

**AMERICAN UNIVERSITY IN KOSOVA
FOUNDATION**

**INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2003 AND
THE PERIOD SINCE INCEPTION ON MAY 8, 2002
TO DECEMBER 31, 2002**

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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 (AUKF) as at December 31, 2003 and 2002 and the related statements of income, changes in equity and cash flows for the year ended December 31, 2003 and the period since inception on May 8, 2002 to December 31, 2002. These financial statements are the responsibility of AUKF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

We were not provided with supporting documentation and contracts for the English language course revenue of EUR 25,521 recorded in the income statement for the year ended December 31, 2003. Further, owing to the lack of adequate systems of internal control we were unable to satisfy ourselves that all revenue from the English language course was properly accounted for during the year ended December 31, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter discussed in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the AUKF as at December 31, 2003 and 2002 and the results of its operations, changes in equity and cash flows for the year ended December 31, 2003 and the period since inception on May 8, 2002 to December 31, 2002 in accordance with International Financial Reporting Standards.

Deloitte & Touche
Prishtina, Kosovo
July 7, 2004

BALANCE SHEETS

As at December 31, 2003 and 2002

	Notes	December 31, 2003 (in EUR)	December 31, 2002 (in EUR)
ASSETS			
Non-current assets			
Plant and equipment	3	<u>106,605</u>	<u>34,712</u>
Current assets			
Employee advances		5,154	-
Prepaid expenses		2,550	-
Accrued interest		-	6,642
Cash at bank and on hand	4	<u>1,787,985</u>	<u>1,998,391</u>
		<u>1,795,689</u>	<u>2,005,033</u>
TOTAL ASSETS		<u>1,902,294</u>	<u>2,039,745</u>
LIABILITIES AND RESERVES			
Current liabilities			
Scholarship fund	5	19,750	-
Accrued expenses		13,821	5,333
Deferred revenue: Tuition fees	6	<u>183,902</u>	<u>-</u>
		<u>217,473</u>	<u>5,333</u>
Non-current liabilities			
Deferred revenue: Donated vehicle	3	<u>8,976</u>	<u>-</u>
Reserves			
Retained earnings		<u>1,675,845</u>	<u>2,034,412</u>
TOTAL LIABILITIES AND RESERVES		<u>1,902,294</u>	<u>2,039,745</u>

Authorised for issue by the management on July 7, 2004:

Robert F. Curis

Lavon Bajrami

Director

Finance Manager

The accompanying notes form an integral part of these financial statements

INCOME STATEMENTS

For the year ended December 31, 2003 and
the period since inception on May 8, 2002 to December 31, 2002

	Notes	Year ended December 31, 2003 (in EUR)	May 8, 2002 to December 31, 2002 (in EUR)
Revenue			
Grant revenue	7	-	2,127,910
Tuition fees	6	61,301	-
Application fees		4,985	-
English language courses revenue		25,251	-
Interest income		23,623	7,809
Deferred revenue released to income	3	224	-
Total revenue		115,384	2,135,719
Expenditure			
Staff costs		218,978	37,855
Staff housing		16,156	-
Rent expenses		71,827	21,285
Marketing expenses		15,706	-
Services from IPKO	8	6,906	20,000
Telephone expenses		10,042	2,545
Travel expenses		11,080	3,238
Fuel expenses		9,035	2,879
Repairs and maintenance		29,633	404
Depreciation	3	14,274	791
Exchange loss		19,206	-
Audit fee		8,050	4,000
Bank charges		1,266	48
Security expenses		23,819	-
Internet expenses		4,250	-
Electricity		2,512	-
Heat expenses		1,938	-
Insurance expenses		810	-
Other		8,463	8,262
Total expenditure		473,951	101,307
Net (loss)/ profit for the period		(358,567)	2,034,412

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

For the year ended December 31, 2003 and
the period since inception on May 8, 2002 to December 31, 2002

	Retained earnings (in EUR)
Balance as at May 8, 2002	-
Net profit for the period	<u>2,034,412</u>
Balance as at December 31, 2002	2,034,412
Net loss for the year	<u>(358,567)</u>
Balance as at December 31, 2003	<u>1,675,845</u>

The accompanying notes form an integral part of these financial statements

CASH FLOW STATEMENTS

For the year ended December 31, 2003 and
the period since inception on May 8, 2002 to December 31, 2002

	Notes	Year ended December 31, 2003 (in EUR)	May 8, 2002 to December 31, 2002 (in EUR)
Cash flows from operating activities			
Net (loss)/profit for the period		(358,567)	2,034,412
Adjustment for:			
Depreciation of plant and equipment	3	14,050	791
Grants received	7	-	(2,127,910)
Changes in operating assets and liabilities			
Increase in employee advances		(5,154)	-
Increase in prepaid expenses		(2,550)	-
Decrease/(increase) in accrued interest		6,642	(6,642)
Increase in scholarship fund		19,750	-
Increase in accrued expenses		8,488	5,333
Increase in deferred revenue: Tuition fees		183,902	-
Net cash used in operating activities		(133,439)	(94,016)
Cash flows from investing activities			
Purchase of plant and equipment		(76,967)	(35,503)
Net cash used in investing activities		(76,967)	(35,503)
Cash flows from financing activities			
Grants received	7	-	2,127,910
Net cash from financing activities		-	2,127,910
Net (decrease)/increase in cash and cash equivalents		(210,406)	1,998,391
Cash and cash equivalents at the beginning of the period		1,998,391	-
Cash and cash equivalents at the end of the period	4	1,787,985	1,998,391

The accompanying notes form an integral part of these financial statements

1. INTRODUCTION

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

The AUKF was established for the purpose of founding the American University in Kosovo. 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 Kosovo and the United States. A bi-national Board of Directors composed of both notable Americans and Kosovars are managing the AUKF.

The number of employees at the AUKF as at December 31, 2003 was 13 (December 31, 2002: 3).

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, as modified by the revaluation of appropriate financial assets and liabilities.

2.2 Currency of presentation

The reporting currency of the AUKF is the European Union currency unit (EUR) being the legal tender in the territory of Kosovo from January 1, 2002.

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 Summary of accounting policies

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

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

2.4.2 Plant and equipment

The cost of purchased or donated 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.

Depreciation is provided on a straight-line basis 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 other 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 ruling on the balance sheet dates. Profits and losses arising on exchange are dealt with in the income statement 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.

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 income statement 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 Taxation issues

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING

POLICIES (continued)

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 dates of the financial statements and the reported amounts of revenue and expenses during the reported periods. 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 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 such as marketable equity securities and government bonds.

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. 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.

2.4.12 Scholarship fund

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

2.4.13 Comparatives

Certain comparative figures have been restated to conform to current year presentation.

3. PLANT AND EQUIPMENT

	Computers and related equipment (in EUR)	Furniture, fixtures and other equipment (in EUR)	Vehicles (in EUR)	Total plant and equipment (in EUR)
Cost				
As at January 1, 2003	5,293	30,210	-	35,503
Additions during the year	64,238	8,517	13,412	86,167
As at December 31, 2003	69,531	38,727	13,412	121,670
Accumulated depreciation				
As at January 1, 2003	264	527	-	791
Charge for the year	7,407	6,643	224	14,274
As at December 31, 2003	7,671	7,170	224	15,065
Net book value				
As at December 31, 2003	61,860	31,557	13,188	106,605
As at December 31, 2002	5,029	29,683	-	34,712

A vehicle was contributed to the AUKF by the International Rescue Committee, Kosova during the year ended December 31, 2003 at an original cost of EUR 9,200 (as detailed below).

Deferred income related to the donated vehicle - Movement summary

	Year ended December 31, 2003 (in EUR)	May 8, 2002 to December 31, 2002 (in EUR)
Opening balance at the beginning of the period	-	-
Deferred income arising on the donated vehicle	9,200	-
Release to income during the period	(224)	-
Closing balance at the end of the period	8,976	-

4. CASH AT BANK AND ON HAND

	December 31, 2003 (in EUR)	December 31, 2002 (in EUR)
Cash at bank	1,785,134	597,437
Short term deposit at a domestic bank	-	1,400,000
Cash on hand	<u>2,851</u>	<u>954</u>
Total	<u>1,787,985</u>	<u>1,998,391</u>

Cash at bank includes an amount of EUR 253,853 in foreign currency as at December 31, 2003 (December 31, 2002 - EUR 35,283).

Cash at bank comprises current accounts, which do not earn interest. The short-term deposit as at December 31, 2002 earned interest at a rate of 3.05% per annum.

5. SCHOLARSHIP FUND

	Year ended December 31, 2003 (in EUR)	May 8, 2002 to December 31, 2002 (in EUR)
Opening balance at the beginning of the period	-	-
Amount received during the period	<u>19,750</u>	<u>-</u>
Closing balance at the end of the period	<u>19,750</u>	<u>-</u>

The scholarship funds have been provided by various organisations to fund the cost of student scholarships which meet the criteria agreed with the donor organisations.

6. DEFERRED REVENUE: TUITION FEES

	Year ended December 31, 2003 (in EUR)	May 8, 2002 to December 31, 2002 (in EUR)
Opening balance at the beginning of the period	-	-
Deferred revenue arising on tuition fees received during the period	245,203	-
Released to income during the period	<u>(61,301)</u>	<u>-</u>
Closing balance at the end of the period	<u>183,902</u>	<u>-</u>

7. GRANT REVENUE

	Year ended December 31, 2003 (in EUR)	May 8, 2002 to December 31, 2002 (in EUR)
First grant from UFORK	-	133,910
Second grant from UFORK	-	1,994,000
Total	-	2,127,910

The Union Fund for the Reconstruction of Kosovo (UFORK) provided the initial funding for the AUKF as detailed in Note 1.

The first grant was received on June 24, 2002 for the purpose of a feasibility study and initial planning for the University.

The second grant was received on October 31, 2002 for the purpose of founding the university.

The grants received from UFORK were general grants/donations without conditions and accordingly were recorded as grant revenue in the income statement in the period of receipt.

8. SERVICES FROM IPKO

The AUKF signed a contract with the local firm, IPKO Net, for the provision of following services:

- 1 Spatial planning of the University complex;
- 2 AUKF design of the University complex;
- 3 3D presentation of the design;
- 4 Design of the AUKF logo;
- 5 Web page design; and
- 6 Hosting services for one year.

9. CONTINGENCIES AND COMMITMENTS

The AUKF has operating lease commitments as follows:

	December 31, 2003 (in EUR)	December 31, 2002 (in EUR)
Within one year	64,867	75,455
Within two to five years	-	64,867
Total	64,867	140,322

There are no significant capital commitments or contingencies as at December 31, 2003 and 2002.

10. RISK MANAGEMENT

Credit risk

The AUKF is not significantly exposed to credit risk as almost all the tuition fees were received in advance.

Interest rate risk

The AUKF is not exposed to interest rate risk, as there are no interest bearing investments or liabilities.

Foreign exchange risk

The AUKF is exposed to foreign exchange risk as transactions are undertaken both in local and foreign currency. The AUKF manages this risk by maintaining assets in foreign currency to offset liabilities in foreign currencies.

Liquidity risk

The AUKF monitors its liquidity on a periodic basis in order to manage its obligations when they fall due.