

IPKO.org

Financial Statements as at 31 December 2003

(with independent auditor's report thereon)



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Report of the independent auditor to the shareholders of IPKO.Org.

We have audited the accompanying balance sheet of IPKO.Org ("the Organisation") as of 31 December 2003, and the related statements of income and expenditures, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Organisation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit 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 includes also 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 of our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of IPKO. Org as of 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Sh.p.k

KPMG Albania

15 March 2004

Tirana



KPMG Albania Sh.p.k.
a limited liability company, is a member of KPMG
International, a Swiss Cooperative

Balance sheet as at 31 December 2003

(in EUR '000)

		31 December 2003	31 December 2002
Assets	Notes		
Property and equipment	5	210	277
Investment in associate	6	196	221
Interest bearing loan to associate	7	556	620
Prepayment for services due from associate	8	77	182
Total non-current assets		1,039	1,300
Interest bearing loan to associate	7	109	-
Prepayment for services due from associate	8	39	15
Other receivables	9	3	5
Cash and cash equivalents	10	51	16
Total current assets		202	36
Total assets		1,241	1,336
Accumulated surplus and Total Liabilities			
Accumulated surplus	11	1,038	1,108
Deferred income	12	198	220
Trade and other payables	13	5	8
Total current liabilities		203	228
Total accumulated surplus and liabilities		1,241	1,336

See accompanying notes to these financial statements

Statement of income and expenditures for the year ended 31 December 2003

(in EUR '000)

	Note	2003	2002
Revenue	14	465	282
Personnel expenses	15	(118)	(102)
Depreciation	5	(82)	(69)
Other operating expenses	16	(355)	(304)
Deficit from operations		(90)	(193)
Share in loss of associated company	6	(25)	(98)
Net financing income/(expense)		45	42
Loss for the year		(70)	(249)

See accompanying notes to these financial statements

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Statement of cash flows for the year ended 31 December 2003

(in EUR '000)

	Note	31 December 2003	31 December 2002
Operating activities			
Loss from operations		(70)	(249)
Depreciation		82	69
Share in loss of associated company		24	98
Operating cash flows before changes in working capital		36	(82)
Decrease in trade and other receivables		2	4
(Decrease)/Increase in deferred income		(21)	132
(Increase)/Decrease/in trade and other payables		(3)	5
(Increase) in interest bearing loans to associate		(45)	(42)
Decrease in prepayment for services due from associate		82	68
Cash flows from operating activities		51	85
Investing activities			
Acquisition of equipment		(16)	(100)
Cash flows from investing activities		(16)	(100)
Net increase/(decrease) in cash and cash equivalents		35	(15)
Cash and cash equivalents at 1 January		16	31
Cash and cash equivalents at 31 December 2003	10	51	16

See accompanying notes to these financial statements

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Statement of changes in equity for the year ended 31 December 2003 (in EUR '000)

	Accumulated profit/(losses)	Total
Balance at 31 December 2001	1,357	1,357
Net loss for the year	(249)	(249)
Balance at 31 December 2002	1,108	1,108
Net loss for the year	(70)	(70)
Balance at 31 December 2003	1,038	1,038

See accompanying notes to these financial statements

Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

1. Introduction

IPKO.org (the "Organisation") is a not for profit Organisation domiciled in Kosovo providing IT training and Management courses. The also Organisation provides-ISP services through its associate, IPKO.net ("the Associate") and in this capacity provided its services free of charge to a number of non government Organisations. The directors authorized the financial statements for issue on March xx, 2004.

2. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB) and with interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

3. Basis of preparation

(a) The financial statements are presented in EURO ("EUR"), the functional currency within the Territory of Kosovo, rounded to the nearest thousand. They are prepared on the historical cost basis.

The accounting policies are consistent with those used in the previous year.

(b) Basis of consolidation in associates

Associates are those enterprises in which the Organisation has significant influence, but not control, over the financial and operating policies. The financial statements include the Organisation's share of the total recognised gains and losses of its association on an equity accounted basis, from the date that significant influence commenced until the date that significant influence ceases. If the Organisation's share of losses exceeds the carrying amount of the Associate, the carrying amount will be reduced to nil and recognition of further losses discontinued.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to EUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to EUR at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of income and expenditures. Non-monetary assets and liabilities denominated in foreign currencies are translated to EUR at the foreign exchange rates ruling at the dates the values were determined.

Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

(d) Property and equipment**(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment, if any (refer note k).

(ii) Depreciation

Depreciation is charged to the statement of income and expenditures on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. The estimated useful lives are as follows:

	To 31 August 2001	From 1 September 2001
▪ leasehold equipment	3 years	5 years
▪ plant and equipment	3 years	5 years
▪ fixtures and fittings	3 years	5 years

The change in the depreciation rates was to reflect the actual usage of the assets in conformity with non-for profit activities

(f) Interest bearing loan to associate

Interest-bearing loan to the Associate is classified as an originated loan. Originated loans are reported at amortised cost net of allowances to reflect the estimated recoverable amounts.

Allowances are made against the carrying amount of loans that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

(e) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses. An impairment loss is recognized in the statement of income and expenditures whenever the carrying amount of a receivable exceeds its estimated recoverable amount (refer note k).

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Organisation's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Trade and other payables

Trade and other payables are stated at their cost.

Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

(g) Revenue

(i) Grants

Grants are recognised in the balance sheet initially as deferred revenue when there is reasonable assurance that they will be received and that the Organisation will comply with the conditions attaching to them. Grants that compensate the Organisation for expenses incurred are recognised as revenue in the statement of income and expenditures on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Organisation for the cost of an asset are recognised in the statement of income and expenditures as revenue on a systematic basis over the useful life of the asset.

(ii) Tuition fees

Tuition fees are recognised in the balance sheet initially as deferred revenue when there is reasonable assurance that they will be received and are recognised as revenue in the statement of income and expenditures on a systematic basis in the same periods in which the courses are held

(h) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the statement of income and expenditures on a straight-line basis over the term of the lease.

(ii) Net financing income

Net financing income comprise interest receivable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

(i) Income tax

As a not-for-profit organisation IPKO.org is exempt from income taxes. In Kosovo, an NGO registered under the present regulation may apply for public benefit status and exemption from income tax. The Foundation received such status on December 2001 and is applicable to all activities that have been registered with UNMIK on 15 December 1999.

Additionally, in accordance with the provisions of regulation number 2001/11 of UNMIK, all imports, inflows within the Former Republic of Yugoslavia (or "FRY") or supplies funded from the proceeds of the grants made to UNMIK or the Administrative Departments of the Joint Interim Administration Structure by governments, government agencies, governmental or non-governmental Organisations in support of humanitarian and reconstruction programs and projects in Kosovo are exempt from VAT. The activities of the Organisation are exempt from VAT.

Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

(j) Segment reporting

A segment is a distinguishable component of the Organisation that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(k) Impairment

The carrying amount of the Organisation's assets is reviewed at each balance sheet date to determine whether any indication of impairment exists. If any such indication exists, the assets recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of income and expenditures.

Notes to the financial statements for the year ended 31 December 2003*(amounts in EUR '000, unless otherwise stated)***Notes to the financial statements:**

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Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

4. Segment reporting

Following the disposal of the internet service business unit on 1 September 2001 to IPKO.net LLC, the Organisation operates in a single segment, providing IT training management courses, and in one geographical location, Kosovo.

5. Property and equipment

Property and equipment consisted of the following:

	<i>Leasehold improvements</i>	<i>Equipment</i>	<i>Fixtures and fittings</i>	<i>Total</i>
Cost				
At 1 January 2003	188	194	21	403
Additions	-	16	-	16
At 31 December 2003	188	210	21	419
Accumulated depreciation				
At 1 January 2003	71	47	8	126
Depreciation charge for the year	37	41	5	83
At 31 December 2003	108	88	13	209
Net carrying amount				
At 1 January 2003	117	147	13	277
At 31 December 2003	80	122	8	210

6. Investment in associate

As stated in note 4 above, as a result of the disposal of the internet service division during 2001, the Organisation acquired 48.9% of the voting shares of IPKO.net LLC which had an attributed value of TEUR 277. The carrying value of the investment for the year 2003 and 2002 is as follows:

	31 December 2003	31 December 2002
At the beginning of period	221	319
Share in profit/(loss) of associate	(25)	(98)
At the end of the period	196	221

Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

7. Interest bearing loan to associate

Current portion

	31 December 2003	31 December 2002
Loan to Associate	109	-

Non-current portion

	31 December 2003	31 December 2002
Loan to Associate	456	565
Accrued interest due from Associate	100	55
	556	620

The loan to the associate is payable after 1 September 2004 in equal monthly instalments for a period up to 1 August 2006 and is subject to interest at 7% per annum. The accrued interest is also payable after 1 September 2004 as it is currently capitalised to the principal on a monthly basis.

8. Prepaid services due from associate

Prepaid services due from associate represent administrative services for a period of five years to be provided by IPKO.net to IPKO.org. This arrangement was agreed upon at the time of the disposal of the Internet business unit, as explained in note 4. During 2003, prepaid services decreased by TEUR 83 (2002: TEUR 68). Also refer note 16.

9. Other receivables

	31 December 2003	31 December 2002
Sundry debtors	2	2
Other	1	3
	3	5

10. Cash and cash equivalents

	31 December 2003	31 December 2002
Cash on hand	2	2
Cash at bank	49	14
Cash and cash equivalents at cash flow statement	51	16

11. Accumulated surplus

Reconciliation in movement in accumulated surplus

	31 December 2003	31 December 2002
As at 1 January	1,108	1,357
(Deficit)/surplus for the year	(70)	(249)
As at 31 December 2003	1,038	1,108

Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

12. Deferred income

	31 December 2003	31 December 2002
Grants	145	151
Tuitions fees received for training courses yet to be provided	53	19
Deferral of revenues recognised in prior year	-	50
	198	220

13. Trade and other payables

	31 December 2003	31 December 2002
Trade payables due to associate	2	2
Other trade payables	3	6
	5	8

14. Revenue

	2003	2002
Grants	322	126
Tuition fees	142	156
Other	1	-
	465	282

15. Personnel expenses

	2003	2002
Wages and salaries	112	102
Per diems	4	-
Trainers	2	-
	118	102

The average number of employees during the year ended 31 December 2003 was 13 (2002:13).

16. Other operating expenses

	2003	2002
Administrative services	83	68
Advisory, legal and audit fees	68	82
Occupancy costs	63	53
Travel and entertainment	59	61
Marketing and advertising	39	6
Telephone, postage and shipping	17	10
Office supplies	14	12
Insurance fees, bank charges	4	3
Other	8	9
	355	304

Notes to the financial statements for the year ended 31 December 2003

(amounts in EUR '000, unless otherwise stated)

17. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2003	31 December 2002
Less than one year	46	34
Between one and five years	49	44
	95	78

The Organisation leases its training facilities under an operating lease, which runs for an initial period of five years, with an option to renew the lease after that date. During the year ended 31 December 2003 TEUR 46 was recognised as an expense in the statement of income and expenditures in respect of operating leases (2002: 41).

18. Related parties

Identity of related parties

The Organisation has a related party relationship with its associate described in notes 6, 7, 8 and with its directors. No payments were made during the year to directors and executive officers. All the transactions have been performed on an arm's length basis.

19. Financial risk management and estimation of fair values

Credit risk

The Organisation's financial instruments, which potentially subject the Organisation to concentrations of credit risk, consist primarily of relationship with its associate described in notes 6, 7, 8. The receivables credit risk is controlled through approvals of receivables and budget expenditures that generate such receivables.

Interest rate risk

The Organisation's revenues and operating cash flows are substantially independent of changes in market interest rates. There are no interest bearing borrowings.

Foreign exchange risk

The Organisation is exposed to foreign exchange risk mainly in relation to revenues in USD. The daily transactions are converted to Euro using the official exchange rate on the date of the transaction. At the year-end the amounts are converted to EURO using the year-end exchange rate.

Estimation of fair value

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of the anticipated activities and the value of assets and liabilities not considered financial instruments.

In general, the Organisation's balance sheet financial instruments have an estimated fair value approximately equal to their book value due to either their short-term nature or underlying interest rates, which approximate market rates.