



**AMERICAN UNIVERSITY  
IN KOSOVA FOUNDATION**

**INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS**

*For the year ended June 30, 2006*

# AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the American University in Kosova Foundation, which comprise the balance sheet as of June 30, 2006, and the related statements of revenue and expenditure, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the AUKF's management. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 present fairly, in all material respects, the financial position of the AUKF as of June 30, 2006 and of the results of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 11 to the financial statements. The AUKF is involved in an ongoing dispute with the Kosova taxation authorities who are challenging its tax-exempt status as a public benefit organisation. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In Prishtina, Kosova on August 18, 2006

Prishtina, Kosova  
August 18, 2006

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Balance Sheet**

As at June 30, 2006

|                                       | Notes | As at<br>June 30,<br>2006<br>(in EUR) | As at<br>June 30,<br>2005<br>(in EUR) |
|---------------------------------------|-------|---------------------------------------|---------------------------------------|
| <b>ASSETS</b>                         |       |                                       |                                       |
| <b>Non-current assets</b>             |       |                                       |                                       |
| Property, plant and equipment         | 3     | 976,907                               | 205,817                               |
| Total non-current assets              |       | <u>976,907</u>                        | <u>205,817</u>                        |
| <b>Current assets</b>                 |       |                                       |                                       |
| Accounts receivable                   | 4     | 236,822                               | 168,405                               |
| Other receivables                     |       | 25,976                                | 23,846                                |
| Bank and cash balances                | 5     | 1,724,127                             | 3,065,781                             |
| Total current assets                  |       | <u>1,986,925</u>                      | <u>3,258,032</u>                      |
| <b>TOTAL ASSETS</b>                   |       | <b><u>2,963,832</u></b>               | <b><u>3,463,849</u></b>               |
| <b>LIABILITIES AND RESERVES</b>       |       |                                       |                                       |
| <b>Current liabilities</b>            |       |                                       |                                       |
| Deferred revenue: Tuition fees        | 6     | 165,050                               | 159,558                               |
| Accounts payable and accrued expenses |       | 39,871                                | 28,493                                |
| Total current liabilities             |       | <u>204,921</u>                        | <u>188,051</u>                        |
| <b>Non-current liabilities</b>        |       |                                       |                                       |
| Deferred revenue: Donated assets      | 3     | 55,336                                | 6,216                                 |
| Total non-current liabilities         |       | <u>55,336</u>                         | <u>6,216</u>                          |
| <b>Reserves</b>                       |       |                                       |                                       |
| Retained surplus                      |       | 2,703,575                             | 3,269,582                             |
| Total reserves                        |       | <u>2,703,575</u>                      | <u>3,269,582</u>                      |
| <b>TOTAL LIABILITIES AND RESERVES</b> |       | <b><u>2,963,832</u></b>               | <b><u>3,463,849</u></b>               |

Authorised for issue by the management of the AUKF on August 18, 2006:

**Robert F. Curis**

**Ajten Cami**

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Dean

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Finance Manager

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Statement of Revenue and Expenditure**

**For the year ended June 30, 2006**

|   | Notes | Year ended<br>June 30,<br>2006<br>(in EUR) | Year ended<br>June 30,<br>2005<br>(in EUR) |
|---|-------|--|--|
| <b>Revenue</b>                            |       |  |  |
| Grant revenue                             | 7     | 8,996                                      | 2,566,315                                  |
| Tuition fees                              | 6     | 1,507,420                                  | 976,193                                    |
| University funded scholarships            | 6     | (137,000)                                  | (100,000)                                  |
| Application fees                          |       | 6,999                                      | 11,876                                     |
| Revenue from courses                      |       | 87,943                                     | 67,600                                     |
| Interest income                           |       | 39,708                                     | 22,696                                     |
| Income from donated assets                | 3     | 11,910                                     | 1,840                                      |
| Other revenues                            |       | 5,794                                      | -  |
| <b>Total revenue</b>                      |       | <b>1,531,770</b>                           | <b>3,546,520</b>                           |
| <b>Expenditure</b>                        |       |  |  |
| Staff and Faculty salaries and benefits   |       | 630,679                                    | 404,881                                    |
| Staff pension contributions               |       | 16,454                                     | 12,267                                     |
| Faculty housing costs                     |       | 41,662                                     | 34,495                                     |
| Rent                                      |       | 13,847                                     | 53,648                                     |
| Academic consulting fees                  | 8     | 729,393                                    | 532,420                                    |
| Marketing costs                           |       | 75,775                                     | 27,923                                     |
| Telephone and internet                    |       | 62,889                                     | 46,386                                     |
| Energy and fuel costs                     |       | 24,972                                     | 15,871                                     |
| Repairs and maintenance                   |       | 16,528                                     | 21,670                                     |
| Depreciation                              | 3     | 137,023                                    | 58,463                                     |
| Loss on disposal of property              | 3     | 4,704                                      | -  |
| AUKF U.S.A. office costs                  |       | 90,741                                     | 111,640                                    |
| Foreign exchange loss                     |       | 2,765                                      | 15,398                                     |
| Audit and legal fees                      |       | 25,398                                     | 20,590                                     |
| Travel expenses                           |       | 12,665                                     | 1,998                                      |
| Security costs                            |       | 35,333                                     | 35,021                                     |
| Academic events                           |       | 16,315                                     | 21,342                                     |
| Utilities                                 |       | 62,205                                     | 13,129                                     |
| Bank charges                              |       | 5,493                                      | 10,125                                     |
| Miscellaneous                             |       | 92,936                                     | 53,038                                     |
| <b>Total expenditure</b>                  |       | <b>2,097,777</b>                           | <b>1,490,305</b>                           |
| <b>Net (deficit)/surplus for the year</b> |       | <b>(566,007)</b>                           | <b>2,056,215</b>                           |

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION  
**Statement of Changes in Equity**  
**For the year ended June 30, 2006**

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|  | <b>Retained<br/>surplus<br/>(in EUR)</b> | <b>Total<br/>Reserves<br/>(in EUR)</b> |
|--|--|--|
| Opening balance as at July 1, 2004           | 1,213,367                                | 1,213,367                              |
| Net surplus for the year ended June 30, 2005 | <u>2,056,215</u>                         | <u>2,056,215</u>                       |
| <b>Balance as at June 30, 2005</b>           | 3,269,582                                | 3,269,582                              |
| Net deficit for the year ended June 30, 2006 | (566,007)                                | (566,007)                              |
| <b>Balance as at June 30, 2006</b>           | <u><u>2,703,575</u></u>                  | <u><u>2,703,575</u></u>                |

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Statement of Cash Flows**

**For the year ended June 30, 2006**

|  | <b>Year<br/>ended<br/>June 30,<br/>2006<br/>(in EUR)</b> | <b>Year<br/>ended<br/>June 30,<br/>2005<br/>(in EUR)</b> |
|--|--|--|
| <b>Cash flows from operating activities</b>                                  |  |  |
| Net (deficit)/surplus for the year   | (566,007)  | 2,056,215  |
| Adjustments for:   |  |  |
| Depreciation of property, plant and equipment                                | 137,023  | 58,463   |
| Loss on disposal of property   | 4,704  | -  |
| Grant revenue  | (8,996)  | (2,566,315)  |
| Release of deferred income on donated assets                                 | (11,910)   | (1,840)  |
| Interest income  | (39,708)   | (22,696)   |
| <b>Operating loss before changes in operating assets<br/>and liabilities</b> | <b>(484,894)</b>   | <b>(476,173)</b>   |
| <b>Changes in operating assets and liabilities</b>                           |  |  |
| Increase in accounts receivable  | (68,417)   | (168,405)  |
| (Increase)/decrease in other receivables                                     | (13,750)   | 10,870   |
| Increase in deferred revenue: tuition fees                                   | 5,492  | 47,760   |
| Increase/(decrease) in accounts payable and accrued<br>expenses              | 11,378   | (4,969)  |
| <b>Net cash used in operating activities</b>                                 | <b>(550,191)</b>   | <b>(590,917)</b>   |
| <b>Cash flows from investing activities</b>                                  |  |  |
| Interest received  | 51,328   | 6,529  |
| Realisation of/(investment in) time deposits                                 | 2,265,600  | (2,500,000)  |
| Purchase of property, plant and equipment                                    | (851,787)  | (135,464)  |
| <b>Net cash from/(used) in investing activities</b>                          | <b>1,465,141</b>   | <b>(2,628,935)</b>                                       |
| <b>Cash flows from financing activities</b>                                  |  |  |
| Grant received   | 8,996  | 2,566,315  |
| <b>Net cash from financing activities</b>                                    | <b>8,996</b>   | <b>2,566,315</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                  | <b>923,946</b>   | <b>(653,537)</b>   |
| Cash and cash equivalents at the beginning of the year                       | 565,781  | 1,219,318  |
| <b>Cash and cash equivalents at end of year (Note 5)</b>                     | <b>1,489,727</b>   | <b>565,781</b>   |

**Notes to the Financial Statements**

**For the year ended June 30, 2006**

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**1. INTRODUCTION**

The American University in Kosova Foundation (AUKF) is a non-profit organisation 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 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, 2006 was 34 (21 at June 30, 2005) excluding the professors paid by the Rochester Institute of Technology, New York.

**2. BASIS OF PREPARATION AND 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.

**2.4 Significant 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 statement of cash flows, cash and cash equivalents are considered to be cash on hand and in operating accounts at banks with an original maturity of three months or less.



**Statement of Cash Flows**

**For the year ended June 30, 2006**

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

**2.4.2 Property, plant and equipment**

Property, plant and equipment are stated at cost, or fair value for donated assets, less accumulated depreciation and provision for impairment where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of revenue and expenditure. The estimated recoverable amount is the higher of an asset's net selling price and its value-in-use.

The cost or fair value 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. If the project is completed, such costs are capitalised and transferred to the appropriate asset category from which time depreciation is charged using the rate applicable to the category concerned, or if the project is abandoned such costs are subsequently charged to income.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the surplus or deficit for the reporting period. Repairs and maintenance are charged to the statement of revenue and expenditure when the expenditure is incurred.

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

|                                   |     |
|-----------------------------------|-----|
| Leasehold buildings improvements  | 10% |
| 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 date. Profits and losses arising on translation are recorded in the statement of revenue and expenditure in the period in which they arose.

**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.

**Notes to the Financial Statements**

**For the year ended June 30, 2006**

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

**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 the effective interest rate applicable.

**2.4.7 Taxation**

The AUKF was established as a non-profit organisation under UNMIK regulations. Based on the laws in force in Kosovo, it was exempt from taxation on revenues generated and profits earned. However, the AUKF is currently involved in ongoing negotiations with the tax authorities concerning its legal taxation status, the likely outcome of which is presently uncertain.

**2.4.8 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 date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

**2.4.9 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.

**2.4.10 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 arm’s length transaction. It is the policy of the AUKF to disclose the fair value information of those assets and liabilities for which published market information is readily available.

**Notes to the Financial Statements**

**For the year ended June 30, 2006**

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

**2.4.11 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 to be recognised whenever the carrying value of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its net selling price and its 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.

**2.4.12 Scholarship fund**

The scholarship fund arises from funds provided by various governmental and non-governmental organisations for the cost of student scholarships at the AUKF. The funds are awarded to students qualifying for a scholarship under the criteria set out by the various donor organisations.

**2.4.13 Comparative financial information**

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

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION  
**Notes to the Financial Statements**  
For the year ended June 30, 2006

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**3. PROPERTY, PLANT AND EQUIPMENT**

**2006**

|                                 | <b>Leasehold<br/>buildings<br/>improvements<br/>(in EUR)</b> | <b>Computers<br/>and related<br/>equipment<br/>(in EUR)</b> | <b>Furniture,<br/>fixtures and<br/>equipment<br/>(in EUR)</b> | <b>Vehicles<br/>(in EUR)</b> | <b>Assets<br/>under<br/>construction<br/>(in EUR)</b> | <b>Total<br/>(in EUR)</b> |
|---------------------------------|--|---|---|------------------------------|---|---------------------------|
| <b>Cost</b>                     |  |   |   |                              |   |                           |
| As at June 30, 2005             | -  | 135,100   | 55,529  | 31,329                       | 76,954  | 298,912                   |
| Additions                       | 91,552   | 233,637   | 63,463  | 23,619                       | 500,546   | 912,817                   |
| Transfers                       | 76,524   | -   | 430   | -                            | (76,954)  | -                         |
| Disposals                       | (5,040)  | -   | -   | -                            | -   | (5,040)                   |
| As at June 30, 2006             | 163,036  | 368,737   | 119,422   | 54,948                       | 500,546   | 1,206,689                 |
| <b>Accumulated depreciation</b> |  |   |   |                              |   |                           |
| As at June 30, 2005             | -  | 59,662  | 23,280  | 10,153                       | -   | 93,095                    |
| Charge for the year             | 13,721   | 94,188  | 20,236  | 8,878                        | -   | 137,023                   |
| Relating to disposals           | (336)  | -   | -   | -                            | -   | (336)                     |
| As at June 30, 2006             | 13,385   | 153,850   | 43,516  | 19,031                       | -   | 229,782                   |
| <b>Net book value</b>           |  |   |   |                              |   |                           |
| As at June 30, 2006             | 149,651  | 214,887   | 75,906  | 35,917                       | 500,546   | 976,907                   |

**2005**

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

**AMERICAN UNIVERSITY IN KOSOVA FOUNDATION**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2006**

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**3. PROPERTY, PLANT AND EQUIPMENT (continued)**

Assets under construction relate to the costs incurred by the AUKF up to the balance sheet date in respect of the reconstruction and renovation of a new restaurant and residential building situated on the Germia Campus premises, which is expected to be completed in September 2006.

Included within additions for the year ended June 30, 2006 is IT equipment donated to the AUKF by the IPKO Institute in the amount of EUR 61,030. Revenues relating to donated assets are recognised in parallel with the related depreciation charge applied upon the asset, as detailed below.

**Deferred income related to donated assets**

|  | <b>Year ended<br/>June 30,<br/>2006<br/>(in EUR)</b> | <b>Year ended<br/>June 30,<br/>2005<br/>(in EUR)</b> |
|--|--|--|
| Opening balance at the beginning of the year | 6,216  | 8,056  |
| Receipt of assets during the year            | 61,030   | -  |
| Release to income                            | <u>(11,910)</u>                                      | <u>(1,840)</u>                                       |
| Closing balance at the end of the year       | <u>55,336</u>  | <u>6,216</u>   |

**4. ACCOUNTS RECEIVABLE**

The balance of this account as at June 30, 2006 represents tuition fees receivable from students in respect of which the related revenue has been deferred as explained under Note 6 below. The fees are due mainly for the 2006/2007 academic year.

**5. BANK AND CASH BALANCES**

|                                      | <b>As at<br/>June 30,<br/>2006<br/>(in EUR)</b> | <b>As at<br/>June 30,<br/>2005<br/>(in EUR)</b> |
|--------------------------------------|---|---|
| Current accounts at banks            | 687,777   | 563,938   |
| Cash in hand                         | 1,950   | 1,843   |
| Deposit account at foreign bank      | <u>800,000</u>                                  | <u>-</u>  |
| Total cash and cash equivalents      | 1,489,727                                       | 565,781   |
| Time deposit accounts at local banks | <u>234,400</u>                                  | <u>2,500,000</u>                                |
|                                      | <u>1,724,127</u>                                | <u>3,065,781</u>                                |

Current accounts at banks include one foreign currency account held at a United States bank with a balance of USD 38,846, equivalent to EUR 30,951, as at June 30, 2006 (2005: USD 63,757, equivalent to EUR 54,674).

As at June 30, 2006 the AUKF maintained two time deposit accounts, one of which is held at a local bank, has a balance of EUR 234,000, earns interest at an annual rate of 4.30% and has a maturity date in May 2007. The other deposit account is held at a U.S. bank and has a balance of EUR 800,000,

**AMERICAN UNIVERSITY IN KOSOVA FOUNDATION**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2006**

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earns interest at a variable market rate, is matutable upon demand and is accordingly included within cash and cash equivalents.

**6. DEFERRED REVENUE: TUITION FEES**

|  | <b>Year<br/>ended<br/>June 30,<br/>2006<br/>(in EUR)</b> | <b>Year<br/>ended<br/>June 30,<br/>2005<br/>(in EUR)</b> |
|--|--|--|
| Opening balance at July 1  | 159,558  | 111,799  |
| Deferred income arising on tuition fees received during the financial period | 1,375,912  | 923,952  |
| University funded scholarships   | 137,000  | 100,000  |
| Release to income for the financial period                                   | <u>(1,507,420)</u>                                       | <u>(976,193)</u>   |
| Closing balance as at June 30  | <u>165,050</u>   | <u>159,558</u>   |

Scholarships were awarded and funded by the AUKF to its 274 students at the rate of EUR 500 per student, equivalent to EUR 137,000, for the year ended June 30, 2006 (2005: EUR 100,000). Further scholarships were funded by outside donors as described in Note 10.

**7. GRANT REVENUE**

During the year ended June 30, 2006 the AUKF received grant revenue of EUR 8,996 (2005: EUR 2,566,315) from a donor.

**8. ACADEMIC CONSULTING FEES**

The fees of EUR 729,393 (2005: EUR 532,420) represent amounts paid to the Rochester Institute of Technology (“RIT”), a United States education corporation. These fees are 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. RELATED PARTY DISCLOSURE**

The AUKF did not enter into any transactions with related parties during the year ended June 30, 2006. Furthermore, no balances due to or from related parties existed as at June 30, 2006.

**10. SCHOLARSHIP FUNDS**

Scholarship funds have been provided by the AUKF, UFORK, KFOS, the Ministry of Economy and Finance, the Dukagjini Group 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.

**AMERICAN UNIVERSITY IN KOSOVA FOUNDATION**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2006**

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**10. SCHOLARSHIP FUNDS (continued)**

A summary of the scholarship fund account movement is as follows:

|  | <b>Year<br/>ended<br/>June 30,<br/>2006<br/>(in EUR)</b> | <b>Year<br/>ended<br/>June 30,<br/>2005<br/>(in EUR)</b> |
|--|--|--|
| Opening balance as at July 1                   | 55,703   | -  |
| Donations received during the financial period | 58,167   | 163,259  |
| University funded scholarships (Note 6)        | 137,000  | 100,000  |
| Awards granted during the financial period     | <u>(197,104)</u>   | <u>(207,556)</u>   |
| Closing balance as at June 30                  | <u>53,766</u>  | <u>55,703</u>  |

**11. TAXATION STATUS**

The AUKF is involved in an ongoing dispute with the Kosova taxation authorities who are challenging its tax-exempt status as a public benefit organisation. A preliminary decision was announced on August 2, 2006 ratifying the estimated assessment made of arrears of profit tax, value added tax and penalties applied thereon for the period from inception in May, 2002 up to December 31, 2005, in the total amount of EUR 522,382.90. This decision is under the legal appeal process and no provision for this potential taxation liability has been made on the basis that official verification of tax-exempt status has already been received up to this date, and management are very confident that a favourable outcome will eventually be achieved from the due legal procedures.

Furthermore, no provision for taxation liability has been made for the period from January 1, 2006 to June 30, 2006 since AUKF management are of the opinion that a favourable outcome will also be achieved as a result of the legal process in respect of this period and that their tax-exempt status as a non-profit organisation will remain intact.

**12. GERMIA CAMPUS PREMISES**

Pursuant to a Memorandum of Understanding signed 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" was carried out by the Mabetex Corporation acting on a donor basis, commencing in February 2005 and completed in October 2005. Since the project work was 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 except for those costs incurred by the AUKF itself as explained under Note 3.

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**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 market rates. 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.