	<u>Office Furniture</u>	<u>Office Equipment</u>	<u>Total</u>
	<u>JOD</u>	<u>JOD</u>	<u>JOD</u>	<u>JOD</u>	<u>JOD</u>
Balance as at 1/1/2014	8,248	1,303	41,216	51,746	102,513
Additions	1,450	--	--	27,355	28,805
Currency translation differences	--	--	(17)	--	(17)
Balance as at 31/12/2014	9,698	1,303	41,199	79,101	131,301
<u>Accumulated Depreciation:</u>					
Balance as at 1/1/2014	(547)	(793)	(22,968)	(34,211)	(58,519)
Additions	(1,778)	(164)	(3,919)	(6,886)	(12,747)
Balance as at 31/12/2014	(2,325)	(957)	(26,887)	(41,097)	(71,266)
Net book value as at 31/12/2014:	7,373	346	14,312	38,004	60,035
Net book value as at 31/12/2013:	7,701	510	18,248	17,535	43,994

7. Accounts payable & accrued expenses

This item consists of:

	<u>2014</u>	<u>2013</u>
	<u>JOD</u>	<u>JOD</u>
Employees payables	7,052	4,859
Suppliers	30,035	--
Refundable loans from students	--	164
Accrued professional fees	9,000	8,045
Accrued Telephone, fax and internet	--	1,320
Accrued advertising	--	781
Accrued maintenance	--	157
Income tax	444	701
Refundable deposits	221	--
Total	46,752	16,027
	=====	=====

8. Accrued payables for universities and colleges:

This item consists of:

	<u>2014</u>	<u>2013</u>
	<u>JOD</u>	<u>JOD</u>
Al-Quds Open University	455,322	335,587
Al-Azhar University	376,919	237,615
Al-Quds University – Abu -Deis	160,850	239,441
An-Najah National University	159,992	180,420
Hebron University	138,742	114,620
Al-Aqsa University	117,399	87,534
Islamic University of Gaza	110,917	11,213
Arab American University of Jenin	78,070	17,516
Birzeit University	54,055	36,480
University College of Applied Sciences	53,861	66,721
Palestine Polytechnic University	48,583	47,849
Palestine technical university -Kadoorie	21,860	24,130
University of Palestine	17,956	15,733
Palestine Ahliya university College	17,308	11,274
Intermediate College Studies –Al-Azahr	8,706	9,307
Modern Unversity College	8,303	368
Polytechnic Community College (Palestine)	7,053	5,795
Palestine college of nursing – Khan Younes	4,986	3,750
Arab College of Applied Sciences	4,205	611
Rawda College	4,011	4,011
Bethlehem University	3,510	6,049
Hebron Nursing College	2,375	1,353
Wajdi University College of technology	1,840	1,840

Andaleeb Al-Amad college	1,052	732
Gaza Community College for Tourism	964	1,784
Al-Makassed Nursing College	892	892
Palestine Technical College – Deir Al Balah	720	–
Gaza University	674	624
Inash Alusra College	584	584
Al-Ummah College	416	416
Palestine Technical College –Al Aroub	130	50
Dar al-Kalima University College of Arts & Culture	87	–
Palestine Technical College – Ramallah/ Girls	67	84
Hisham Hijjawi College of Technology	–	449
Total	1,862,409	1,464,832
	=====	=====

9. Retained grants for student loans:

This item consists of:

<u>Donor</u>	<u>2014</u>	<u>During the</u>	<u>Cumulative till</u>
	<u>JOD</u>	<u>year</u>	<u>31 December,</u>
		<u>2014</u>	<u>2013</u>
		<u>JOD</u>	<u>JOD</u>
Arab Fund for Economic & Social Development	83,628,710	3,617,391	80,011,319
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	107,151,515	3,617,391	103,534,124
	=====	=====	=====

10. General & administrative expenses:

a. This item consists of:

	<u>2014</u>	<u>2013</u>
	<u>JOD</u>	<u>JOD</u>
Salaries and related benefits	203,093	181,553
Interest expense on commercial loans	878	456
Maintenance expenses	2,044	2,677
Bad debts	--	3,330
Transportation and loading	82	2,948
Hospitality	1,285	1,019
Telephone, fax and internet	9,365	11,264
Advertising	5,335	755
Professional fees	4,500	4,500
Water, electricity and heating	8,817	6,830
Rent	21,882	12,776
Stationary and printings	2,584	1,850
Other	51	6
Rewards	23,471	11,219
Cleaning materials	1,499	1,523
Total	284,886	242,706
	=====	=====

b. These expenses include items that has been financed by direct government support of 216,785 JOD as salaries and revenues and other items paid directly from the budget of the Palestinian National Authority.

11. 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, accrued expenses.
- The fair value of financial instruments approximate their carrying amounts as at the financial statement date.

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

The Fund is exposed to the risk of changes in interest rates relates primarily to 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, as well as most of its revenues from grants and donations are in US dollars.

d. **Credit risk:**

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

13. Comparative figures:

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