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**THE AGA KHAN UNIVERSITY (INTERNATIONAL)
IN THE UNITED KINGDOM**

A COMPANY LIMITED BY GUARANTEE

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

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**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
(A COMPANY LIMITED BY GUARANTEE)**

COMPANY INFORMATION

Board of Directors	The Aga Khan University Aga Khan Education Services S A
Secretary	John Hough
Company Number	04448389
Registered Office	4 / 5 Bedford Square London WC1B 3RA
Principal Office	4 / 5 Bedford Square London WC1B 3RA
Auditors	UHY Hacker Young LLP Chartered Accountants St Alphage House 2 Fore Street London EC2Y 5DH
Bankers	Lloyds TSB Pall Mall 8-10 Waterloo Place London SW1Y 4BE

**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to submit its report and financial statements for the year ended 31 December 2006

Legal Status and Principal Activities

The Aga Khan University (International) in the United Kingdom ("the University") was incorporated on 27 May 2002 under the Companies Act 1985 of England and Wales as a company limited by guarantee. The University is an academic unit of the Aga Khan University, which is a statutory body corporate in Pakistan by virtue of its Charter granted in 1983 as Pakistan's first private international university.

The objective of the University is education through the provision of instruction, training and teaching in any branches of learning. Currently, the University is focusing on strengthening research and education for the purpose of enhancing knowledge of the heritage of Muslim civilisations.

Results for the Year

Financial Statements

The results for the year and the University's financial position at the end of the year are shown in the attached financial statements.

Sources of Funding

During the year, the University received £1,855,000 (2005 £1,291,000) from Aga Khan University Foundation, Geneva to meet its funding requirement. The total funding received since inception to 31 December 2006 is £6,029,997 (2005 £4,174,997).

The University also recorded contributions from the Aga Khan University on account of its central support costs of £102,948 (2005 £129,134). The total amount contributed since inception to 31 December 2006 is £635,637 (2005 £532,689).

Deferred Income

As at 31 December 2006, grant received in excess of expenditure for the year was £222,904 (2005 £322,912). Accordingly, this sum has not been recognised during the year then ended. This is carried in the balance sheet as deferred income (within creditors) and not taken to the income and expenditure account as income for the year. This accounting treatment is adopted on the basis that the conditions attached to the grant are that any grants received in an accounting period which are in excess of the total amounts required to cover the expenses for that period are to be carried in the next accounting period to cover the expenses for that period.

**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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REPORT OF THE BOARD OF DIRECTORS

Board of Directors

The Board of Directors who served the University during the year are as follows

- 1 The Aga Khan University
- 2 Aga Khan Education Services S A

The Directors are also the sole members of the University. The limit of the guarantees given by the members amounts to £2 and can be found within members' funds in the balance sheet.

Review and the way forward

The objective during the year ended 31 December 2006 was to continue with the development of the administrative infrastructure and recruitment of faculty and support staff and start a two-year degree Programme of M A in Muslim Cultures in the latter part of the year.

Over the next few years as the University expands in size and scope, faculty members will continue to focus on educational activities, the primary objective being to disseminate knowledge on Muslim civilisations through work in the following three inter related areas:

- 1 Educational Programmes,
- 2 Research and Publications, and
- 3 Muslim Civilisation Abstracts

Auditors

On 30 April 2007 the company's auditors, UHY Hacker Young, transferred their business to a limited liability partnership, UHY Hacker Young LLP ("the LLP"), and the office of auditor has passed to the LLP. In accordance with s385 of the Companies Act 1985, a resolution that UHY Hacker Young LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

Statement of disclosure to auditors

- (a) So far as the Directors are aware, there is no relevant audit information of which the University's auditors are unaware, and
- (b) They have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the University's auditors are aware of that information.

On behalf of the Board of Directors

The Aga Khan University, Director
per



Mr Nurallah Merchant
Director General, University Administration
31 May 2007

**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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STATEMENT OF THE BOARD OF DIRECTORS' RESPONSIBILITIES

In accordance with the Memorandum and Articles of Association, the Board of Directors of the Aga Khan University (International) in the United Kingdom ("the University") is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year

The Companies Act requires the Board of Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the results of the University for that year

The Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice and relevant accounting standards

In causing the financial statements to be prepared, the Board of Directors has to ensure that

- suitable accounting policies are selected and applied consistently,
- judgements and estimates are made that are reasonable and prudent,
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- financial statements are prepared on a going concern basis unless it is inappropriate to presume that the University will continue to be in operation

The Board of Directors has taken reasonable steps to

- ensure that funds from the Aga Khan University Foundation, Geneva are used only for the purpose for which they have been given and in accordance with any conditions which they may prescribe,
- ensure that there are appropriate financial and management controls in place to safeguard funds,
- safeguard the assets of the University and to prevent and detect fraud, and
- secure the economical, efficient and effective management of the resources and expenditure of the University

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic departments and administrative sections,
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets,
- regular reviews of academic performance and financial results involving variance reporting and updates of forecast outturns, and
- clearly defined and formalised requirements for approval and control of expenditure with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Directors

Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss

**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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CORPORATE GOVERNANCE STATEMENT

The following statement is provided to enable readers of the Annual Report and Accounts of the Aga Khan University (International) in the United Kingdom ("the University") to obtain a better understanding of the governance of the University

The University is committed to high standards of corporate governance and intend to comply with the principles set out in Section 1 of the Combined Code on Corporate Governance in so far as they relate to the University and to a University of this size

Since incorporation the Board of Directors has been primarily concerned with developing the infrastructure of the University. During this year, and in view of the nature and size of the University, there has been no substantial requirement for adherence to the recommendation of the Code. However, as the University expands and develops, formal policies and procedures, as regards to compliance with the Combined Code will be established as the Board of Directors deem appropriate.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE AGA KHAN UNIVERSITY (INTERNATIONAL)
IN THE UNITED KINGDOM
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We have audited the financial statements of the Aga Khan University (International) in the United Kingdom ("the University") on pages 7 to 14 for the year ended 31 December 2006. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the University's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the University's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the University's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of the Board of Directors' responsibilities on page 3, the University's directors are responsible for the preparation of the financial statements in accordance with applicable law, the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you if, in our opinion, the Report of Board of Directors is not consistent with the financial statements, if the University has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the University is not disclosed.

We read the Report of Board of Directors and consider the implications of our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the University's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE AGA KHAN UNIVERSITY (INTERNATIONAL)
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Opinion

In our opinion

- The financial statements give a true and fair view of the state of the University's affairs as at 31 December 2006 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions, and
- The information given in the directors' report is consistent with the financial statements

UHY Hacker Young LLP
UHY Hacker Young LLP
Chartered Accountants
Registered Auditors

31 May 2007

THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £	2005 £
INCOME			
Funding grant	2	1,732,964	1,295,187
Return on savings bank account		6,800	13,890
Fees and other income	3	20,088	20,530
		<hr/>	<hr/>
Total income		1,759,852	1,329,607
		<hr/>	<hr/>
EXPENDITURE			
Staff costs	4	978,909	739,471
Other operating expenses	5	688,293	527,605
Depreciation		92,070	61,947
Bank and finance charges		580	584
		<hr/>	<hr/>
Total expenditure		1,759,852	1,329,607
		<hr/>	<hr/>
Results on operations before tax		-	-
Taxation	6	-	-
		<hr/>	<hr/>
Results on operations after tax		-	-
		<hr/>	<hr/>

The income and expenditure account is in respect of continuing activities

THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	7	521,884	196,892
Investments	8	1	1
		<u>521,885</u>	<u>196,893</u>
Current assets			
Debtors	9	183,059	107,305
Cash at bank and in hand		172,618	292,287
		<u>355,677</u>	<u>399,592</u>
Creditors: amounts falling due within one year	10	355,676	(399,591)
Net current assets		<u>1</u>	<u>1</u>
Net assets		<u>521,886</u>	<u>196,894</u>
Represented by:			
Members fund	12	2	2
Deferred capital grant	13	521,884	196,892
Total		<u>521,886</u>	<u>196,894</u>

The financial statements on pages 7 to 14 were approved by the Board of Directors on 31 May 2007 and were signed on its behalf by



Mr Nurallah Merchant
Director General, University Administration

**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1 Accounting policies

The financial statements are prepared in accordance with applicable accounting standards, the Statement of Recommended Practice Accounting in Further and Higher Education Institutions and the Companies Act 1985

a) Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards

b) Group accounts

The financial statements present information about the Aga Khan University (International) in the United Kingdom ("the University") as an individual undertaking and not about the group. The University and its subsidiary undertaking comprise a small-sized group. The University has therefore taken advantage of the exemptions provided by section 248 of the Companies Act 1985 not to prepare group accounts.

c) Recognition of income

Tuition fees are recognized as income over the period of instruction.

Income from grants is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. Grants that have been received during the year but which relate to future expenditure are deferred to future years.

Grants received in respect of the acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Donations and other income are recognised in the income and expenditure account in the year to which they relate.

Income from short term deposits is credited to the income and expenditure account in the period in which it is earned.

All other income is recorded on accrual basis.

d) Foreign currencies

Transactions in foreign currencies are translated at rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling either at the rate of exchange prevailing at the year end or where there are related forward foreign exchange contracts, at contract rates.

The resulting exchange differences are dealt with in the determination of income and expenditure for the year.

e) Pensions

Payments to the University's defined contribution pension scheme are charged to the income and expenditure account as they become payable.

THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies (continued)

f) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation and permanent diminutions in value. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life. The rates of depreciation for office and other equipment and library books have been changed during the year to bring the rates in line with The Aga Khan University as follows:

Leasehold improvements	Life of lease period
Computer equipment	33 3% straight line
Office and other equipment	15% straight line (from 25% straight line)
Library books	15% straight line (from 0%)
Manuscripts	0%

Manuscripts and rare items are accounted for on a 'stock' accounting basis. Any items purchased are capitalised at cost and as they become obsolete or out of date or unusable, they are scrapped and the original cost is written off to the income and expenditure account in full. The items held therefore, maintain high residual values in relation to costs and due to this, they are not depreciated. The University maintains an appropriate register of manuscripts in order to apply this accounting policy.

g) Cash flow statement

The University has taken advantage of the exemption permitted by FRS1, whereby a cash flow statement need not be prepared by a small company as defined in the Companies Act 1985.

2 Funding Grant

	2006	2005
	£	£
a) Aga Khan University Foundation (AKUF), Geneva		
Deferred income brought forward	322,912	265,261
Amount received during the year (excluding deferred capital grant)	1,437,938	1,161,757
Release of deferred capital grant	92,070	61,947
Income deferred to future periods (deferred income closing balance)	(222,904)	(322,912)
	<u>1,630,016</u>	<u>1,166,053</u>
b) The Aga Khan University		
Contribution for central support costs (see note 14)	102,948	129,134
	<u>1,732,964</u>	<u>1,295,187</u>

3 Fees and other income

	£	£
a) Tuition fees - M A Programme	35,625	-
Less Remission	(25,672)	-
	<u>9,953</u>	<u>-</u>
b) Other income		
Seminar, registration and workshop fees	-	7,643
Contributions/donations received	10,135	12,494
Profit on disposal of tangible fixed assets	-	393
	<u>20,088</u>	<u>20,530</u>

THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

4 Staff costs

The average monthly number of persons (including senior post-holders) employed by the University during the year was

	2006	2005
	Number	Number
Faculty	5	4
Support services	14	15
	<u>19</u>	<u>19</u>
Staff costs for the above persons	£	£
Wages and salaries	812,766	631,401
Social security costs	90,390	72,993
Other pension costs	74,342	33,018
Other staff costs	1,411	2,059
	<u>978,909</u>	<u>739,471</u>

5 Other operating expenses

	£	£
Hotel expenses	16,899	22,312
Honorarium	2,200	1,792
Conference and seminar related expenses	9,239	22,572
Travel	34,136	49,543
Recruitment costs	21,137	35,524
Consultancy fees	53,399	6,248
Rent and service charge	172,384	116,151
Rates	16,128	7,617
Utilities	2,170	-
Telephone and fax	18,274	10,076
Repairs and maintenance	51,091	38,324
Legal and professional	37,426	30,793
Insurance	20,518	5,788
Office supplies	21,371	14,685
Office cleaning and maintenance	19,883	13,953
Sundry	3,140	1,306
Central support costs (note 14)	102,948	129,134
Promotional	39,201	10,588
Training	2,984	11,199
Student related costs	42,621	-
Course materials	1,144	-
	<u>688,293</u>	<u>527,605</u>

**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

5 Other operating expenses (continued)

	2006	2005
	£	£
Other operating expenses include		
Auditors' remuneration (included in legal and professional)	8,477	7,860
	<u>8,477</u>	<u>7,860</u>

6 Taxation

The University was established to undertake its activities on a non-commercial basis, funded by grants. On this basis no taxation has been provided for in these accounts.

7 Tangible fixed assets

	Leasehold improvements	Computer equipment	Office and other equipments	Library books	Manuscripts	Total
	£	£	£	£	£	£
Cost						
Brought forward	165,452	66,610	120,263	105,674	-	457,999
Additions	222,619	60,610	73,541	60,292	-	417,062
Reclassified				(5,000)	5,000	-
Carried forward	388,070	127,220	193,804	160,966	5,000	875,061
Depreciation						
Brought forward	107,643	47,294	106,170	-	-	261,107
Charge for year	37,450	4,936	16,002	33,682	-	92,070
	145,093	52,230	122,172	33,682	-	353,177
Net book value						
At 31 December 2006	242,977	74,991	71,632	127,284	5,000	521,884
At 31 December 2005	57,809	19,317	14,092	105,674	-	196,892

(a) The life of the lease of 3 Bedford Square premises is 5 years from 20 March 2002 with a 3 year break clause. All costs relating to this lease have now been fully depreciated.

(b) The life of the lease of 4 and 5 Bedford Square premises is 10 years from 5 December 2005 with a break clause in December 2009.

8 Investments

	£	£
Subsidiary company	1	1
	<u>1</u>	<u>1</u>

The University owns 100% of the issued ordinary £1 shares of The Institute For The Study Of Muslim Civilisations Limited, a company incorporated in England and Wales with one issued share. The subsidiary has been dormant since its acquisition.

THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

9	Debtors	2006 £	2005 £
	Refundable rent deposit	50,000	50,000
	Other debtors	28,882	21,502
	Prepayments	104,177	35,803
		<u>183,059</u>	<u>107,305</u>

Included within other debtors is an amount of £17,578 (2005 £20,287) due from the Aga Khan University (See note 14)

The refundable rent deposit is repayable at the end of the lease term, the earliest date being March 2007

10	Creditors: amounts falling due within one year	£	£
	Creditors for services	55,245	15,258
	Amounts owed to subsidiary undertaking	1	1
	Taxation and social security	26,860	23,807
	Deferred income	222,904	322,912
	Accrued expenses	50,666	37,613
		<u>355,676</u>	<u>399,591</u>

Deferred income is made up of grant funding received during the year from Aga Khan University Foundation, Geneva that has been provided to fund expenditure in future years

11 Financial Commitments

At 31 December the University had annual commitments under operating leases as follows

	Land and Buildings £	
Expiry date		
Between 1 and 2 years	25,000	100,000
Between 2 and 5 years	221,416	221,416

12 Control

The limit of the total guarantees of the members of the University amounted to £2 at the beginning and end of the year. These are held 50% by the Aga Khan University and 50% by Aga Khan Education Services S A

**THE AGA KHAN UNIVERSITY (INTERNATIONAL) IN THE UNITED KINGDOM
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

13 Deferred capital grant

	2006 £	2005 £
At 1 January	196,892	129,596
Grant utilised during the year for the purchase of fixed assets (note 7)	417,062	129,243
Released to income and expenditure account	(92,070)	(61,947)
	<u>521,884</u>	<u>196,892</u>
At 31 December	<u>521,884</u>	<u>196,892</u>

14 Related party transactions

Parties related to the University are the Aga Khan University, Aga Khan Education Services S A and Aga Khan University Foundation, Geneva

Included within other debtors at the year end is a balance due from the Aga Khan University of £17,578 (2005 £20,287 payable) This balance is made up as follows.

	£	£
Balance at 1 January	20,787	28,905
Other expenses included within the appropriate expense headings (within note 5)	(3,209)	(8,618)
	<u>17,578</u>	<u>20,287</u>
Balance at 31 December 2006	<u>17,578</u>	<u>20,287</u>

14.1 Central support costs represent the allocation of senior management's time and related overhead costs

The central support costs for 2006 of £102,948 and those for 2005 of £129,134 have been contributed by the Aga Khan University and have been shown as a contribution from them (See note 2b)