

**AMERICAN UNIVERSITY  
IN KOSOVA FOUNDATION**

**INDEPENDENT AUDITORS' REPORT  
AND FINANCIAL STATEMENTS**

*For the six months ended June 30, 2004  
and the year ended December 31, 2003*

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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 June 30, 2004 and December 31, 2003 and the related statements of revenue and expenditure, changes in equity and cash flows for the six months ended June 30, 2004 and the year ended December 31, 2003. 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 statement of revenue and expenditure for the year ended December 31, 2003. Furthermore, 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 June 30, 2004 and December 31, 2003 and the results of its operations, changes in equity and cash flows for the six months ended June 30, 2004 and the year ended December 31, 2003 in accordance with International Financial Reporting Standards.

**Deloitte & Touche  
Prishtina, Kosovo  
February 21, 2005**

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Balance Sheets**

As at June 30, 2004 and December 31, 2003

|                                       | Notes | As at<br>June 30,<br>2004<br>(in EUR) | As at<br>December 31,<br>2003<br>(in EUR) |
|---------------------------------------|-------|---------------------------------------|---|
| <b>ASSETS</b>                         |       |                                       |   |
| <b>Non-current assets</b>             |       |                                       |   |
| Property, plant and equipment         | 3     | 128,816                               | 106,605                                   |
| Total non-current assets              |       | 128,816                               | 106,605                                   |
| <b>Current assets</b>                 |       |                                       |   |
| Accounts receivable                   |       | 18,549                                | 7,704                                     |
| Bank balances and cash                | 4     | 1,219,318                             | 1,787,985                                 |
| Total current assets                  |       | 1,237,867                             | 1,795,689                                 |
| <b>TOTAL ASSETS</b>                   |       | <b>1,366,683</b>                      | <b>1,902,294</b>                          |
| <b>LIABILITIES AND RESERVES</b>       |       |                                       |   |
| <b>Current liabilities</b>            |       |                                       |   |
| Deferred revenue: Tuition fees        | 5     | 111,798                               | 183,902                                   |
| Scholarship fund                      | 6     | -                                     | 19,750                                    |
| Accrued expenses                      |       | 33,462                                | 13,821                                    |
| Total current liabilities             |       | 145,260                               | 217,473                                   |
| <b>Non current liabilities</b>        |       |                                       |   |
| Deferred revenue: Donated vehicle     | 3     | 8,056                                 | 8,976                                     |
| Total non-current liabilities         |       | 8,056                                 | 8,976                                     |
| Retained surplus                      |       | 1,213,367                             | 1,675,845                                 |
| Total reserves                        |       | 1,213,367                             | 1,675,845                                 |
| <b>TOTAL LIABILITIES AND RESERVES</b> |       | <b>1,366,683</b>                      | <b>1,902,294</b>                          |

Authorised for issue by management on February 21, 2005

**Robert F. Curis**

Chief executive officer

**Ajten Cami**

Finance Manager

The accompanying notes 1 to 11 form an integral part of these financial statements.

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Statements of Revenue and Expenditure**

For the six months ended June 30, 2004 and the year ended December 31, 2003

|   | Notes | Six months<br>ended<br>June 30,<br>2004<br>(in EUR) | Year<br>ended<br>December 31,<br>2003<br>(in EUR) |
|---|-------|---|---|
| <b>Revenue</b>  |       |   |   |
| Tuition fees  | 5     | 209,039   | 61,301  |
| Application fees  |       | 7,404   | 4,985   |
| English language course revenue                         |       | 15,788  | 25,251  |
| Scholarship fund revenue                                | 6     | 59,078  | -   |
| Donated vehicle revenue                                 | 3     | 920   | 224   |
| Interest income   |       | 7,796   | 23,623  |
| Foreign exchange gain                                   |       | 21,943  | -   |
| <b>Total revenue</b>                                    |       | <b>321,968</b>                                      | <b>115,384</b>                                    |
| <b>Expenditure</b>                                      |       |   |   |
| Staff costs   |       | 299,562   | 218,978   |
| Staff housing costs                                     |       | 17,082  | 16,156  |
| Rent  |       | 33,576  | 71,827  |
| Management fee  | 7     | 114,361   | -   |
| Legal costs – Rochester Institute of Technology (“RIT”) |       | 65,583  | -   |
| RIT expenses  |       | 31,088  | -   |
| Scholarship fund disbursements                          |       | 59,078  | -   |
| Marketing costs   |       | 21,091  | 15,706  |
| Telephone and internet                                  |       | 15,724  | 21,198  |
| Fuel costs  |       | 7,086   | 9,035   |
| Repairs and maintenance                                 |       | 2,539   | 29,633  |
| Depreciation  | 3     | 19,567  | 14,274  |
| AUKF USA office costs                                   |       | 6,471   | -   |
| Exchange loss   |       | -   | 19,206  |
| Audit fee   |       | 9,200   | 8,050   |
| Travel expenses   |       | 41,605  | 11,080  |
| Security costs  |       | 13,109  | 23,819  |
| Miscellaneous   |       | 27,724  | 14,989  |
| <b>Total expenditure</b>                                |       | <b>784,446</b>                                      | <b>473,951</b>                                    |
| <b>Net loss for the period</b>                          |       | <b>(462,478)</b>                                    | <b>(358,567)</b>                                  |

The accompanying notes 1 to 11 form an integral part of these financial statements.

AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

**Statement of Changes in Equity**

For the six months ended June 30, 2004 and the year ended December 31, 2003

|   | <b>Retained<br/>surplus<br/>(in EUR)</b> | <b>Total<br/>Reserves<br/>(in EUR)</b> |
|---|--|--|
| Opening balance as at December 31, 2002         | 2,034,412                                | 2,034,412                              |
| Net loss for the year ended December 31, 2003   | <u>(358,567)</u>                         | <u>(358,567)</u>                       |
| <b>Balance as at December 31, 2003</b>          | 1,675,845                                | 1,675,845                              |
| Net loss for the six months ended June 30, 2004 | (462,478)                                | (462,478)                              |
| <b>Balance as at June 30, 2004</b>              | <u><u>1,213,367</u></u>                  | <u><u>1,213,367</u></u>                |

**The accompanying notes 1 to 11 form an integral part of these financial statements.**

**Statements of Cash Flows**

For the six months ended June 30, 2004 and the year ended December 31, 2003

|   | <b>Six months<br/>ended<br/>June 30,<br/>2004<br/>(in EUR)</b> | <b>Year<br/>ended<br/>December 31,<br/>2003<br/>(in EUR)</b> |
|---|--|--|
| <b>Cash flows from operating activities</b>               |  |  |
| Net loss for the period                                   | (462,478)  | (358,567)  |
| Adjustments for:  |  |  |
| Depreciation of plant and equipment                       | 19,567   | 14,274   |
| Release of deferred income                                | (920)  | (224)  |
| <b>Changes in operating assets and liabilities</b>        |  |  |
| Increase in accounts receivable                           | (10,845)   | (1,062)  |
| Net scholarship (disbursements)/receipts                  | (19,750)   | 19,750   |
| Net tuition fee (payments)/receipts                       | (72,104)   | 183,902  |
| Increase in accrued expenses                              | 19,641   | 8,488  |
| <b>Net cash used in operating activities</b>              | <u>(526,889)</u>   | <u>(133,439)</u>   |
| <b>Cash flows from investing activities</b>               |  |  |
| Purchase of property, plant and equipment                 | (41,778)   | (76,967)   |
| <b>Net cash used in investing activities</b>              | <u>(41,778)</u>  | <u>(76,967)</u>  |
| <b>Net decrease in cash and cash equivalents</b>          | (568,667)  | (210,406)  |
| Cash and cash equivalents at beginning of the period      | 1,787,985  | 1,998,391  |
| <b>Cash and cash equivalents at the end of the period</b> | <u><u>1,219,318</u></u>  | <u><u>1,787,985</u></u>                                      |

The accompanying notes 1 to 11 form an integral part of these financial statements.

**Notes to the financial statements**

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For the six months ended June 30, 2004 and the year ended December 31, 2003

**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 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 of America. A Board of Directors composed of both notable Americans and Kosovars are managing the AUKF.

The number of employees in AUKF as at June 30, 2004 was 16 (13 at December 31, 2003) excluding the professors paid by 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, these financial statements relate to the operating results of the AUKF for the six months from January 1, 2004 to June 30, 2004. The comparative financial information represents the operating results for the year ended December 31, 2003.

**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 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.

**Notes to the financial statements**

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For the six months ended June 30, 2004 and the year ended December 31, 2003

**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.

**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**

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For the six months ended June 30, 2004 and the year ended December 31, 2003

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

**2.4 Summary of 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 at 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 is exempt from tax on profits.

**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.

## AMERICAN UNIVERSITY IN KOSOVA FOUNDATION

For the six months ended June 30, 2004 and the year ended December 31, 2003

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

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

##### **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 is 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 the current period's basis of presentation.

**Notes to the financial statements**

For the six months ended June 30, 2004 and the year ended December 31, 2003

**3. PROPERTY, PLANT AND EQUIPMENT**

|                                 | <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 January 1, 2004           | 69,531  | 38,727  | 13,412                       | -   | 121,670                   |
| Additions                       | 6,686   | 175   | 17,917                       | 17,000  | 41,778                    |
| As at June 30, 2004             | 76,217  | 38,902  | 31,329                       | 17,000  | 163,448                   |
| <b>Accumulated depreciation</b> |   |   |                              |   |                           |
| As at January 1, 2004           | 7,671   | 7,170   | 224                          | -   | 15,065                    |
| Charge for the period           | 11,652  | 4,252   | 3,663                        | -   | 19,567                    |
| As at June 30, 2004             | 19,323  | 11,422  | 3,887                        | -   | 34,632                    |
| <b>Net book value</b>           |   |   |                              |   |                           |
| As at June 30, 2004             | 56,894  | 27,480  | 27,442                       | 17,000  | 128,816                   |
| As at December 31, 2003         | 61,860  | 31,557  | 13,188                       | -   | 106,605                   |

Assets under construction relates to initial 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 2005 (see Note 10).

A vehicle was contributed to the AUKF by 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 donated vehicle**

|  | <b>As at<br/>June 30, 2004<br/>(in EUR)</b> | <b>As at<br/>December 31,<br/>2003<br/>(in EUR)</b> |
|--|---|---|
| Opening balance at the beginning of the period | 8,976                                       | -   |
| Deferred income arising on donated vehicle     | -   | 9,200   |
| Release to income for the period               | (920)                                       | (224)   |
| Closing balance at the end of the period       | 8,056                                       | 8,976   |

**Notes to the financial statements**

For the six months ended June 30, 2004 and the year ended December 31, 2003

**4. BANK BALANCES AND CASH**

|                           | <b>As at<br/>June 30, 2004<br/>(in EUR)</b> | <b>As at<br/>December 31,<br/>2003<br/>(in EUR)</b> |
|---------------------------|---|---|
| Time deposit at bank      | 500,000                                     | -   |
| Current accounts at banks | 715,880                                     | 1,785,134   |
| Cash in hand              | 3,438                                       | 2,851   |
|                           | <u>1,219,318</u>                            | <u>1,787,985</u>                                    |

The time deposit is maintained at Raiffeisen Bank, Prishtina, earns interest at a fixed annual rate of 2.65% and matured on August 19, 2004.

Cash at bank includes an amount of EUR 3,718 maintained in foreign currency as at June 30, 2004 (EUR 253,853 at December 31, 2003).

**5. DEFERRED REVENUE: TUITION FEES**

|  | <b>As at June<br/>30, 2004<br/>(in EUR)</b> | <b>As at<br/>December 31,<br/>2003<br/>(in EUR)</b> |
|--|---|---|
| Opening balance at the beginning of the period                     | 183,902                                     | -   |
| Deferred income arising on tuition fees received during the period | 136,936                                     | 245,203   |
| Release to income for the period                                   | <u>(209,039)</u>                            | <u>(61,301)</u>                                     |
| Closing balance at the end of the period                           | <u>111,799</u>                              | <u>183,902</u>                                      |

**6. SCHOLARSHIP FUND**

Scholarship funds have been provided by the Ministry of Finance and Economy (MFE) to fund the cost of student scholarships which meet the criteria agreed with the donor.

**Notes to the financial statements**

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For the six months ended June 30, 2004 and the year ended December 31, 2003

**7. MANAGEMENT FEE**

The management fee of EUR 114,361 represents 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.

**8. RELATED PARTY DISCLOSURE**

The AUKF did not enter into any transactions with related parties during the six months ended June 30, 2004, or the year ended December 31, 2003.

No balances due to or from related parties existed as at June 30, 2004, and December 31, 2003.

**9. CONTINGENCIES AND COMMITMENTS**

The AUKF had commitments in respect of operating leases amounting to EUR 43,097 at June 30, 2004 (EUR 64,867 at December 31, 2003). All amounts committed are due within 12 months from the balance sheet dates.

There are no significant capital commitments or contingent liabilities existing as at June 30, 2004 and December 31, 2003.

**10. POST BALANCE SHEET EVENT**

Pursuant to a signed Memorandum of Understanding (MOU) between the AUKF and the Ministry of Education, Science and Technology of Kosovo, the AUKF will have the use of the “Germia Campus” educational facility, for a period of ten years commencing from the date upon which the premises are ready for occupancy by the AUKF. The MOU 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 to be 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 Agreement specifies that the project work will commence by December 1, 2004 and be completed by July 1, 2005.

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 in September 2005.

**Notes to the financial statements**

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For the six months ended June 30, 2004 and the year ended December 31, 2003

**11. RISK MANAGEMENT**

***Credit risk***

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

***Interest rate risk***

The AUKF is exposed to interest rate risk only in respect of its time deposit maintained at the balance sheet date, which earns interest at a fixed market rate.

***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 as and when they fall due.