



Annual Financial Report 2006

Dubois  Co.
REGISTERACCOUNTANTS

Amsterdam, 6 AUG 2007

paraaf voor identificatiedoeleinden:

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Executive Board Report

General information

HealthNet TPO is a Dutch non-profit organization that supports populations in conflict areas by building sustainable health-care systems accessible to everyone. The year 2006 was a year of consolidation for the organization, following the merger that took place on 1 January 2005 between HealthNet International – established in 1992 – and the Transcultural Psychosocial Organization – established in 1995. The amalgamation of both organizations was aimed at reinforcing thematic collaboration, organizational strength and efficiency, while the synergy created by the merger was expected to generate benefits through the integration of psychosocial care and general health care in the countries in which both organizations are active. Throughout 2006, we concentrated initially on combining the operational organizations at office level in Amsterdam. Moreover, we started to interweave the working methods in the country programmes, particularly in Burundi and Sudan.

In 2006, HealthNet TPO spent EUR 11.4 million on the execution of the mandate. That was an increase of more than one million compared to the previous year, and 0.4 million more than budgeted for 2006. A total of EUR 10.3 million was available for the direct execution of the organization's objectives (substantially above the estimate of EUR 9.4 million). Our own fundraising efforts and third-party activities generated EUR 782K, whereas we had budgeted EUR 434K. In 2006, institutional donors contributed an average of 6% towards indirect costs.

Throughout the year 2006, the organization was troubled by constant liquidity problems. This had a significant influence on operational management and must not go unmentioned here. The core of this issue is the lack of financial reserves in the form of equity. HealthNet TPO works with the resources provided by institutional donors (see table on page 8). All these donors pursue a certain reporting and payment system, the essence of which is a payment pattern based on financial reporting. If, for instance, data are supplied too late from the field (for which there frequently are good reasons, given the nature of the situation), or if the donor postpones a following payment for some other reason (something that unfortunately occurs on a regular basis), the lack of reserves is felt immediately. In the first half of the year it was mainly the portfolio in Afghanistan that caused such management problems. That impeded the regular implementation of the project portfolio.

Reorganization

Furthermore, in July 2006 HealthNet TPO began reorganizing the head office. Reasons for this reorganization were, on the one hand, the precarious financial situation of HealthNet TPO, but, on the other hand, also the need to work more specifically on capacity building in the field. In order to embark on capacity building in a broader sense, it was necessary to bring technical expertise into the field, while the support role of the Amsterdam head office could be carried out less expensively by means of networking.

We defined the following starting points for the reorganization:

- HealthNet TPO takes an integral approach to work and does not focus on one disease or subject, but aims to set up broad-based programmes in which the various components supplement and reinforce each other.
- HealthNet TPO works together with the local population and supports locally active organizations with knowledge, policy-making, skills training and funds. HealthNet TPO strengthens the knowledge and skills of local relief workers so that Western aid will no longer be necessary in the future.
- HealthNet TPO works in an innovative way, conducting scientific research and developing new models to improve health-care systems. HealthNet TPO's programmes are widely implementable and are regularly deployed by other relief organizations.

As of June 2006, there were 20.4 FTEs employed at the HealthNet TPO head office. The head office is responsible for the development, acquisition, organization, as well as the content-related and management support of programmes that are executed worldwide. This means that the head office plays a steering and coordinating role within the organization and is at the disposal of the various country programmes and projects.

In addition, HealthNet TPO sends advisors and consultants to the different countries to support the programmes with knowledge, policy and skills training, thus contributing to capacity building among local health workers in order to put them in a position to help rebuild their health systems. The number of international experts fluctuates around 20 FTEs. These specialists have different nationalities but are employed under Dutch labour laws. Moreover, there are an additional total of 2,500 employees working under local labour laws (insofar as they exist) in the various countries. The reorganization was not applicable to employees posted abroad nor to local employees.

HealthNet TPO must take a number of measures in order to be able to ensure continuity, and several scenarios have been developed for this purpose. One of these scenarios is the implementation of cost-saving measures involving a more efficient set-up of the organization and a better alignment of the competencies with the organization's objectives. Given the current financial situation, this will also have to lead to a reduction in staff expenses.

This was the reason why in 2006 HealthNet TPO adapted its work force more optimally to the organization's objectives. These objectives are geared towards capacity building in post-conflict countries, in order to:

- Increase manageability of the project portfolio in the countries.
- Strengthen management and content-related knowledge in the countries.
- Propagate capacity building as core business and by doing so align the required competencies at the head office with the organization's objectives.
- Enter into cooperative alliances with research institutes to strengthen the research apparatus and create independent research funds.
- Deploy personnel in a more flexible way by focusing on a knowledge and network organization that does not only have all competencies in-house, but also makes use of knowledge obtained through the network or brings in people in a flexible way based on need.

As a result of this reorganization plan, a reduction in the Amsterdam office staff by 5.1 FTEs was achieved, which in terms of budget amounts to a 30% decrease in personnel costs.

2006 Result

The total financial result for the year 2006 is nevertheless negative: we had an operational deficit of EUR 80,993. We were forced to use nearly all available financial resources to execute the projects. Moreover, we received support from Cordaid, which stepped in as project financier. However, reserves have now fallen to a minimum: equity amounts to EUR 7,014.

This calls for measures, which are indeed being taken. Execution of the project portfolio is hampered by the lack of reserves. For this reason, HealthNet TPO is still looking for a good partner. In 2006 and 2007 we maintained extensive contacts that did lead to significant support but not to a definitive solution. Important is that these discussion rounds revealed the willingness of fellow organizations to arrive at a solution. The fact that a sound solution will take time is primarily attributable to the transparent way in which every organization should – and wishes to – deal with the available financial resources.

2007 Expectations

At the time of writing, cover for the indirect costs for the year 2007 has nearly been arranged, thanks to the expansion of the partnership with Eureko/Achmea and the broader-based support we will receive from private funds. After years of cooperation and a gradually growing trust, they took the step and moved from project financing to programme financing. By that, we refer to the willingness to also help finance development and supervision costs for the projects, as a result of which the deficit in indirect cost recovery will decrease. Moreover, Cordaid will also play an important role in 2007 as a participant in project financing.

Board and Management Team in 2006

Executive Board

A.M.F. Winkler, Chairman
P. Aukema, Treasurer
G.J. Doornkate, Secretary
H. Kosterman, Member
E. Sondorp, Member

Management Team

W.A.C.M. van de Put, General Manager
Joop de Jong, Public Health & Research Director (until October 2006)

Analysis of the financial results

Fundraising

The total of freely disposable donations received in 2006 amounted to EUR 202K. This is substantially less than budgeted (more than 600K) and indicates that raising freely disposable funds is still HealthNet TPO's Achilles' heel. That is not only attributable to a lack of financial resources (and experience!) for setting up a well-functioning fundraising system, but also to changes in the market. Ever since its first steps on the fundraising trail, HealthNet TPO has focused on corporate fundraising: funds that companies would be prepared to furnish. What we underestimated in this respect was their willingness to collaborate with a partner with no name awareness, as well as their willingness to contribute to indirect costs. Most companies are primarily interested in a short, powerfully set up project executed under the auspices of a well-known organization.

In 2006, we made an attempt to change this approach in two ways. Firstly, we put a great deal of effort into raising our name awareness, by taking part in public debates, publications and such. The participation of Dutch troops in the peace operation in Afghanistan came as a boost to HealthNet TPO, since Afghanistan is still our largest project country. Secondly, we tried to convince capital funds and companies to deploy the possibility of contributing to our projects by making 'earmarked' funds available. This means that as of 2007 we can work with these funds on specific topics such as war traumas, finance models for health care and psychosocial rehabilitation of 'war rape' victims.

In this manner, these donors contribute to the quality of project execution and are directly involved in the implementation of a large number of activities in different regions.

Share in third-party activities

Cordaid has decided to take part in a number of projects that had not yet been fully financed, for a total of EUR 400,000. This contribution is extremely important to HealthNet TPO because whenever there is a lack of reserves, the uncovered portion of a project will lead to an immediate loss.

The amount of EUR 250,000 entered in 2006 under 'Share in third-party activities' concerns PLAN's support of the Child Thematic Programme (CTP). This support is intended for a period of three years and was initially meant to expire at the end of 2006. In the meantime, it has been decided to extend this period by nine months, and a further three-year extension of this construction is under discussion. This children's programme is particularly unique because of the simultaneously conducted effect study. This makes the CTP one of the few interventions aimed at children that will ultimately reveal what works and what doesn't. As a response to the earthquake in October 2005, the collaboration with PLAN was expanded last year to include Pakistan. An extension of this effort is therefore in keeping with expectations.

Subsidies from governments and other donors

Compared to 2005, project subsidies increased by more than 11%.

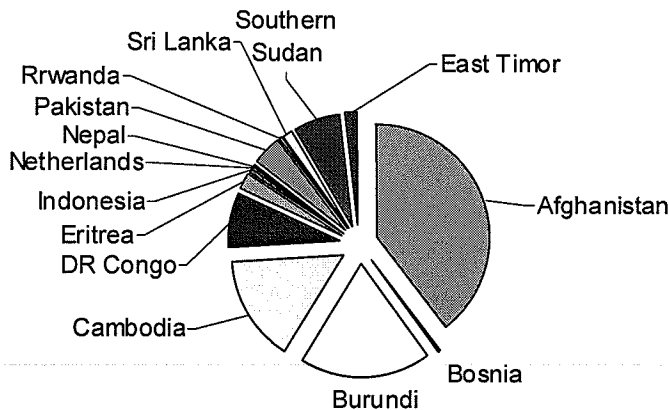
Afghanistan remains by far the largest project country. This is partially attributable to the immense Malaria programme being conducted in this country, but even more so to HealthNet TPO's long history in Afghanistan.

Since 1994, the organization has been implementing three large-scale programmes in Afghanistan and Pakistan: the Malaria and Leishmaniasis Control programme, the Health

Care Support programme, and the Mental Health programme. Since the situation in Afghanistan has barely improved in recent years due to political developments, HealthNet TPO's activities have not been able to come to a natural dose. This ongoing need for support in the country's reconstruction, in combination with our increasingly growing local expertise, is responsible for the scope of activities in Afghanistan.

An exit scenario, in which the local situation has gradually improved, enabling HealthNet TPO to withdraw and transfer its operations to local organizations, is actually taking place in Bosnia and East Timor. On the other hand, we also have to deal with a substantial increase in other countries where the reconstruction process has in fact accelerated, such as Burundi and Southern Sudan.

Overview of income per project country			
	2006		2005
Afghanistan	4,316,419	39.8%	3,833,639
Bosnia	21,446	0.2%	133,804
burundi	2,022,653	18.7%	1,120,524
Cambodia	1,620,924	15.0%	1,767,627
DR Congo	871,197	8.0%	1,008,966
Eritrea	259,466	2.4%	3,028
Indonesia	78,240	0.7%	76,676
Netherlands	8,789	0.1%	214,766
Nepal	25,196	0.2%	99,621
Pakistan	490,398	4.5%	326,124
Rumania	-	0.0%	49,065
Rrwanda	37,891	0.3%	6,859
somalia	-	0.0%	-878
Sri Lanka	151,922	1.4%	276,013
Southern Sudan	745,052	6.9%	260,031
Uganda	-	0.0%	154,126
East Timor	184,002	1.7%	276,489
Other Countries	-	0.0%	118,266
Total project turnover	10,833,595	100.0%	9,724,746



There has been a temporary decline in projects taking place in the Netherlands. This mainly concerns research and knowledge exchange. Currently there are plans afoot for a number of projects in the Netherlands where our experience gained abroad can be put at the service of, for example, refugees and asylum seekers.

Cover for indirect costs

Costs which we cannot charge to project budgets are costs incurred for the development of ideas, new projects, costs for the presentation of our work and the distribution of the results, costs connected with monitoring safety, keeping abreast of new developments, and so forth. Another category of costs that cannot be charged to project budgets are costs connected with unexpected but necessary expenditures, for example in the case of an extremely unsafe situation or an epidemic.

In 2006, these indirect costs amounted to 11.7% of the total available financial resources.

Coverage for this entry of indirect costs consists of a number of different contributions. In the first place, there was the contribution HealthNet TPO received from institutional donors for this purpose: in 2006, this was an average of 6%. One of the measures HealthNet TPO is taking to ensure coverage of indirect costs is to attempt maximizing this contribution of institutional donors. Over the years, we have been succeeding in this effort bit by bit. In 2006, we did not progress beyond this average coverage of 6%.

Another way of covering indirect costs is to obtain contributions from other organizations, companies or private parties. This means we have to look for partners who are willing to support HealthNet TPO through contributions that can either be allocated to certain projects or which are non-project related. For instance, PLAN Netherlands was prepared to sponsor the development of a special programme for children in war zones and, in addition, provided a specific budget enabling us to scientifically monitor and evaluate the effect of this programme. The result is an evidence-based programme for PLAN Netherlands, which also helps HealthNet TPO to do its work.

A third way is to allocate actual costs incurred by the Amsterdam office for specific project support to the relevant contracts. This is based on an hourly fee system. In 2006, all actually recorded hours amounted to a total of EUR 700,000, which could have been charged on to the projects, providing these projects would have had sufficient budget headroom.

Experience has taught us that the costs for project support are frequently higher than the funds an institutional donor can or will grant. For this reason, we were able to charge only EUR 120,000 of the actually incurred costs of EUR 700,000 to the projects.

And, lastly, there is the aforementioned free fundraising. Now that we know it is futile for an organization such as HealthNet TPO to count on generous contributions from organizations such as Stichting Doen, the PostcodeLoterij, or any contributions from activities of joint relief organizations (Samenwerkende Hulporganisaties), we have focused more strongly on the 'midfield' of companies and capital funds. In any event, this has generated contracts of more than EUR 300,000 for 2007.

Contributions from local population

For years, the nature of the local population's own contribution to project costs has been a subject of discussion. An important aspect of HealthNet TPO's philosophy is that the local population should always contribute to the health-care systems implemented in their country. This stimulates ownership, which helps project efforts to take root so that these will ultimately benefit the largest possible number of people. A basis of support is created among the local population, the reach of the services is increased and continuity of services in the politically unstable country can be better safeguarded.

These incomes have long been a topic of discussion: should they be deducted from donor contributions? HealthNet TPO has always been fiercely opposed to this: after all, donor contributions mainly consist of development costs, whereas the own contribution is used to cover running costs.

Fortunately, the population's own contribution is no longer a hot agenda item. Since working on a contract basis is becoming common practice in more and more countries, it is increasingly customary to 'reward' this 'own contribution' with a better health-care system, thus boosting the dynamics of own responsibility.

Other income and expenses

Other income and expenses in 2006 amounted to -/- EUR 336,751 (2005: -/- EUR 13,613). Exchange rate developments, particularly of the US dollar, had a highly negative impact on our 2006 results. We are looking for possibilities to limit this risk, but opportunities in that area are slim.

Amsterdam head office

Despite the reorganization, the total costs incurred by the head office were higher than budgeted. This can be attributed primarily to the fact that the amount of personnel costs charged on to project contracts lagged behind expectations (see above). The project budgets offered insufficient headroom to enable recovery of the recorded hours.

Fundraising expenditures in 2006 amounted to more than EUR 32,000. Direct costs were much lower than budgeted (EUR 3,755 compared to EUR 30,000), simply because there were few opportunities for effective promotional campaigns. The largest share of the costs, as in the previous year, therefore consists of charged-on operational costs of the Amsterdam organization. That also applies to the entry of 'information costs'. Here, too, costs were incurred for making the website more accessible and for providing it with a digital library.

General costs in 2006 were considerably higher than budgeted (EUR 241,611 compared to EUR 61,826). This budget overrun was mainly attributable to the system improvements which were carried out. The additional consulting space necessary for strengthening our financial department was required for a longer period of time than initially expected; the accountant's invoice turned out to be

substantially higher; and the reorganization required us to seek legal advice. We also invested in a new digital project database.

These expenditures were essential in order to enable us to increase efficiency, which will show results only in the longer term, i.e. 2007. As is frequently the case with reorganizations, there is a paradox between the financial weakening in the short term and the organizational strengthening in the longer term.

Office costs per category	2006		Budget		2005
Salaries and social security charges	1,027,350	65%	1,038,052	101%	969,621
Pension contributions	114,527	7%	110,353	11%	114,962
Other personnel costs	63,260	4%	71,492	7%	58,238
Charged-on personnel costs	-120,472	-8%	-512,357	-50%	-179,466
Office accommodation costs	138,331	9%	117,442	11%	133,237
Office costs	35,907	2%	98,733	10%	67,155
Direct information costs	72,847	5%	15,000	1%	91,578
Direct fundraising costs	3,755	0%	30,000	3%	35,189
Other general costs	<u>241,611</u>	15%	<u>61,826</u>	6%	<u>134,268</u>
Subtotal (in euros)	1,577,116	100%	1,030,541	100%	1,424,782
Post-project results	<u>-</u>		<u>0</u>		<u>-</u>
Total (in euros)	1,577,116		1,030,541		1,424,782

Equity

At the end of the 2006 financial year, HealthNet TPO withdrew EUR 80,993 from its equity. The freely disposable capital decreased to -/- EUR 91,397. EUR 14,073 was withdrawn from the tied-up capital, so that it ultimately amounted to a total of EUR 7,014.

Developments in 2006

From a management perspective, the liquidity crisis that threatened since January of the year under review was an undesirable, but realistic, leitmotiv for management in 2006. The lack of own, freely disposable reserves, in combination with factors such as some institutional donors' failure to pay on time (in particular the EC), delays in timely compliance with reporting obligations and the unpredictability of developments in unstable regions in which HealthNet TPO is active, were constant concerns with regard to providing the projects with financial resources on time.

HealthNet TPO came to realize that an optimal administrative mode has evidently been found now for dealing with this issue: unforeseen expenditures have been reduced to a minimum over the years, and the remainder appears to be unavoidably linked to safety situations and the difficult external circumstances in which the organization operates. The project-related operational deficit, measured in terms of allocated funds and actual expenditures, can be considered 'good' compared with other organizations. Taking into account that our total operations amounted to EUR 10.3 million in direct project costs, a deficit of EUR 80,993 can be viewed as minimal. It goes without saying that this result was primarily achieved thanks to the participation of 'other donors' (in particular Cordaid) in the project costs. If this had not been the case, the operational deficit would have been correspondingly higher – but the fact remains that even without external assistance the projects in post-conflict regions are being executed with an operational deficit of not more than 5%. This gives us the conviction that further efficiency drives will have to focus not so much on cutting expenditures but on generating income.

In this respect, it should be mentioned that the new record-keeping method (the 'work-in-progress method' effective as of 2005 – see point 7 below for explanation) will now contribute to a concrete picture of the 'hidden reserves'. By still finding donor contributions in 2006 for projects that were recognized in 2005 as only partially 'covered', an amount of EUR 181,000 has been freed in 2006, which immediately reduces operational costs.

Liquidity and the need for strategic choices

At the present time, the organization's liquidity is a source of constant concern. Every week, we have to weigh the pros and cons before deciding on which projects to spend the funds received. Our liquidity position is determined by on-time reporting and on-time donor payments, which results in highly erratic patterns. In some months we receive substantial amounts, whereas in others we have to make use of our credit line (EUR 600k).

That is why HealthNet TPO has to make strategic choices now. They are being made in a variety of areas.

First of all, losses that were not sufficiently anticipated have been 'taken' in the financial statements of 2005, during the closure of projects. The insights gained and the new way of record-keeping will enable us now to focus on controlling overspending and budget shifts. The roles of management and Amsterdam have become clearer. More practical, operational work will have to be delegated to the field and that is entirely in line with the reorganization carried out in the summer of 2006. In the projects themselves – which will ultimately become either self-sufficient or lead to the development of specific capacity-building within local governments and partners – financial management capacity has to be created that will in due course achieve sustainable results.

Secondly, we are constantly searching for strategic alliances with other organizations. These exploratory initiatives take time. That these efforts will ultimately produce results is meanwhile beyond doubt. After exploring the possibilities with Cordaid for a lengthy period of time, this option was ultimately not chosen – but that has rather strengthened than weakened our ties with Cordaid. Other parties are interested, and we are now looking for the optimal combination of implementation power and financial strength.

A breakthrough has meanwhile been achieved in our partnerships with the private sector. As mentioned before, contracts have been concluded with private partners who are aware of the importance of supporting HealthNet TPO, in such a way that Corporate Social Responsibility and HealthNet TPO's need for coverage of indirect costs are reconciled with the need for clear, project- and topic-related objectives. A three-year agreement with Eureko-Achmea is in the making, which will support the development of models for the financing of access to health care in crisis areas – not only with funds, but also with knowledge. A project that aims for a concrete improvement of the position of women as victims of acts of war and rape will be supported with a private fund, whose primary interest is the development of effective interventions. And the way in which PLAN Netherlands funds the children's programme is an example of a contribution that supports not only project execution but also the knowledge development that is the core of HealthNet TPO's right to exist.

Budget for 2007

	Budget 2007	Revised Budget 2007	Actual 2006
INCOME FROM OWN FUNDRAISING			
Contributions, donations and gifts	600,000	425,000	202,074
	600,000	425,000	202,074
COSTS OF OWN FUNDRAISING			
(in)direct fundraising costs	140,666	40,000	32,393
Operational costs	50,000	10,000	3,755
	90,666	30,000	28,638
(in % of income from own fundraising)	23%	9%	16%
TOTAL OWN FUNDRAISING	459,334	385,000	169,681
SHARE IN THIRD-PARTY ACTIVITIES	-	200,000	650,740
AVAILABLE FROM FUNDRAISING	459,334	585,000	820,421
SUBSIDIES FROM GOVERNMENTS AND OTHERS			
Project turnover	11,581,050	10,310,000	11,456,857
Public awareness income	10,642,500	9,350,000	10,321,376
Cover for indirect costs	50,000	50,000	-
Contributions from local population	638,550	560,000	623,147
	250,000	350,000	512,334
	6.0%	6.0%	6.0%
OTHER INCOME AND EXPENSES			
Interest	20,000	(10,500)	(336,751)
Other results	20,000	7,500	(22,443)
Exchange rate differences	-	(15,000)	(15,641)
	-	(3,000)	(298,667)
TOTAL AVAILABLE FOR SPECIFIED OBJECTIVE	12,060,384	10,884,500	11,940,527
AWARENESS-RAISING AND INFORMATION			
Own activities	80,000	30,000	150,990
Operational costs	15,000	15,000	72,847
	65,000	15,000	78,143
RECONSTRUCTION AND DEVELOPMENT			
Direct project costs	11,877,278	10,838,985	11,870,530
Post-project results	10,750,000	9,750,000	10,476,797
Operational costs	121,125	-	-
	1,006,153	1,088,985	1,393,733
TOTAL SPENT ON SPECIFIED OBJECTIVE	11,957,278	10,868,985	12,021,520
SURPLUS / DEFICIT	103,106	15,515	(80,993)

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Amsterdam, 6 AUG 2007

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HEALTHNET TPO

BALANCE SHEET			
<i>(After profit appropriation)</i>			
<i>(In euros)</i>		Notes	
	31 December 2006		31 December 2005
ASSETS	2,044,288		1,271,054
TANGIBLE FIXED ASSETS		1	78,840
OTHER RECEIVABLES	61,102	2	258,025
CASH AND BANK	457,003	3	934,189
	1,526,183		
	2,044,288		1,271,054
LIABILITIES	2,044,288		
EQUITY			
Freely disposable capital	7,014	4	88,007
Tied-up capital	(91,396)	5	(24,476)
	98,411		112,484
LONG-TERM LOAN		6	-
WORK IN PROGRESS		7	573,612
OTHER SHORT-TERM LIABILITIES	1,652,936	9	609,435
	384,338		

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HEALTHNET TPO

STATEMENT OF INCOME AND EXPENDITURES
(In euros)

		2006	2006	2005
		Actual	Budget	Actual
INCOME FROM OWN FUNDRAISING		202,074	550,000	202,666
Contributions, donations, gifts and grants	11	202,074	550,000	202,666
COSTS OF OWN FUNDRAISING		32,393	116,306	66,676
(In) direct fundraising costs	12	3,755	50,000	31,487
Administrative expenses	19	28,638	66,306	35,189
(in % of income from own fundraising)		16%	21%	33%
TOTAL OWN FUNDRAISING		169,681	433,694	135,990
SHARE IN THIRD-PARTY ACTIVITIES				
	13	650,740	-	207,602
AVAILABLE FROM FUNDRAISING		820,421	433,694	343,592
SUBSIDIES FROM GOVERNMENTS AND OTHERS				
Project turnover	14	11,456,857	10,448,005	10,055,664
Public awareness income		10,321,376	9,479,250	9,034,677
Cover for indirect costs (AKV=project monitoring, exec.)	19	-	50,000	-
Contributions from local population	14	623,147	568,755	550,470
		512,334	350,000	470,517

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OTHER INCOME AND EXPENDITURE					
Interest	16	(336,751)	15,000	(13,613)	
Other results		(22,443)	15,000	9,329	
Differences in exchange rates		(15,641)	-	(4,952)	
		(298,667)		(17,989)	

TOTAL AVAILABLE FOR OBJECTIVE 11,940,527 10,896,699 10,385,643

AWARENESS-RAISING AND INFORMATION

Own activities	17	150,990	75,000	113,343	
Operational costs	19	72,847	15,000	21,765	
		78,143	60,000	91,578	

RECONSTRUCTION AND DEVELOPMENT

Direct project costs	18	11,870,530	10,810,541	10,934,487	
Operational costs in the Netherlands	19	10,476,797	9,825,000	9,601,798	
		1,393,733	985,541	1,332,689	

TOTAL SPENT ON SPECIFIC OBJECTIVE 12,021,520 10,885,541 11,047,830

SURPLUS (DEFICIT) (80,993) 11,158 (662,187)

SURPLUS (DEFICIT) ADDED TO (80,993) 11,158 (662,187)

Freely disposable capital	5	(66,920)	11,158	(587,617)	
Appropriation funds	6	-	-	(134,874)	
Operational assets fund	6	(14,073)	-	60,304	

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CASH FLOW STATEMENT
(In euros)

31 December
2005

31 December
2006

RESULT (662,187)

CASH FLOW FROM OPERATIONAL ACTIVITIES (1,723,130)

Depreciation 18,463
Other receivables (55,608)
Work in progress (1,854,458)
Other short-term debts 168,473

CASH FLOW FROM INVESTMENT ACTIVITIES (78,766)

Investments (78,766)

CASH FLOW FROM FINANCING ACTIVITIES -

Long-term loan -

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (2,464,083)

Liquidity balance as of 1 January 2006 3,398,272
Liquidity balance as of 31 December 2006 934,189

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NOTES TO THE FINANCIAL STATEMENTS

General

HealthNet TPO is a foundation that was established on 26 October 1992. The organization's most important objective is to contribute to lasting improvements in the state of health of vulnerable sections of the population in crisis-affected areas. HealthNet TPO seeks to achieve this by applying a development-oriented approach where and when circumstances permit. HealthNet TPO also seeks to make the Dutch population aware of the importance of its mission and activities.

Reporting directive for fundraising institutions

This annual report has been drawn up in accordance with the Fundraising Institutions Accounting Guideline, published by the Council for Annual Reporting. This Guideline was first published in 1998 and reviewed and amended in 2000. The purpose of the Guideline is to provide insight into the costs of the organization and verify that the funds were allocated as intended. The application of this Guideline is one of the requirements set by the Central Fundraising Agency (CBF) for awarding the CBF certificate. HealthNet TPO was awarded the CBF certificate in May 2004.

Principles for valuation and determination of result

Unless stated otherwise, the items in the balance sheet are shown at nominal value. Income and expenditure are recognized in the year to which they relate, unless stated otherwise.

In 2006, a change in accounting policy has come into effect with respect to the presentation of project receivables and project liabilities. As of 2006, a so-called work in progress method will be applied in the presentation of projects. The balance of the projects in progress consists of the project subsidies realized as income on balance sheet date, based on the progress of projects and project costs incurred as well as advance payments from donors received up to balance sheet date. In determining the project subsidies realized, losses resulting from budget overruns, non-subsidizable costs or uncovered co-funding obligations are taken into account. Depending on the project's progress and the extent to which the donor has provided advance payments, this is treated either as a donor receivable or debt. The explanatory notes elucidate the individual position of each donor. The comparative figures for 2005 have been adjusted. The change in accounting policy has no consequences for result and equity.

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Foreign currencies

Transactions denominated in foreign currency are translated at the monthly rate of the European Central Bank (ECB) applicable at the time of the transaction. Assets and liabilities denominated in foreign currencies are translated according to the ECB rates applicable on balance sheet date. All differences arising from exchange rates are accounted for in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are valued at acquisition cost, minus depreciation. Depreciation is based on acquisition cost and useful life and is calculated according to the straight-line method. The following depreciation percentages have been applied:

Office fixtures and furniture	14.3% per annum
Office equipment	20.0% per annum
Computer hardware and software	33.3% per annum

In conformity with the Fundraising Institutions Accounting Guideline, an amount equal to the book value is used in the operational assets fund. Tangible fixed assets in the project countries are not amortized, but directly booked at the expense of the result. In most cases, ownership of tangible assets lies with the donor.

Receivables

Receivables are presented at nominal value. On accounts receivable, a provision for bad debt is deducted if necessary.

Administrative expenses of own organization

Administrative costs for fundraising, awareness and information, and for reconstruction and development are calculated on the basis of assignable units per category. The other, non-assignable, personnel costs are divided proportionally and charged to assignable costs.

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1 Tangible fixed assets

	Fixtures & Furniture	Equipment	Comp & Softw	Total
Acquisition cost				
Balance as of 1 January 2006	70,753	71,785	58,488	201,026
Investments	674	6,301	-	6,975
Divestments	(19,782)	-	(10,958)	(30,740)
Balance as of 31 December 2006	51,645	78,086	47,530	177,261
Depreciation				
Balance as of 1 January 2006	61,691	20,101	40,394	122,186
Depreciation in 2006	3,323	13,642	7,841	24,806
Disinvestments	(20,508)	(197)	(10,128)	(30,833)
Balance as of 31 December 2006	44,506	33,546	38,107	116,159
Net book value				
Balance as of 31 December 2006	7,139	44,540	9,423	61,102

The divestments in 2006 concern the administrative clean-up of old, fully depreciated investments.

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2 Other receivables

	2006	2005
Prepaid expenses	33,985	20,315
Other receivables	404,779	230,384
Prepaid pension contributions	14,131	7,007
Interest receivable	-	320
	<u>452,895</u>	<u>258,026</u>
Balance as of 31 December 2006		

Other receivables include, among others, an amount still to be received from another NGO.

3 Cash and cash equivalents

	2006	2005
Cash and cash equivalents in Amsterdam	305,942	246,414
Credit facility	-	(111,135)
Cash and cash equivalents in project countries	1,220,241	798,910
	<u>1,526,183</u>	<u>934,189</u>
Balance as of 31 December 2006		

Cash and cash equivalents are freely available up to an amount of EUR 23,677. This minimum balance serves as a guarantee for future lease commitments.

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4 Freely disposable capital

Total freely disposable

Balance as of 1 January 2006	(24,476)	The freely disposable capital is negative. The total equity is just on the positive side. As explained in the Executive Board Report, coverage has been secured for indirect costs in 2007. A strategic alliance is being sought for the future.
Transactions in Equity	-	
From tied-up to free capital	-	
Profit appropriation	(66,920)	
Balance as of 31 December 2006	<u>(91,396)</u>	

5 Tied-up capital

	Appropriation funds	Operational assets fund	Total
Balance as of 1 January 2006	37,309	75,175	112,484
Transactions in Equity	-	-	-
From tied-up to free capital	-	-	-
Profit appropriation	-	(14,073)	(14,073)
Balance as of 31 December 2006	<u>37,309</u>	<u>61,102</u>	<u>98,411</u>

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6 Long-term loans

	2006	2005
Balance as of 1 January 2006	-	-
Additions (Withdrawals)	<u>-</u>	<u>-</u>
Balance as of 31 December 2006	<u><u>-</u></u>	<u><u>-</u></u>

7 Work in progress

	2006	2005
Balance as of 1 January 2006	573,612	2,470,810
Project subsidiaries received from donors	12,380,676	7,730,095
Used project subsidies	(10,833,595)	(9,724,189)
Project subsidies to be paid back	(467,757)	(27,336)
Provision	<u>-</u>	<u>124,232</u>
Balance as of 31 December 2006	<u><u>1,652,936</u></u>	<u><u>573,612</u></u>

In 2006, the work in progress method was used. This presents a realistic picture of the ongoing projects and the herewith related subsidy to be received or paid back.

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8 Specification of work in progress per donor

	2006	2005	Project country
Achmea	87,405	-	Sri Lanka
Asian Development Bank	(64,678)	(57,405)	Cambodia
European Commission	(265,882)	136,403	Eritrea, Afghanistan
Caritas	-	-	
Ministry of Foreign Affairs	754,220	475,271	TMF, Burundi and Rumania
GTZ	-	-	
Global Fund	-	(74,530)	Afghanistan and Pakistan
ITG	278,005	31,946	Cambodia
ICCO	-	-	
Ministry of Health	(198,452)	-	Afghanistan
PLAN incl Pakistan	-	(146,841)	Sri Lanka, Burundi
PSO	110,572	(50,137)	
ECHO	333,487	(149,587)	Afghanistan and Sudan
Cordaid	140,000	-	Afghanistan
USAID	-	-	
World Bank	-	194,346	Congo
WTF	48,770	-	Afghanistan
Zorg en Zekerheid	75,000	-	Sri Lanka
Other donors	354,489	214,146	Congo
	1,652,936	573,612	
Balance as of 31 December 2006			

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9 Other current liabilities

	2006	2005
Accounts payable	146,553	277,631
Personnel costs payable	17,737	91,453
Costs payable in project countries	-	-
Other costs payable	<u>220,048</u>	<u>240,350</u>
Balance as of 31 December 2006	<u>384,338</u>	<u>609,434</u>

Included under 'Accounts payable' are invoices payable to consultants, suppliers, local partner organizations and others. Other costs payable consist of insurance premiums, taxes and social security charges.

10 Off-balance sheet commitments

The rental contract for the office in Amsterdam expires on 30 June 2012. The full amount due until that date is EUR 480,000 for rent and EUR 14,697 for service charges.

A credit agreement has been arranged with ABN Amro.

The pension plan of the HealthNet TPO Foundation can actually be classified as a defined pension plan (middle-income pensions). Centraal Beheer is the administrator of the pension plan. The exemption provided in the Guidelines for Annual Reporting is used in order to process this pension plan as if it were a defined contribution plan, as a result of which it is sufficient to consider the due premium in the profit and loss account. Consequently, not all positive and negative risks related to the pension plan are reflected in the balance.

An arrangement was already made in 2004 concerning a project in Afghanistan, where there was uncertainty concerning payment by the donor. The donor has made a decision regarding the above, but uncertainty about payment still exists among the consortium members. The added risk amounts to a maximum of EUR 84,600.

For some EU projects, there is a mandatory local contribution or co-funding. This is reflected in the figures for year-end 2006, either as a local contribution or as a post-project result. The development of these projects in 2007 and in the future is unknown and may involve potential risks, but also positive effects, if co-funding can be realized.

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11 Income from own fundraising

	2006	2005
Earmarked donations	-	0
Freely disposable donations	<u>202,074</u>	<u>202,666</u>
Total income from own fundraising	<u><u>202,074</u></u>	<u><u>202,666</u></u>

Earmarked donations are contributions received from donors for specific purposes. Earmarked donations that are not used during the financial year are added to the appropriation fund. HealthNet TPO received no donations in kind in 2006.

12 (In)direct fundraising costs

	2006	2005
Direct fundraising costs	<u>3,755</u>	<u>31,487</u>
Total (in)direct fundraising costs	<u><u>3,755</u></u>	<u><u>31,487</u></u>

Direct fundraising costs were incurred for advertisements in various media.

13 Share in third-party activities

	2006	2005
Project-related income	400,000	-
Contribution from PLAN Netherlands	<u>250,740</u>	<u>207,602</u>
Total share in third-party activities	<u><u>650,740</u></u>	<u><u>207,602</u></u>

Co-funding from other NGOs. The contribution from PLAN Netherlands helps to support the Child Thematic Programme.

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1.4 Summary of income per donor

	2006	2005	
Achmea	83,138	215,848	
Asian Development Bank	934,670	1,040,640	
European Commission	3,508,339	3,075,470	
Caritas	2,032	116,055	
Ministry of Foreign Affairs	1,844,493	1,470,759	
GTZ	-	-	
Global Fund	370,369	388,318	
ITG	489,841	376,285	
ICCO	4,918	3,823	
Ministry of Health	441,542	-	
PLAN incl Pakistan	441,181	277,942	
PSO	583,777	284,737	
Racha	(8,849)	(427)	
SIDA	-	25,313	
USAID	-	-	
URC	-	89,054	
United Nations organizations	612,894	373,008	
World Bank	329,304	689,422	
Other donors	683,612	828,071	
Subtotal of project turnover	10,321,261	9,254,318	
Local project income	512,334	470,517	
Total project income	10,833,595	9,724,835	

Coverage for indirect costs is what HealthNet TPO receives to cover overhead costs. In 2006, this amounted to 6% of the project turnover (2005: 6.1%).

Unicef, Cordaid, ILO, WHO, ECHO

Local project income consists of donations from benefactors for services provided (medicines, consultations and mosquito nets in Afghanistan and Pakistan).

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15 Summary of income per project country

	2006	2005
Afghanistan	4,316,419	3,833,639
Bosnia	21,446	133,804
Burundi	2,022,653	1,120,524
Cambodia	1,620,924	1,767,627
Democratic Republic of Congo	871,197	1,008,966
Eritrea	259,466	3,028
Indonesia	78,240	76,676
Netherlands	8,789	214,766
Nepal	25,196	99,621
Pakistan	490,398	326,124
Rumania	-	49,065
Rwanda	37,891	6,859
Somalia	-	878-
Sri Lanka	151,922	276,013
Southern Sudan	745,052	260,031
Uganda	-	154,126
East Timor	184,002	276,489
Other countries	-	118,266
Total project turnover	<u>10,833,595</u>	<u>9,724,746</u>

In the case of Afghanistan, local project income is included under project income.

16 Other results

This item includes income and costs that cannot be assigned to the organization's normal operations.

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17 Costs of own information-related activities

	2006	2005
Own activities	72,847	21,765
Total of own information-related activities	<u>72,847</u>	<u>21,765</u>

Costs incurred for the execution of information-related activities.

18 Project expenditure per country

	2006	2005
International staff	1,513,947	1,201,305
Local staff	3,788,097	2,852,449
Project office costs	1,108,966	909,686
Transportation	1,098,409	1,028,656
Training and education	586,455	473,621
Medical and other goods	1,490,001	2,500,140
Revaluations	32,743	29,846
Consultancies	353,903	606,095
Execution costs of local NGOs	685,518	-
Post-project results	(181,242)	34,675
Total project expenditure	<u>10,476,797</u>	<u>9,636,473</u>

Clear increase in MoH staff in Afghanistan. Addition of execution costs provides more insight into project expenditures. Local NGOs are hired to implement activities.

Positive post-project result is attributable to finding co-funding.

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19 Operational expenses according to use

	Reconstruction	Fundraising	Information	Actual 2006	Budget 2006	Actual 2005
Salaries and social security charges	975,093	19,335	32,922	1,027,350	1,038,052	1,037,764
Pension contributions	109,991	1,678	2,858	114,527	110,353	122,930
Other personnel costs	54,875	1,278	7,107	63,260	71,492	67,140
Personnel costs charged on	(120,472)			(120,472)	(512,357)	(179,466)
Accommodation costs	119,997	2,794	15,540	138,331	117,442	153,605
Office expenses	31,148	725	4,034	35,907	98,733	77,401
Other general expenses	<u>223,101</u>	<u>2,828</u>	<u>15,682</u>	<u>241,611</u>	<u>61,826</u>	<u>145,408</u>
Subtotal operational expenses	1,393,733	28,638	78,143	1,500,514	985,541	1,424,782
Post-project results	-	-	-	-	-	-
Total operational expenses 2006	<u>1,393,733</u>	<u>28,638</u>	<u>78,143</u>	<u>1,500,514</u>	<u>985,541</u>	<u>1,424,782</u>

Note: Coverage for indirect costs

623,147

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Personnel

On 31 December 2006, the head office in Amsterdam employed 15.8 FTEs (2005: 19 FTEs).

Board members are not employed by the organization and receive no remuneration. The costs for organizing board meetings in 2006 amounted to EUR 123 (2005: EUR 168).

Personnel costs charged on

Costs for head office staff deployed to support the projects are charged at a fixed daily rate of EUR 500 for senior staff and EUR 350 for junior staff.

Amsterdam, Augustus 2007

The Executive Board
A.M.F. Winkler, Chairman
P. Aukema, Treasurer
G. Doornikate, Secretary

HealthNet TPO Foundation, Amsterdam

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