The American University in Cairo
Policies and Procedures

Policy : Accounting Policies
Policy Number : FPP-ACCT-001
Date Issued : Active  
Date Revised : September 1, 2004
Responsible Official : Controller
Approved By : VP Finance

Definitions
Capitalization Threshold
An amount established by the University’s Administration whereby equipment or furnishings of a value greater than that amount and having a useful life of at least two years are treated as depreciable assets (fixed assets).

Accrual Basis
Recognizing revenues earned and expenses incurred during a fiscal year regardless of related cash flow.
Revenue are earned in a fiscal year if the University renders the related services or deliver the related goods to a third party during that fiscal year.
Expenses are incurred if the benefits from service or goods are received by the University during that fiscal year.
The term “University” in this context means any of AUC constituencies.

Purpose
The following policies provides understanding of the underlying principles governing the accounting for the University’s activities, and the preparation of the consolidated financial statements.

Policy Statement
The University accounting system and operations are governed by the US Generally Accepted Accounting Principles (GAAP) related to Not-for-Profit institutions, especially Statement of Financial Accounting Standards (SFAS) 116, 117 and other related professional pronouncements and the rules of the Fund Accounting.

Authorization
VP Finance approves all accounting policies

Forms
No Forms

Policy Guidelines
Fiscal Year
The University follows a fiscal year that is parallel to its academic year, which starts on September 1, and ends on August 31.

Functional Currency
The University's functional currency is the United States dollar. For reporting purposes and in order to present single currency consolidated financial statements, financial transactions in Egyptian pounds are converted to U.S. dollars. In accordance with SFAS No. 52, financial transactions and accounts denominated in Egyptian pounds are converted to U.S. dollars by the application of the remeasurement method. Monetary assets and liabilities are measured at the end of each fiscal year using the current exchange rate (year end rate). Non-monetary assets and liabilities are measured at the end of each fiscal year using the historical exchange rates. Revenues and expenses are measured at the end of each fiscal year using the weighted average exchange rate, except for depreciation and cost of goods sold which are measured at the end of each fiscal year using the historical exchange rates. Accordingly, remeasurement gains and losses are taken to the University’s consolidated statement of activities.

Fund Accounting
The University's maintains its accounts on the accrual basis in U.S. dollars and Egyptian pounds in accordance with the principles of "Fund Accounting" whereby resources specifically designated for various purposes are classified into fund groups which correspond to activities or objectives specified. The fund method of accounting is to assure compliance with restrictions placed upon the use of particular resources by donors, granting agencies or the Board of Trustees (in the case of internally designated funds).

Authoritative
The University presents its consolidated financial statements in accordance with
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Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Principles of Consolidating the Financial Statements
The University's consolidated financial statements include the accounts of the following majority owned subsidiaries:

The University Educational Endowment Fund Investment Company (U.E.E.F.I.C), successor company to the University Educational Endowment Fund (U.EEF): U.E.E.F.I.C. is incorporated in Egypt as a Societe Anonyme under Law 230/96. The company has a share capital and is listed on the Egyptian Stock Exchange; however all the issued and outstanding stock is held either directly in the name of the University or in the name of nominees for the University.

U.E.E.F.I.C.’s main activity is to earn income to support the operations of the University by investing in Egyptian enterprises and business ventures, marketable securities and long term investments.

Translation Loss/Gain of U.E.E.F.I.C: The functional and reporting currency of U.E.E.F.I.C is the Egyptian pound. In accordance with SFAS No. 52, the financial statements of U.E.E.F.I.C. have been converted to U.S. dollars by the application of the translation method (current rate method). All assets and liabilities are translated using the current exchange rate. Stockholders equity accounts are translated using historical rates. Revenues and expenses are translated using the weighted average exchange rate. The University accounts for translation losses or gains in its consolidated statements of activities.

Material intercompany balances and transactions between the University and U.E.E.F.I.C. are eliminated and thus have no effect on the consolidated financial statements.

Karnak Investments Ltd. (formerly AUC Ltd.): Karnak Investments Ltd. is incorporated under the laws of Bermuda and operates as an investment holding company. The Company's shares are owned by the Trustees of the American University in Cairo for the benefit of the University. Its main activity is to earn income to support the operations of the University by investing in Egyptian enterprises and business ventures, marketable securities and long-term investments.

All material intercompany balances and transactions between the University and Karnak Investments Ltd. are eliminated thus do not affect the consolidated financial statements.

Foreign Currency Translation: The University's functional currency is the United States dollar. For reporting purposes and in order to present single currency consolidated financial statements, financial transactions in Egyptian pounds are converted to U.S.
### Contributions

The University reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

### Gifts (donated assets)

The University reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### Grants

The University reports grants for sponsored programs, which are both reciprocal and conditional in nature, in the consolidated financial statements as exchange transactions. When the restrictions are met, the related revenues are recognized in the same accounting period as unrestricted support.

### Pledges

The University recognizes pledges that have been formally confirmed in writing by donors at fair market values when the conditions on which they depend are substantially met and classifies those pledges based on the existence or absence of donor imposed restrictions.

Pledges received, as well as, pledges conditions on which they depend are substantially met, are recognized as revenues.

Pledges that will fall due during the next fiscal year are calculated at their present value using the University cost of fund rate of 8% and are reported as “pledges receivable – Current”.

Pledges that will fall due for a period more than one year, are calculated at their present value using the University’s cost of fund rate of 8%, and are reported in the consolidated statement of financial position as “Pledges Receivable – Non-Current”.

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dollars. In accordance with SFAS No. 52, financial transactions and accounts denominated in Egyptian pounds are converted to U.S. dollars by the application of the remeasurement method. Monetary assets and liabilities are measured at the end of each fiscal year using the current exchange rate (year end rate). Non-monetary assets and liabilities are measured at the end of each fiscal year using the historical exchange rates. Revenues and expenses are measured at the end of each fiscal year using the weighted average exchange rate, except for depreciation and cost of goods sold which are measured at the end of each fiscal year using the historical exchange rates. Accordingly, remeasurement gains and losses are taken to the University’s consolidated statement of activities.

The functional and the reporting currency of Karnak Investment Ltd is the U.S. dollar.

The functional and reporting currency of U.E.E.F.I.C. is the Egyptian pound. In accordance with SFAS No. 52, the financial statements of U.E.E.F.I.C. are converted at year end to U.S. dollars by the application of the translation method (current rate method).
Cash and cash equivalents

The University considers cash on hand, cash in banks, certificates of deposit, time deposits and other short-term securities with maturities of three months or less -when purchased- as cash and cash equivalents. The carrying amount of cash equivalents approximates fair value.

Long-term Investments

Investments in marketable securities, held-to-maturity securities and available-for-sale securities are stated at their market value. SFAS No. 124 provides that investments in equity securities with readily determinable fair values and all debt securities should be reported at their fair values. The resulting unrealized gains or losses as well as gains and losses arising from investing transactions are classified based on the existence or absence of donor-imposed restrictions.

Purchases and sales of securities are accounted for on a trade-date basis. Realized gains and losses are determined on the basis of average cost of securities sold. Dividend income is recorded on the ex-dividend date and interest income is recorded on an accrual basis. Fees paid to investment managers are netted against investment income or gains.

Investments in closely-held, unregistered and non-negotiable securities, for which market quotations are not readily available, are valued by management at estimated fair value. These valuations necessarily involve assumptions and estimation methods which are uncertain; and therefore, the estimates could differ from actual results.

The University does not approve of investment strategies employed by investment managers which incorporate the use of financial instruments with off-balance sheet risk.

Inventories

Inventories comprising books and educational supplies are stated at the lower of cost or market. Cost is determined using the first-in-first-out method.

Capitalization

The University does not capitalize non-expendable items if the unit price of which is equal to or less than the capitalization threshold, and if those items have a useful life of two or more years. These non-expendable items are booked as Minor Equipment and are recorded also in the fixed assets register for inventory control purposes only.

The capitalization threshold is published and updated annually by the University Controller.

The University capitalizes major items of equipment and furnishings having a unit value in excess of the capitalization threshold, however, when the total value of a purchase order related to one item is equal to or greater than LE 10000 / $1500 and the useful life of that item is two or more years, the unit price rule should be ignored and the items be booked as fixed assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost plus interest costs incurred during periods of construction or in the case of gifts at estimated market value at the date of gift. Repairs and maintenance are charged to expenses. The cost and related accumulated depreciation of assets retired or sold are removed from the accounts at the time of sale or retirement and, any gain or loss is reflected in the consolidated statement of activities.

The University reviews its property and equipment assets for impairment in value whenever events or circumstances indicate that the carrying value may not be recoverable. In performing this review, if the fair value, less selling costs from
Depreciation

Depreciation is provided on all long-lived tangible assets based on useful life rates. Furniture, fixtures, equipment and library books are depreciated according to the double declining balance method and buildings by the straight-line method at the rates equivalent to the useful lives and is included in the consolidated statements of activities.

Scholarships and financial aid

The University's policy is to award scholarships to undergraduate students for academic merit based on a four-quartile system, with the third and fourth quartiles paying full tuition. Returning students continue to receive scholarship awards for academic merit based on the scholarship policies in force at the time of entry to the University.

Financial aid based on need is also available to students meeting the University's criteria and a limited number of students receive scholarships for special achievements, such as sports or cultural merit. Student tuition income in the University’s consolidated statements of activities is reported net of academic merit scholarships and financial aid.

Allocation of expenses

In accordance with the American Institute of Certified Public Accountants' "Audit and Accounting Guide for Not-for-Profit Organizations," expenditures are reported for the University's primary program activities, e.g., instruction, research, public services, etc. The consolidated financial statements also report expenditures that support more than one major program of the University. These expenditures are also allocated to the major programs of the University according to appropriate distribution criteria.

The depreciation for equipment is allocated to the programs for which the equipment was purchased and depreciation for buildings and building improvements is allocated to all the programs based on square footage occupancy.

Deferred revenues

Tuition fees collected in advance are reflected as deferred revenues in the consolidated statements of financial position. Amounts collected in advance with respect to grants and contributions for sponsored programs are also reflected as deferred revenues.

US Federal Endowment Fund

In accordance with the United States fiscal year 1996 Foreign Assistance Appropriations Act and pursuant to the United States - Egypt Economic, Technical and Related Assistance Agreements of 1978, an Egyptian pound sum equivalent of $50 million was granted to the University in July 1997 by the United States Agency for International Development (U.S.A.I.D.) to create a Federal Endowment Grant, recognized as permanently restricted funds in the University's books, to support its activities.

Furthermore, in 1998, a trust for an Egyptian pound sum equivalent of $50 million, of which the University was the sole beneficiary, was transferred to the US Federal Endowment Fund.

The call and time deposits reported among the endowment assets are restricted for reinvestment and, therefore, it is not included in cash and cash equivalents in the consolidated statements of financial position.

About 50% of the total US Federal endowment fund is invested in Egyptian time deposits, equities and fixed interest securities. The University's management
accounts for translation losses as reductions in permanently restricted assets. As a result of these reductions, the dollar-equivalent value of the US Federal endowment fund has fallen below the dollar-equivalent value of the Egyptian pounds at the time they were contributed to create the corpus of the fund. The University's management concludes that this accounting treatment is appropriate, as the endowment was funded entirely in Egyptian pounds and, on the dates of such funding, the Egyptian pound was not a freely convertible currency.

In a letter dated July 9, 2000, USAID confirmed that it takes no position on whether the endowment should be viewed as denominated in US dollars or Egyptian pounds. Furthermore, it stated that this should not, however, be interpreted as either approval or endorsement by USAID of whatever approach the University ultimately selects.

The University, through its two subsidiaries, Karnak Investments Ltd. and U.E.E.F.I.C., holds various marketable and non-marketable Egyptian securities in addition to certain debt securities. The marketable securities represent shares held in traded, quoted companies listed on the Egyptian stock exchange. These investments are initially recorded at cost and are subsequently recorded at market value based on the closing share prices at the end of the last trading day of each fiscal year. The non-marketable Egyptian securities represent shares held in unquoted (private) companies or in securities thinly traded on the Egyptian stock exchange that do not have readily determinable market values. These investments are initially recorded at cost and are subsequently recorded at values based on estimations of fair value made by management.

The movement of the AUC Endowment Fund, the US Federal Endowment Fund and the Karnak / U.E.E.F.I.C. funds, as well as, investment income and net unrealized and realized gains/(losses) from investments are analyzed and reported as notes to the financial statements.

For both the AUC Endowment Fund and the US Federal Endowment Fund, investment income and net unrealized and realized gains are presented net of investment managers’ fees. Total investment manager fees for the fiscal years ended August 31, 2003 and 2002, amounted to approximately $1.5 million in each year.

**Construction in Progress**

All costs incurred for bringing up a constructed asset including interest charges, as well as, expenses of the department assigned responsibility for contract management, are capitalized at year end and added to construction in progress. Construction in progress is transferred to plant and equipment related category only upon satisfactory handing over to the University by the contractor.

**Commitments and Contingent Liabilities**

The University provides for capital commitments, pension plans and early retirement, claims and legal actions arising in the ordinary course of business, or any liability the probability of its occurrence is highly likely within the next twelve month.

**Income Taxes**

The University is exempt from United States federal income tax other than unrelated business income under section 501(c)(3) of the Internal Revenue Code. The University had no net unrelated business income during the years ended August 31, 2003 and 2002 and, accordingly, no provision for income taxes has been made.
The University is considered a non-profit American cultural institution operating in Egypt under the terms of the Protocol with the Egyptian Government. Based on a January 9, 1975, letter issued by the Comptroller General of the Egyptian General Income Tax Department, the University is not subject to Egyptian income taxes.