



**AMERICAN UNIVERSITY  
IN KOSOVA FOUNDATION**

**INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS**

*For the year ended June 30, 2005  
and the period from January 1, 2004 to June 30, 2004*

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## **INDEPENDENT AUDITORS' REPORT**

### **To the management of the American University in Kosova Foundation**

We have audited the accompanying balance sheets of the American University in Kosova Foundation (the "AUKF") as at June 30, 2005 and 2004 and the related statements of revenue and expenditure, changes in equity and cash flows for the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004. These financial statements are the responsibility of the AUKF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AUKF as at June 30, 2005 and 2004 and the results of its operations and its cash flows for the financial periods then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche Sh.p.k.  
Prishtina  
August 8, 2005

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Balance Sheets**

As at June 30, 2005 and 2004

	Notes	As at June 30, 2005 (in EUR)	As at June 30, 2004 (in EUR)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	205,817	128,816
Total non-current assets		205,817	128,816
<b>Current assets</b>			
Accounts receivable	4	168,405	-
Other receivables		23,846	18,549
Bank balances and cash	5	3,065,781	1,219,318
Total current assets		3,258,032	1,237,867
<b>TOTAL ASSETS</b>		<b>3,463,849</b>	<b>1,366,683</b>
<b>LIABILITIES AND RESERVES</b>			
<b>Current liabilities</b>			
Deferred revenue: Tuition fees	6	159,558	111,798
Accounts payable and accrued expenses		28,493	33,462
Total current liabilities		188,051	145,260
<b>Non current liabilities</b>			
Deferred revenue: Donated vehicle	3	6,216	8,056
Total non-current liabilities		6,216	8,056
Retained surplus		3,269,582	1,213,367
Total reserves		3,269,582	1,213,367
<b>TOTAL LIABILITIES AND RESERVES</b>		<b>3,463,849</b>	<b>1,366,683</b>

Authorised for issue by the management of AUKF on August 8, 2005:

**Robert F. Curis**

Dean

**Ajten Cami**

Finance Manager

**The accompanying notes 1 to 13 form an integral part of these financial statements.**

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Statements of Revenue and Expenditure**

For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

	Notes	Year ended June 30, 2005 (in EUR)	Period ended June 30, 2004 (in EUR)
<b>Revenue</b>			
Grant revenue	7	2,566,315	-
Tuition fees	6	976,193	209,039
Application fees		11,876	7,404
English language course revenue		67,600	15,788
Donated vehicle revenue	3	1,840	920
Interest income		22,696	7,796
Foreign exchange gain		-	21,943
<b>Total revenue</b>		<b>3,646,520</b>	<b>262,890</b>
<b>Expenditure</b>			
Staff salaries and benefits		474,594	295,802
Staff pension costs		12,267	3,760
Staff housing costs		34,495	17,082
Rent		53,648	33,576
Academic consulting fees	8	532,420	211,032
Allocation to Scholarship fund	7	100,000	-
Marketing costs		27,923	21,091
Telephone and internet		46,909	15,724
Fuel costs		15,871	7,086
Repairs and maintenance		21,670	2,539
Depreciation	3	58,463	19,567
AUKF U.S.A. office costs		30,337	6,471
Foreign exchange loss		15,398	-
Audit and legal fees		20,590	9,200
Travel expenses		12,375	41,605
Security costs		35,021	13,109
Academic events		21,342	739
Utilities		13,129	2,496
Bank charges		10,125	1,748
Miscellaneous		53,728	22,741
<b>Total expenditure</b>		<b>1,590,305</b>	<b>725,368</b>
<b>Net surplus/(deficit) for the period</b>		<b>2,056,215</b>	<b>(462,478)</b>

**The accompanying notes 1 to 13 form an integral part of these financial statements.**

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Statement of Changes in Equity**

For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

	<b>Retained surplus (in EUR)</b>	<b>Total Reserves (in EUR)</b>
Opening balance as at January 1, 2004	1,675,845	1,675,845
Net deficit for the six months ended June 30, 2004	<u>(462,478)</u>	<u>(462,478)</u>
<b>Balance as at June 30, 2004</b>	1,213,367	1,213,367
Net surplus for the year ended June 30, 2005	2,056,215	2,056,215
<b>Balance as at June 30, 2005</b>	<u><u>3,269,582</u></u>	<u><u>3,269,582</u></u>

**The accompanying notes 1 to 13 form an integral part of these financial statements.**

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Statements of Cash Flows**

For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

	<b>Year ended June 30, 2005 (in EUR)</b>	<b>Period ended June 30, 2004 (in EUR)</b>
<b>Cash flows from operating activities</b>		
Net surplus/(deficit) for the period	2,056,215	(462,478)
Adjustments for:		
Depreciation of plant and equipment	58,463	19,567
Grant revenue	(2,566,315)	-
Release of deferred income on donated vehicle	(1,840)	(920)
Interest income	(22,696)	(7,796)
<b>Changes in operating assets and liabilities</b>		
Increase in accounts receivable	(168,405)	-
Decrease/(increase) in other receivables	10,870	(9,299)
Net scholarship disbursements	-	(19,750)
Net tuition fee receipts/(payments)	47,760	(72,104)
(Decrease)/increase in accounts payable and accrued expenses	(4,969)	19,641
<b>Net cash used in operating activities</b>	<u>(590,917)</u>	<u>(533,139)</u>
<b>Cash flows from investing activities</b>		
Interest received	6,529	6,250
Investment in fixed time deposits	(2,500,000)	-
Purchase of property, plant and equipment	(135,464)	(41,778)
<b>Net cash used in investing activities</b>	<u>(2,628,935)</u>	<u>(35,528)</u>
<b>Cash flows from financing activities</b>		
Grant received	2,566,315	-
<b>Net cash from financing activities</b>	<u>2,566,315</u>	<u>-</u>
<b>Net decrease in cash and cash equivalents</b>	(653,537)	(568,667)
Cash and cash equivalents at beginning of the period	1,219,318	1,787,985
<b>Cash and cash equivalents at the end of the period</b>	<u><u>565,781</u></u>	<u><u>1,219,318</u></u>

**The accompanying notes 1 to 13 form an integral part of these financial statements.**

**Notes to the financial statements**

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For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

**1. INTRODUCTION**

The American University in Kosova Foundation (AUKF) is a non-profit organization registered as a Non-Governmental Organization (NGO) on May 8, 2002 under United Nations Interim Administration Mission in Kosovo (UNMIK) Regulation No. 1999/22 on the registration and operations of NGO's in Kosova.

The AUKF was established for the purpose of founding the American University in Kosova. The Union Fund for the Reconstruction of Kosovo (UFORK) provided the initial funding for the AUKF. According to the agreement with UFORK, the AUKF will eventually become a four-year, English language institution accredited within both Kosova and the United States of America. A Board of Directors composed of both notable Americans and Kosovars are managing the AUKF.

The number of employees in the AUKF as at June 30, 2005 was 21 (16 at June 30, 2004) excluding the professors paid by the Rochester Institute of Technology, New York.

During 2004 the AUKF changed its financial year-end from December 31 to June 30, in order that its reporting period mirrors the academic year. Accordingly, the comparative financial information in these financial statements relate to the operating results of the AUKF for the six months from January 1, 2004 to June 30, 2004.

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

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

**2.2 Currency of presentation**

The reporting currency of AUKF is the European Union currency unit (EUR) being the legal tender in the territory of Kosova.

**2.3 Statement of compliance**

The financial statements have been prepared in accordance with all standards and interpretations approved by the International Accounting Standards Board (IASB) which are referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously called International Accounting Standards.



**Notes to the financial statements**

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For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Summary of accounting policies**

A summary of the most significant accounting policies adopted in the preparation of the financial statements is presented below:

**2.4.1 Cash and cash equivalents**

For the purpose of the statements of cash flows, cash is considered to be cash on hand and in operating accounts at banks with an original maturity of three months or less.

**2.4.2 Property, plant and equipment**

The cost of purchased or donated property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to their present location and condition necessary for their intended use.

Capital expenditure on assets in the course of construction where engineering drawings are complete or where the AUKF has obtained a licence for development from the official authorities or has commenced construction works thereon are deferred as Assets under Construction. Such costs are subsequently charged to income if the project is abandoned, or, if the project is completed, are capitalised and transferred to the appropriate asset category, from which time depreciation is charged using the rate applicable to the category concerned.

Depreciation is provided on a straight-line basis calculated to write off the recorded cost of plant and equipment over their estimated useful lives at the following annual rates:

Computers and related equipment	33%
Furniture, fixtures and equipment	20%
Vehicles	20%

**2.4.3 Foreign currency transactions**

Transactions in currencies other than EUR are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling on the balance sheet dates. Profits and losses arising on translation are recorded within the statement of revenue and expenditure in the period in which they arose.

**Notes to the financial statements**

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For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.4 Summary of accounting policies (continued)**

**2.4.4 Grants related to assets**

Grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by setting up the grant as deferred income. Deferred income is recognised as income on a systematic and rational basis over the useful life of the related assets.

**2.4.5 Grants related to income**

Grants related to income are recognised as income based on the accrual principle in the period in which the related expenditure is incurred for which the grant is being given. Grants received as general grants without conditions are taken to the statement of revenue and expenditure in the period in which they are received.

**2.4.6 Revenue recognition**

Revenue from tuition fees is recognised as income on a straight-line basis over the period of the relevant tuition course. Application fees are recognised as income in the period of application.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**2.4.7 Accounts receivable**

Provision is made for doubtful accounts maintained according to the following methodology:

	<b>Provision applied</b>
Balances due for 24 months or more	100%
Balances due for between 12 and 24 months	50%

**2.4.8 Taxation**

The AUKF was established as a non-profit organisation under UNMIK regulations. Based on the laws in force in Kosova, it is exempt from tax on profits earned.

**2.4.9 Use of estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reported periods. Actual results could differ from those estimates.

**Notes to the financial statements**

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For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Summary of accounting policies (continued)**

**2.4.10 Retirement benefit costs**

The AUKF makes no provision and has no obligation for employee pensions over and above the contributions paid into the state pension scheme.

**2.4.11 Fair values**

International Accounting Standard No. 32 “Financial Instruments: Disclosure and Presentation,” provides for the disclosure in the notes to the financial statements of information about the fair value of financial assets and liabilities. Fair value for this purpose is defined as the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. It is the policy of the AUKF to disclose the fair value information on those assets and liabilities for which published market information is readily available.

**2.4.12 Impairment of assets**

Impairment of the AUKF’s assets is assessed based on the provisions of IAS No. 36 “Impairment of Assets”. IAS No. 36 requires an impairment loss be recognised whenever the carrying value of an asset exceeds its recoverable amount. Recoverable amount of an asset is the higher of its net selling price and value in use. Value in use is the present value of estimated future cash flows expected from the continuing use of an asset and from its disposal.

**2.4.13 Scholarship fund**

The scholarship fund arises from funds provided by various organisations for the cost of student scholarships at the AUKF. The fund principal is released to income on a straight-line basis over the tuition periods of students qualifying for a scholarship under the criteria set out by the donor organisations.

**2.4.14 Comparatives**

Certain comparative figures have been restated to conform to the current year’s basis of presentation of the financial statements.

**Notes to the financial statements**

For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

**3. PROPERTY, PLANT AND EQUIPMENT**

	<b>Computers and related equipment (in EUR)</b>	<b>Furniture, fixtures and equipment (in EUR)</b>	<b>Vehicles (in EUR)</b>	<b>Assets under construction (in EUR)</b>	<b>Total (in EUR)</b>
<b>Cost</b>					
As at July 1, 2004	76,217	38,902	31,329	17,000	163,448
Additions	<u>58,883</u>	<u>16,627</u>	<u>-</u>	<u>59,954</u>	<u>135,464</u>
As at June 30, 2005	<u>135,100</u>	<u>55,529</u>	<u>31,329</u>	<u>76,954</u>	<u>298,912</u>
<b>Accumulated depreciation</b>					
As at July 1, 2004	19,323	11,422	3,887	-	34,632
Charge for the period	<u>40,339</u>	<u>11,858</u>	<u>6,266</u>	<u>-</u>	<u>58,463</u>
As at June 30, 2005	<u>59,662</u>	<u>23,280</u>	<u>10,153</u>	<u>-</u>	<u>93,095</u>
<b>Net book value</b>					
As at June 30, 2005	<u>75,438</u>	<u>32,249</u>	<u>21,176</u>	<u>76,954</u>	<u>205,817</u>
As at June 30, 2004	<u>56,894</u>	<u>27,480</u>	<u>27,442</u>	<u>17,000</u>	<u>128,816</u>

Assets under construction relate to design costs incurred by the AUKF up to the balance sheet date, in respect of the renovation of the new "Germia Campus" educational facility which the AUKF will occupy in September 2005 as explained under Note 12.

A vehicle was contributed to the AUKF by International Rescue Committee Kosova during 2003 at an original cost of EUR 9,200. This revenue is recognised in parallel with the related depreciation charge applied upon the asset, as detailed below.

**Deferred income related to donated vehicle**

	<b>Year ended June 30, 2005 (in EUR)</b>	<b>Period ended June 30, 2004 (in EUR)</b>
Opening balance at the beginning of the period	8,056	8,976
Release to income for the period	<u>(1,840)</u>	<u>(920)</u>
Closing balance at June 30	<u>6,216</u>	<u>8,056</u>

**Notes to the financial statements**


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 For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004
 

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**4. ACCOUNTS RECEIVABLE**

The balance of this account as at June 30, 2005 represents tuition fees receivable from students, mainly for the 2005/2006 academic year, in respect of which the related revenue has been deferred as explained under Note 6 below. No provision for doubtful collection has been made in respect of these accounts in accordance with the AUKF's accounting policy.

**5. BANK BALANCES AND CASH**

	<b>As at June 30, 2005 (in EUR)</b>	<b>As at June 30, 2004 (in EUR)</b>
Time deposits at banks	2,500,000	500,000
Current accounts at banks	563,938	715,880
Cash in hand	1,843	3,438
	<u>3,065,781</u>	<u>1,219,318</u>

As at June 30, 2005 the AUKF maintained two time deposits at two banks with head offices situated in Prishtina, earning interest at annual rates of between 3.6% and 4.3% and with scheduled maturity dates in April and May, 2006. At June 30, 2004 the AUKF maintained one time deposit account with one local bank, which earned interest at an annual rate of 2.65% and matured during August, 2004.

Current accounts at banks include two accounts with a total balance of EUR 54,674 maintained in foreign currency as at June 30, 2005 (EUR 3,718 at June 30, 2004).

**6. DEFERRED REVENUE: TUITION FEES**

	<b>Year ended June 30, 2005 (in EUR)</b>	<b>Period ended June 30, 2004 (in EUR)</b>
Opening balance at the beginning of the period	111,799	183,902
Deferred income arising on tuition fees received during the financial period	1,023,952	136,936
Release to income for the financial period	<u>(976,193)</u>	<u>(209,039)</u>
Closing balance as at June 30	<u>159,558</u>	<u>111,799</u>

**Notes to the financial statements**

For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

**7. GRANT REVENUE**

The AUKF received an amount of EUR 2,566,315 on April 19, 2005 from UFORK in accordance with the initial funding agreement between the two organisations. Prior to the balance sheet date the AUKF allocated EUR 100,000 from this amount to fund student scholarships as described under Note 9 below.

**8. ACADEMIC CONSULTING FEES**

The fees of EUR 532,420 represent an amount paid to the Rochester Institute of Technology (“RIT”), a United States education corporation. This fee is in accordance with the terms of an agreement dated September 25, 2003 between the AUKF and the RIT for the provision of experts and certain specific educational services by the RIT to the AUKF.

**9. SCHOLARSHIP FUNDS**

Scholarship funds have been provided by the Ministry of Finance and Economy (MFE) and other donors, to fund the cost of student scholarships which meet the criteria agreed with the donor. These funds are recorded outside the balance sheet since the monies are held by the AUKF on behalf of its students. A summary of the scholarship fund account movement is as follows:

	<b>Year ended June 30, 2005 (in EUR)</b>	<b>Period ended June 30, 2004 (in EUR)</b>
Opening balance at the beginning of the period	-	19,750
Donations received during the financial period	163,259	39,328
Allocation from grant revenue (Note 7)	100,000	-
Awards granted during the financial period	(207,556)	(59,078)
Closing balance as at June 30	<u>55,703</u>	<u>-</u>

**10. RELATED PARTY DISCLOSURE**

The AUKF did not enter into any transactions with related parties during the year ended June 30, 2005, nor during the period from January 1, 2004 to June 30, 2004. No balances due to or from related parties existed as at June 30, 2005, or June 30, 2004.

**11. CONTINGENCIES AND COMMITMENTS**

There are no significant capital commitments or contingent liabilities existing as at June 30, 2005 and June 30, 2004.

**Notes to the financial statements**

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For the year ended June 30, 2005 and the period from January 1, 2004 to June 30, 2004

**12. NEW UNIVERSITY CAMPUS**

Pursuant to a signed Memorandum of Understanding (MOU) between the AUKF and the Ministry of Education, Science and Technology of Kosova, formalised by a contract between the AUKF and the Municipality of Prishtina, the AUKF will have the use of the “Germia Campus” educational facility for a period of ten years commencing from July 1, 2005 with the possibility of renewal after the expiry of this term. The contract specifies that the AUKF will have use of the site on a rent-free and tax-free status during this period.

The renovation and reconstruction of the “Germia Campus” is being carried out by the Mabetex Corporation acting on a donor basis, under the terms of an agreement signed between the AUKF and the Mabetex Corporation. The renovation project work commenced in February 2005 and is currently in the final stages of completion. Since the project work is performed on a donor basis and the contract between the AUKF and the Municipality of Prishtina specifies that such renovations shall remain the property of the owner, no related costs are capitalised by the AUKF other than the design costs incurred by the AUKF as explained under Note 3.

The AUKF intends that the “Germia Campus”, which is located close to central Prishtina, be its principal academic facility. It is expected that the premises will be ready for occupancy by the AUKF in time for the start of the new academic year on September 5, 2005.

**13. RISK MANAGEMENT**

***Credit risk***

The AUKF is exposed to credit risk in respect of tuition fees receivable from its students. Appropriate provision for doubtful collection is made in respect of those fees receivable as at the balance sheet date.

***Interest rate risk***

The AUKF is exposed to interest rate risk only in respect of its time deposits maintained at the balance sheet date, which earn interest at a fixed market rate. Interest margins may increase as a result of changes in market interest rates but may reduce or create losses in the event that unexpected movements arise.

***Foreign exchange risk***

The AUKF is exposed to foreign exchange risk as transactions are undertaken both in local and foreign currency. Management monitors and sets limits on the level of such exposure by currency and in total. The AUKF does not speculate in or engage in the trading of derivative financial instruments.

***Liquidity risk***

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The AUKF monitors its liquidity on a periodic basis in order to manage its obligations as and when they fall due.