



Kosovo Enterprise Program : A Micro Finance Institution

Financial Statements for the period

August 1, 1999 to December 31, 2000

Contents

	Pages
Report of the Independent Auditors	3
General information	4-5
Income Statement	6
Balance Sheet	7
Cash flow statement	8
Notes to the Financial Statements	
Summary of significant accounting policies	9-12
Other income	12
Bad and doubtful debts expense	12-13
Taxation	13
Related party transactions	13
Financial instruments	13
Loans to customers	13-14
Branch equity	14-15
Maturity analysis	16
Property, plant and equipment	17
Currency analysis	18

To the Board of Directors of
Kosovo Enterprise Program : A Micro Finance Institution

Report of the Independent Auditors

Introduction

We have audited the accompanying Balance Sheet of the Kosovo Enterprise Program as of December 31, 2000, and the related Income Statement, Cash Flow, and Notes for the period from August 1, 1999 to December 31, 2000. These financial statements are the responsibility of the Micro Finance Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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 also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Kosovo Enterprise Program as at December 31, 2000, and of the results of its operations and its cash flows for the seventeen month period in accordance with International Accounting Standards.

Without qualifying our opinion we draw attention to Note 1(j) in the financial statements concerning the Institution's ability to continue as a going concern. We believe that while the going concern concept is appropriate for the following twelve months, the sustainability of the Institution is dependent upon obtaining additional finance.

PricewaterhouseCoopers S.A.

M Foley
Geneva, February 28, 2002

A McCallum

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

General Information

KEP operations

The Micro Finance Institution Kosovo Enterprise Program (hereafter KEP) is currently a program of the humanitarian organization International Catholic Migration Commission – Switzerland (hereafter ICMC). ICMC-KEP is registered with the Banking and Payments Authority of Kosovo (hereafter BPK), as a non-bank microfinancial institution as defined in section 2 of Regulation 1999/21. KEP commenced its operations in August 1999.

ICMC currently manages KEP and the loan funds contributed by donors on a fiduciary basis until a new autonomous legal entity is created in Kosovo under the relevant laws. Until that time, all loan fund donations received by KEP from donors via ICMC are considered as branch equity. The loan funds and operations will be transferred to the new entity once formed.

Certain operating costs of KEP such as personnel costs are borne directly by ICMC or other donors on behalf of KEP. These operating expenses are included within the financial statements of KEP, with a corresponding and equal amount being included within donation income to reflect the fact that the donors are deemed to have made donations up to the value of the operating expenses provided.

Donors have also donated funds to KEP to purchase fixed assets. The assets are recognised in these financial statements upon purchase and the excess of donation income and costs charged to the income statement are treated as deferred income on the balance sheet. The deferred income is recognised as income in the income statement over the useful life of the fixed assets.

Board of Directors

KEP is governed by the following people:

Muriithi Kagai	Director, KEP
Dale Buscher	Director of Operations, ICMC Switzerland
Stephen Maynard	Director of Kosovo Programs, ICMC Kosovo
Fera Agricola	Cordaid Finance Specialist

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

Number of authorised offices and registered address

The activities of KEP are distributed over 2 branches:

- a) Prizren, Kosovo
- b) Peja, Kosovo

The head office is located in Prizren, Internacionalja I str. 58, Kosovo.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

Income Statement

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(all amounts expressed in DEM)	Notes	Period August 1, 1999 to December 31, 2000
Interest income on loans to customers		214,463
Administration fees on loans to customers		103,121
Training fees		31,130
Other income	2	3,068
Operating income		351,782
Allocation to the doubtful debts provision	3	85,969
Personnel costs		825,462
Administrative expenses		664,983
Bad debts expense	3	9,300
Operating expenses		1,585,714
Operating deficit for the period before exceptional income donations		(1,233,932)
Donations from donors against operating expenses		1,443,896
Current period recognition of donations from donors for the purchase of fixed assets		52,820
Net surplus of income over expenses for the period		262,784

Note: The accompanying notes are an integral part of these financial statements.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

Balance Sheet

(all amounts expressed in DEM)	Notes	Period August 1, 1999 to December 31, 2000
ASSETS		
Cash		1,355,324
Loans to customers	7	2,779,659
Receivable from ICMC		1,180,860
Prepaid expenses		4,500
Property, plant and equipment	10	232,996
Total assets		5,553,339
LIABILITIES		
Accruals and other short term liabilities		9,607
Deferred donation income		232,996
Total liabilities		242,603
Total assets less liabilities		5,310,736
BRANCH EQUITY AND RETAINED SURPLUS		
Branch equity	8	5,047,952
Retained surplus	8	262,784
Total branch equity and retained surplus		5,310,736

Note: The accompanying notes are an integral part of these financial statements.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

Cash flow

(all amounts expressed in DEM)	Note	Period August 1, 1999 to December 31, 2000
Cash flows from operating activities		
Net deficit from operating activities before exceptional income donations		(1,233,932)
Adjustments for depreciation	10	52,820
Operating deficit before working capital changes		(1,181,112)
Net increase in loans and advances to customers	7	(2,779,659)
Net increase in other assets		(1,185,360)
Net increase in other liabilities		9,607
<i>Net cash from operating activities</i>		<i>(5,136,524)</i>
Cash flows from investing activities		
Purchase of property, plant and equipment	10	(285,816)
<i>Net cash from investing activities</i>		<i>(285,816)</i>
Cash flows from financing activities		
Loan fund contributions presented as branch equity resulting from contributions from ICMC donors	8	5,047,952
Exceptional donations from donors to purchase fixed assets	8	285,816
Exceptional donations from donors against operating expenses	8	1,443,896
<i>Net cash from financing activities</i>		<i>6,777,664</i>
Net increase in cash and cash equivalents		1,355,324
Cash at beginning of period		0
Cash at end of the period		1,355,324

Kosovo Enterprise Program : A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

Notes to the Financial Statements

1. Summary of significant accounting policies

The principal accounting policies adopted for the preparation of the financial statements and the principal risks taken into account when assessing these accounting policies are set out below:

(a) Basis of Presentation

The financial statements are prepared under the historical cost convention in accordance with International Accounting Standards using guidance, where applicable, from the Consultative Group to Assist the Poorest (CGAP), a consortium of donor agencies that provide recommendations for best practices for micro finance institutions.

(b) Risks

KEP takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. KEP structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining guarantees for both group and personal loans.

KEP also takes on limited exposure to interest rate risk resulting in the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This risk is limited by the facts that KEP does not borrow funds to finance the loan fund, and that the terms of loans issued are less than one year.

(c) Foreign Currencies

All transactions denominated in foreign currencies are translated into Deutsch marks at the rates prevailing at the transaction date. A translation of the Balance Sheet into Euros is given in note 11 to the financial statements.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

(d) Interest and Fees Income and Expense

Interest income, fees income and expenses occurred in Kosovo are recognised in the financials statements on an accrual basis.

(e) Loans

Loans are stated in the Financial Statements at the amount of the principal outstanding less any provision for bad and doubtful debts.

(f) Provision for Doubtful Loans

Provision for bad and doubtful loans is made, taking into regard both specific and general risks, and in accordance with internationally recommended guidelines and local BPK rules. In determining the overall level of the provisions required, management considers numerous factors including, but not limited to, the financial condition of the borrower, existence and quality of collateral, domestic economic conditions, the composition of the loan portfolio and prior bad debt experience and repayments after year-end. To date, there has been no history of significant non-payment of loans and there are no significant loans in arrears at year-end, therefore management consider the provision of 3% of the principal outstanding appropriate.

(g) Cash

For the purposes of the cash flow statement, cash comprises balances held with the Micro Enterprise Bank (MEB). Due to the lack of banks operating in Kosovo during the period, KEP holds current accounts with the Micro Enterprise Bank (MEB) only. No interest is earned on these deposits.

(h) Goods and Services in Kind

In-kind donations are benefits or subsidies that the organisation receives to support operations, but which are paid and accounted by a third party.

Certain donors have loaned assets, such as the use of motor vehicles, for use by KEP without charge. These services in kind are not reflected within these financial statements.

(i) Branch Equity Contributions

Donation/grant contributions are assistance by government or other parties in the form of transfer of resources to the organisation. ICMC currently manages the loan fund of KEP on

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

a fiduciary basis on behalf of the ICMC donors until a new legal entity, “Kosovo Enterprise Program”, is created as a separate legal entity and registered under the relevant laws, and the donors approve the permanent transfer of these funds to the new legal entity. The loan funds contributions are recorded within KEP as branch equity within the balance sheet as it is considered as a capital contribution from ICMC donors. These contributions are technically repayable until the new entity is formed although management consider the risk of repayment demands as remote.

When operational and administrative costs, including salaries, are paid directly by ICMC or another donor they are recorded on a monthly basis into the income statement as both an expense of KEP and a corresponding income donation received against operating expenses via ICMC from donors.

When KEP receives donations for the purchase of fixed assets, the matching principle is applied to ensure that the recognition of income reflects the pattern of costs charged to the income statement. At the balance sheet date, any excess of this type of donation income over the costs of the related assets already charged in the income statement is classified as deferred donation income in the balance sheet. The deferred income shall be recognised in the income statement over the remaining useful life of the assets concerned.

(j) Going concern

These financial statements are presented using the going concern concept. Nevertheless, management have identified that the sustainability of KEP is dependent on the continued support of ICMC and its donors to provide operating services and/or the ability of KEP to obtain additional loan equity funding as the income currently being generated from loans is considered insufficient to meet on-going costs. Management consider that sufficient funds exist to operate for the coming twelve months and that the application of the going concern concept is appropriate for these financial statements. This estimation is based on the fact that ICMC intend to continue funding the KEP operational costs for the coming year.

Due to the nature of this uncertainty, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the entity is unable to continue as a going concern.

(k) Date of creation

KEP commenced activity in August 1999, with the authority to establish a Micro Finance Institution subsequently being received from the BPK on May 19, 2000.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

(1) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

- Office equipment: 4-10 years
- Motor vehicles: 5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus. Repairs and renewals are charged to the income statement when the expenditure is incurred.

2. Other income

(all amounts expressed in DEM)	2000
Application fees	1,650
Late fees on loans to customers	1,418
Other income	3,068

3. Bad and doubtful debts

(a) Doubtful debts provision

The movement in the provision for losses on loans to customers is as follows:

(all amounts expressed in DEM)	2000
Balance at August 1, 1999	-
Creation of provision for doubtful debts	85,969
Balance at December 31, 2000	85,969

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

(b) Bad and doubtful debts expense

The breakdown of the bad and doubtful debts expense is as follows:

(all amounts expressed in DEM)	Period August 1, 1999 to December 31, 2000
Bad debts written off	9,300
Creation of provision for doubtful debts	85,969
Total	95,269

4. Taxation

Kosovo Enterprise Program is tax exempted, because it is part of the international humanitarian organisation ICMC. Thus there is no taxation due in relation to the period to December 31, 2000.

5. Related party transactions

There were no related party transactions for the period ending December 31, 2000 other than the transactions with ICMC noted above.

6. Financial instruments

(a) Financial Statements financial instruments

In the normal course of business, KEP provides only loans to its customers.

(b) Fair value of financial instruments

At year-end, the fair value of cash, loans and other current assets and liabilities are not materially different from their carrying value.

7. Loans to customers

(a) Analysis by interest rates

KEP charges an annual interest flat rate of 18% on loans to individuals and 15% annual interest flat rate on group loans.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

(b) Geographical analysis

As of December 31, 2000 all loans were to citizens or companies incorporated in Kosovo.

(all amounts expressed in DEM)	2000
Prizren (loans to individuals)	1,072,258
Peja (loans to groups of individuals)	1,793,370
Provision	(85,969)
Total	2,779,659

All loans are due within 1 year.

8. Branch equity

a) Movement schedule

(all amounts expressed in DEM)	2000
Balance as at August 1, 1999	0
Contributions to loan fund from ICMC donors	5,047,952
Net surplus for the period	262,784
Balance as at December 31, 2000	5,310,736

(b) Cumulative donation/grant contributions – analysis by donor

(all amounts expressed in DEM)	Period to December 31, 2000
ICMC	57,300
UNHCR	4,089,073
US-BPRM	1,287,367
UNDP	1,259,217
Other	84,707
Total	6,777,664

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

(c) Analysis of use of cumulative donation/grant contributions

(all amounts expressed in DEM)	Period to December 31, 2000
Contributions to branch equity	5,047,952
Contributions against operating expenses	1,443,896
Contributions to purchase fixed assets	285,816
Total	6,777,664

(d) Distribution of the surplus

No distribution is proposed at December 31, 2000.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

9. Maturity analysis

The amount of total assets and total liabilities analysed over the remaining period to the contractual maturity date at December 31, 2000 is as follows (DEM):

	Demand (including arrears)	Up to 6 months	From 6 months to 1 year	Over 1 year	No specified maturity	Total 2000
ASSETS						
Cash	1,355,324	-	-	-	-	1,355,324
Loans to customers	-	2,259,451	606,177	-	-	2,865,628
Provisions against loans to customers	-	(67,784)	(18,185)	-	-	(85,969)
Receivable from ICMC	-	1,180,860	-	-	-	1,180,860
Prepaid expenses	-	4,500	-	-	-	4,500
Property, plant and equipment	-	-	-	-	232,996	232,996
TOTAL ASSETS	1,355,324	3,377,027	587,992	-	232,996	5,553,339
LIABILITIES						
Accruals	-	(9,607)	-	-	-	(9,607)
Deferred income	-	-	(52,821)	(180,175)	-	(232,996)
TOTAL LIABILITIES	-	(9,607)	(52,821)	(180,175)	-	(242,603)
TOTAL ASSETS -/ LIABILITIES	1,355,324	3,367,420	535,171	(180,175)	232,996	5,310,736

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

10. Property, plant and equipment

	<i>Equipment and Motor Vehicle</i>
	<i>DEM</i>
<i>Cost</i>	
At August 1, 1999	0
Additions	285,816
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At December 31, 2000	285,816
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<i>Depreciation</i>	
At August 1, 1999	0
Charge for the period	(52,820)
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At December 31, 2000	(52,820)
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<i>Net book amount</i>	
At August 1, 1999	0
At December 31, 2000	232,996
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The funds to purchase the fixed assets have been donated via ICMC by donors. The donation income is treated as deferred income and recognised in the income statement over the economic useful life of the assets concerned.

Kosovo Enterprise Program – A Micro Finance Institution
Financial Statements for the period August 1, 1999 to December 31, 2000

11. Currency Analysis

The total amount of total assets and total liabilities analysed by currency at December 31, 2000 is as follows:

ASSETS		DEM	EURO
Cash		1,355,324	692,966
Loans to customers	7	2,779,659	1,421,217
Receivable from ICMC		1,180,860	603,764
Prepaid expenses		4,500	2,301
Property, plant and equipment		232,996	119,129
Total assets		5,553,339	2,839,376
LIABILITIES			
Accruals and other short term liabilities		9,607	4,912
Deferred donation income		232,996	119,129
Total liabilities		242,603	124,041
Total assets less liabilities		5,310,736	2,715,335
BRANCH EQUITY			
Branch equity	8	5,047,952	2,580,976
Retained surplus		262,784	134,359
Total branch equity and retained surplus		5,310,736	2,715,335