



Annual financial report 2005

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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. HealthNet TPO was established in 2005 as a result of a legal merger between HealthNet International – founded in 1992 – and Transcultural Psychosocial Organization – founded in 1995. The amalgamation of both organizations is aimed at strengthening thematic collaboration, organizational strength and efficiency, while achieving synergy in the countries in which both organizations are active through the integration of psychosocial care and general health care.

As a result of this merger, the composition of the Executive Board has been changed and the articles of association have been amended. These 2005 annual accounts are the first annual accounts of the merged, new organization, HealthNet TPO.

In 2005, 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, but also over a million less than budgeted. We worked with an indirect costs percentage of 11.4%. However, we did not succeed in increasing income. A total of EUR 10.4 million was available for achieving the organization's objectives. That was less than budgeted, albeit a little more than in the previous year (EUR 10 million). Our own fundraising efforts and third-party activities generated EUR 340K, whereas we had budgeted EUR 560K.

The financial result for the year 2005 is therefore negative. We had a total operational deficit of EUR 662K. We had to use all available financial resources to execute the projects. The reserves consequently fell to a minimum. Instead of an appropriated reserve of EUR 112K there is now a negative 'freely disposable' equity of EUR 25K.

The continuation of our partnership with Eureka/Achmea, as well as the continuation of our affiliation with PLAN Nederland, will be important factors in our effort to recover our position. In addition, we are investigating potential cooperative alliances with other NGOs. In the light of the upcoming amendment to the system of the Dutch Government's subsidy scheme (the new Co-Financing System), interest in such collaborations has been expressed from various sides.

Board and Management Team in 2005

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
J.V.T.M. de Jong, Public Health & Research Director
G. Breukers, Programmes & Operations Manager

Analysis of the financial results

Fundraising

The total income from our own fundraising activities amounted to EUR 202,666 and is thus EUR 197,334 lower than budgeted. The short-term effect (1 to 2 years) of our more active fundraising policy is still marginal. In 2005, we developed plans and materials for campaigns which have yet to bear fruit. In addition, work is being done on specific projects that will attract members of the business community. Here, too, the saying 'nothing ventured, nothing gained' is applicable. In 2005, these costs amounted to EUR 66,676, compared to EUR 22,730 in 2004. The largest share of the fundraising costs can be attributed to charged-on operational costs of the organization in Amsterdam.

Share in third-party campaigns

The amount entered in 2005 under third-party campaigns concerns PLAN's support of the Child Thematic Programme (CTP). This support is intended for a period of three years and was originally 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 others

Compared to 2004, the subsidies from governments and others remained virtually identical (increase of 1%) EUR 9,724,836.

Region	Country	2005	%	2004	%
Afghanistan		4,159,763	43%	4,322,728	45%
	Afghanistan	3,833,639	39%	3,897,643	41%
	Pakistan	326,124	3%	425,085	4%
Eastern Europe		182,869	2%	728,944	8%
	Bosnia	133,804	1%	136,605	1%
	Rumania	49,065	1%	592,339	6%
East Africa		2,552,656	15%	2,627,647	20%
	Burundi	1,120,524	12%	662,986	7%
	DR Congo	1,008,966	10%	1,433,178	15%
	Eritrea	3,028	0%	261,319	3%
	Uganda	154,126	2%	-	0%
	Rwanda	6,859	0%	47,938	1%
	Somalia	878-	0%	7,022	0%
	Southern Sudan	260,031	3%	215,204	2%
Southeast Asia		2,496,516	26%	1,895,427	20%
	Cambodia	1,767,627	18%	1,268,029	13%
	Indonesia	76,676	1%	35,000	0%
	Nepal	99,621	1%	150,250	2%
	East Timor	276,489	3%	394,001	4%
	Sri Lanka	276,103	3%	48,147	1%
Other projects		333,032	3%	11,716	0%
	Various	118,266	1%	-	0%
	The Netherlands	214,766	2%	11,716	0%
Total (in euros)		9,724,836	100%	9,586,462	100%

Few changes have occurred in 2005 with regard to the allocation of financial resources to the various countries. As in 2004, a large extent of HealthNet TPO's activities in 2005 were focused on the Afghan population. Since the government's initial resolve to send Dutch troops to the Afghan province of Uruzgan, HealthNet TPO has been intensively involved in deliberations about the cooperation between NGOs and the military in Afghanistan. HealthNet TPO has been working in Afghanistan and Pakistan since 1994, where it is implementing three major programmes: the Malaria and Leishmaniasis Control programme, the Health Care Support programme, and the Mental Health programme.

As a result of the merger with TPO, the annual accounts now include an entry for Dutch projects. This primarily concerns research projects in which the expertise we acquired in foreign countries is linked up with knowledge gained in the Netherlands.

Donor	2005	%	2004	%
ACHMEA	215,848	2%	-	0%
ADB	1,040,640	11%	740,848	8%
Ministry of Foreign Affairs	1,470,759	15%	1,658,331	17%
Caritas	116,055	1%	516,639	5%
European Commission	3,075,470	32%	2,463,955	26%
Global Fund	388,318	4%	247,899	3%
ITG	376,285	4%	118,773	1%
PLAN	277,942	3%	139,661	1%
PSO	284,737	3%	344,957	4%
RACHA	427-	0%	-	0%
SIDA	25,313	0%	580,152	6%
United Nations	373,008	4%	480,650	5%
World Bank	689,422	7%	862,289	9%
URC	89,054	1%	100,126	1%
Other donors	831,894	9%	769,968	8%
Local project income	470,517	5%	562,216	6%
Total (in euros)	9,724,835	100%	9,586,464	100%

The total contributions by donors rose slightly. Achmea's campaign for the benefit of Tsunami victims added a project that is being executed with private funds. HealthNet TPO applies the same accountability system to privately financed projects as is the case with the strictest institutional donors. By working in a transparent and professional way, the private sector's confidence is increasing slowly but surely. Other parties, such as Rabobank and Zorg & Zekerheid have meanwhile contributed to projects.

After an initial decline, the EC's relative contribution increased again in 2005. However, what remains problematic about EC contributions is the slow settlement and the non-transparent decision-making between the delegates in the field and 'Brussels'. This results in losses for HealthNet TPO (see below). For large projects that must have a direct impact on a considerable population it is virtually impossible to find donors other than the EC, development banks and USAID. The consideration is always between either accepting the risks entailed with such donors or not being able to carry out projects with sufficient impact. One of the solutions is to link contributions from private donors (i.e. companies) to such funds. The multiplier principle can be applied to these corporate sponsors: a relatively modest own contribution can lead to a larger programme by enabling co-funding contracts with the EC.

This has now proven successful in the Democratic Republic of Congo with contributions from a private donor, as a result of which it was possible to implement a World Bank programme. We are still looking for partners in Cambodia and Sudan. Here, too, the confidence of the private sector simply needs time to grow. After all, this involves large amounts of money and relatively new constructions.

Cover for overhead costs

The contribution that HealthNet TPO received from donors in 2005 to cover overhead costs amounted to 6.1%. HealthNet TPO's policy is aimed at receiving a contribution of at least 6% per project for overhead costs. That objective was only

just achieved. Nevertheless, this figure remains problematic for an organization that is still raising insufficient own funds. In an earlier period (2004) a number of donors were prepared to make substantially higher contributions towards administrative expenses. In 2004, this resulted in a peak of 7.8%, so that the pressure on own fundraising activities was considerably alleviated. However, such a construction (see above) is virtually impossible for 'heavier projects' that are supported by the key institutional donors. In these cases, we aim for co-donors from the private sector. Slowly but surely, this sector constitutes a growing share of the total project turnover. This can be roughly seen in the annual accounts under the entry 'Other donors', which shows a 1% increase to 9%.

Contributions from local population

An important aspect of HealthNet TPO's philosophy is that the population should contribute to the health care systems implemented in their country. The contributions constitute an important element of HealthNet TPO's project approach, as a result of which a basis of support is created among the local population, the reach of services is increased, and the continuity of the services in the politically unstable country can be better safeguarded. As far as an improvement in the perception of the area between emergency relief and development is concerned, donors are not always able or willing to think with us about the way this income should be treated. A discussion, which has been going on for years, was recently reopened as a result of an EU statement, in which the EU maintains that the population's contribution will be deducted from the project contribution. We therefore lowered the project turnover in this annual report with the income generated in the respective projects.

In previous years, we have already taken measures in anticipation of such a standpoint. However, it's a pity that the effectiveness of programmes is impeded in such a way: the newly created situation harbours the risk that the 'win situation' in the case of substantial contributions (more wide-ranging reach of health care, better 'ownership' development, stronger growth of a well-functioning system with a chance of sustainability) is taken away from the population, while the NGO is saddled with the administrative expenditures, and the donor reaps the advantages (and thus lowers its contribution).

The challenge, of course, is to win over the EC so that it will accept interim budgetary modifications in the case of a substantial contribution by the population. In order to 'reward' this 'own contribution' with a better health care system, and thus boost the dynamics of own responsibility, we must ensure that extra investments in the health care system can take place in agreement with EC budget lines. That will demand considerable flexibility *and* determination on the part of the programme managers.

Other income and expenses

Other income and expenses in 2005 amounted to EUR -/- 13,613 (2004: EUR 116,762).

Exchange rate developments contributed negatively to the results this year. We are looking for possibilities to limit this risk, but opportunities in this area are slim.

Awareness-raising and information

The total expenditures for creating awareness among the Dutch public amounted to EUR 113,343 (in 2004: EUR 13,211). This increase can be attributed

particularly to the newly established position of Communications Officer, as well as the active publicity policy pursued. In 2005, we developed a new website and produced material for campaigns.

Reconstruction and development

Project costs in 2005 were lower than budgeted. On the other hand, execution costs exceeded budget projections. See specification below.

Amsterdam head office

The total costs incurred by the head office in 2005 were 17% higher than budgeted. This can be attributed primarily to the fact that charged-on personnel costs lagged behind expectations. The project budgets offered insufficient headroom to enable recovery of the recorded hours. In addition, there was an increase in the expenditures for information and fundraising (see above).

Office costs per category	2005		Budget		2004	
Salaries and social security charges	969,621	68%	951,914	78%	864,443	102%
Pension contributions	114,962	8%	100,242	8%	72,521	9%
Other personnel costs	58,238	4%	87,330	7%	31,081	4%
Charged-on personnel costs	(179,466)	-13%	(325,690)	-27%	(402,027)	-47%
Office accommodation costs	133,237	9%	131,937	11%	117,142	14%
Office costs	67,155	5%	115,214	9%	79,552	9%
Direct information costs	91,578	6%	30,000	2%	13,211	2%
Direct fundraising costs	35,189	2%	30,000	2%	11,273	1%
Other general costs	134,268	9%	97,732	8%	63,510	7%
Subtotal (<i>in euros</i>)	1,424,782	100%	1,218,679	100%	850,706	100%
Post-project results	34,675		0		786,559	
Total (<i>in euros</i>)	1,459,457		1,218,679		1,637,265	

Capital

At the end of the 2005 financial year, HealthNet TPO withdrew EUR 1,040,732 from its capital. The freely disposal capital decreased to -/- EUR 24,476, and EUR 453,114 was withdrawn from the tied-up capital, so that it ultimately amounted to EUR 112,484.

The basis for the allocation of project turnover in 2005 has been changed. The reason for this is an EU decision, as a result of which the local contribution of the population must be spent on additional project expenditures and, if this is not the case, will have to be deducted from the subsidy (see above). As a result, project turnover was reduced by the amount equal to the contribution of the local population, insofar as this did not lead to additional project expenditures. The effect of this modification with regard to previous years has been included as a direct transaction in equity (EUR 378,545).

The Board will decide on the use of the freely disposable capital.

HealthNet TPO has no capital tied up in investments. The organization maintains a deposit account for cash that is not immediately required for business operations. The credit balance can be withdrawn at any time and without extra costs.

Developments in 2006

In the year 2005, a great deal of energy has been spent on the practical implementation of the merger. The amalgamation of the two organizations turned out to be more complex than expected, but ultimately proceeded smoothly at the new office on Tolstraat in Amsterdam.

In 2005, we embarked on a new avenue, in which HealthNet TPO is working with Achmea/Eureko on giving their partnership a more concrete form. We are currently working together with – and the financial support of – the Rabobank on designing and implementing a joint health insurance system in two districts in Cambodia. This is pioneering work that enjoys a great deal of interest from international donors and institutes in the field of poverty eradication. Similar initiatives have been launched in Eastern Europe and Central Africa.

In thematic terms, we are also working on building a community of companies willing to support the idea of a turn-key hospital. This would enable a concrete realization of the 'emergency relief-plus' concept in the case of a natural disaster or political crisis, whereby the prospect of the installation of a fully equipped hospital, with trained and salaried staff, would make a quantum leap towards providing the poorest with access to health care.

The core of these ideas is the notion that new ground is being broken in the area of fundraising – or rather in the broader field of the financing of the organization. The projects and areas in which the greatest success is achieved in poverty eradication appear to be the projects where a combination of performance-based incentives and tight management control is used. We are now examining how this same approach can be applied on a broader scale in the organization.

Distributing medicines in Afghanistan, offering health insurance in Cambodia and Burundi, cooperating with companies in setting up and maintaining a turn-key hospital – all these are approaches that deviate from the traditional model involving a project with one institutional donor.

In this respect, it should be mentioned that, for a variety of reasons, we are searching for alternative financing possibilities. One of them is to anticipate and capitalize on developments in the longer term. However, another highly urgent reason is the decrease in our financial reserves. The 2005 results clearly show once more the two avenues that lead to our financial deficit: on the one hand, indirect costs are only partially covered by our income; and, on the other hand, it is attributable to the specific characteristics of the post-conflict situation in which our field activities take place and which entail uncovered project spending. This could concern acute emergency situations that can arise in the middle of a low-intensity conflict. Such urgent situations may include local outbreaks of diseases, shortages in medicines, other parties' failure to pay, such as governments. In those situations, an appeal is usually made to the party executing our projects – and sometimes the pressure to cooperate in solving the situation is so immense that the straitjacket of budget lines in donor contracts is loosened.

From a management point of view, these are simply viewed as losses. But if we take a broader look at activities in these types of situations, we observe that such costs surface in every organization. Moreover, organizations with private income streams, which are not allocated down to the smallest detail, can designate these 'extra investments in projects' in an entirely different way. With this knowledge in mind, HealthNet TPO is doing reasonably well – but this is an irrelevant observation

as long as we do not succeed, like other organizations, in attracting additional financial resources to absorb such losses.

This is the reason why we are looking for alliances with other NGOs in the Netherlands – and beyond – that have the same experiences, but different sources. At this very moment, we are involved in talks with three organizations – all three of which are interested in a specific cooperative alliance with HealthNet TPO. The line of approach in these negotiations is that HealthNet TPO must be given more time to build up its own fundraising income – or that the fundraising income is linked to that of another organization or other organizations. The logic of such an alliance is twofold: HealthNet TPO focuses on content-specific expertise, allowing the partner to concentrate on fundraising and publicity. This concept enables other organizations to eventually take on the role of executory partners who, due to their fundraising power, are able to use HealthNet TPO for the content-related development of modules. HealthNet TPO develops, studies and tests the modules, and when we have evidence-based models, the knowledge is shared with other organizations, which can then apply them in practice.

That would strengthen the core of our mission, namely to provide modules for interventions, as well as HealthNet TPO itself. In the light of the current preparations regarding the new subsidy legislation for the 'social midfield', various parties see prospects in this for the future. This would force, as it were, a more rapid fusion of the field, and if that resulted in a more efficient division of tasks, it would be a good thing.

In this respect, the collaboration with Eureko/Achmea would constitute an ideal complementary undertaking. Without encumbering the relationship with monetary transactions, which ultimately would have to be borne by the insurance policies, a facilitative alliance could be developed in which knowledge and expertise are shared. As a result of Eureko/Achmea's publicity opportunities, a wide-ranging audience is kept abreast of the development of innovative plans. That again increases reach and impact, enabling us to generate more support.

This approach is underpinned by the development of teaching material, based on the projects that HealthNet TPO carries out with NCDO. At present, a teaching package is being compiled, intended to acquaint secondary school students with the immense, daily importance of health for their peers in crisis-affected countries. By thus giving shape to the collaboration with the government (NCDO, MFS), the business community (Eureko/Achmea, Rabobank, Zorg & Zekerheid) and other NGOs, we work on the continuity of the development of ideas, as well as on the continuity of the organization itself.

Liquidity and the need for strategic choices

At the present time, the organization's liquidity is experiencing serious pressure. Every week, we have to weigh the pros and cons before deciding on which projects to spend the funds received. Our liquidity position has been and will be very volatile for some time. There are months in which substantial amounts are received (EUR 1 million), but there are also months when we have to make use of our credit line (EUR 600K).

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

First of all, a critical analysis has been made of the coverage of indirect costs in Amsterdam, and the relation of these costs to the order portfolio. Moreover, plans have been made for drastic cutbacks at the head office. This includes measures to increase 'declarability', for example, by outsourcing knowledge. Restructuring plans are currently being prepared which will have to result in about a 30% cutback of costs in Amsterdam.

Furthermore, the lessons learned from previous years have to be put into practice. What we have learned is that better financial management in Amsterdam is not sufficient to better safeguard the entire project package against mismanagement in the field. We took the losses, which we had not sufficiently anticipated in previous years, in 2005 while bringing projects to a close. With the insights gained and with a new way of record-keeping we will now be able to control overspending and budget shifts at an earlier stage, and to take immediate measures in the field. Management and the role of Amsterdam have become dearer. More practical, operational work will have to be delegated to the field. That's ultimately where the capacity has to be developed to manage projects in such a manner that a process of self-sufficiency can take place. All this has been incorporated in plans to be submitted to the Executive Board in 2006.

Secondly, consultations are being conducted with other organizations. The tendency towards increased profiling among organizations, all of which will have to meet the requirements set for alternative income (i.e. not coming from the Dutch government) resulting from the new Co-Financing System (Mede Financiering Stelsel = MFS), are leading to considerable commotion in the fundraising market. Within this turmoil, HealthNet TPO is a sought-after partner. The simple reason being that the Dutch government only contributes 17% to our turnover. Many organizations have relied solely on the Dutch government as donor, and are finding it extremely difficult now to qualify for further support after 2010 (the minimum alternative contribution has to be 25%). HealthNet TPO's project package, along with the publicity opportunities of the partnership with Eureka/Achmea, can now be viewed as our 'unique selling point' when it comes to strategic partnerships from which both parties benefit.

And thirdly, a breakthrough can be expected in the partnerships with the private sector. The development of a number of ideas such as the turn-key hospital and health care for low-income groups has generated a new enthusiasm among partners. They are aware of the great importance of increasing access to health care, and their own interest in participating in Corporate Social Responsibility programmes. The partnership with Eureka will be on a European level. Rabobank's

participation is generating renewed interest. It is not the intention to make an organization such as HealthNet TPO dependent on these enterprises; nor is this desirable from the enterprises' point of view. However, what we are more and more frequently discovering is that these partnerships have a productive impact on other parties, such as institutional donors on the one hand, and, on the other hand, the governments in the countries where the projects are executed.

Budget for 2006

The Board of HealthNet TPO has approved the 2006 budget. The total budget surplus amounts to EUR 11,158.

	Budget 2006	Actual 2005
INCOME FROM OWN FUNDRAISING	550,000	202,666
Contributions, donations and gifts	550,000	202,666
COSTS OF OWN FUNDRAISING	116,306	66,676
(In)direct fundraising costs	50,000	31,487
Operational costs	66,306	35,189
(in % of income from own fundraising)	21%	33%
TOTAL OWN FUNDRAISING	433,694	135,990
SHARE IN THIRD-PARTY ACTIVITIES	-	207,602
AVAILABLE FROM FUNDRAISING	433,694	343,592
SUBSIDIES FROM GOVERNMENTS AND OTHERS	10,448,005	10,055,664
Project turnover	9,479,250	9,034,677
Turnover from consultancies	-	-
Core funding	-	-
Public awareness income	50,000	-
Cover for indirect costs	568,755	550,470
Contributions from local population	350,000	470,517
OTHER INCOME AND EXPENSES	15,000	(13,612)
Interest	15,000	9,329
Other results	-	(4,952)
Exchange rate differences	-	(17,989)
TOTAL AVAILABLE FOR SPECIFIED OBJECTIVE	10,896,699	10,385,644
AWARENESS-RAISING AND INFORMATION	75,000	113,343
Own activities	15,000	21,765
Operational costs	60,000	91,578
RECONSTRUCTION AND DEVELOPMENT	10,810,541	10,934,487
Direct project costs	9,575,000	9,601,798
Post-project results	250,000	34,675
Operational costs	985,541	1,298,014
TOTAL SPENT ON SPECIFIED OBJECTIVE	10,885,541	11,047,830
SURPLUS / DEFICIT	11,158	(662,186)

HEALTHNET INTERNATIONAL

BALANCE SHEET

(After profit appropriation)
(In euros)

	Notes	31 December 2005	31 December 2004
ASSETS		21,072,518	16,950,138
TANGIBLE FIXED ASSETS	1	78,840	18,534
RECEIVABLES FROM INSTITUTIONAL DONORS	2	19,801,464	13,330,914
OTHER RECEIVABLES	3	258,025	202,417
CASH AND BANK	4	934,189	3,398,272
LIABILITIES		21,072,518	16,950,138
EQUITY		88,007	1,128,739
Freely disposable capital	5	(24,476)	563,141
Tied-up capital	6	112,484	565,598
LONG-TERM LOAN	7	-	-
BUDGETARY COMMITMENTS	8 and 9	19,875,471	14,853,497
REIMBURSEMENTS	10	499,605	526,941
OTHER SHORT-TERM LIABILITIES	11	609,435	440,961

STATEMENT OF INCOME AND EXPENDITURE

(In euros)

		2005 Actual	2005 Budget	2004 Actual
INCOME FROM OWN FUNDRAISING	13	202,666	400,000	190,208
Contributions, donations and gifts		202,666	400,000	190,208
COSTS OF OWN FUNDRAISING		66,676	40,000	22,730
(In)direct fundraising costs	14	31,487	10,000	11,273
Administrative expenses	23	35,189	30,000	11,456
(as % of income from own fundraising)		33%	10%	12%
TOTAL OWN FUNDRAISING		135,990	360,000	167,478
SHARE IN THIRD-PARTY ACTIVITIES	15	207,602	200,000	136,693
AVAILABLE FROM FUNDRAISING		343,592	560,000	304,171
SUBSIDIES FROM GOVERNMENTS AND OTHERS	16 and 17	10,055,664	12,118,781	9,586,464
Project turnover		9,034,677	10,932,812	8,358,932
Turnover from consultancies		-	-	-
Cover for indirect costs		550,470	685,969	665,316
Contributions from local population		470,517	500,000	562,216
OTHER INCOME AND EXPENSES	18	(13,613)	100,000	116,762
Interest		9,329	10,000	11,766
Other results		(4,952)	90,000	14,237
Exchange rate difference		(17,989)		90,759
TOTAL AVAILABLE FOR SPECIFIED OBJECTIVES		10,385,643	12,778,781	10,007,397

AWARENESS-RAISING AND INFORMATION			113,343	40,000	13,211
Own activities	19		21,765	10,000	13,211
Operational costs	23		91,578	30,000	-
RECONSTRUCTION AND DEVELOPMENT			10,934,487	12,730,490	10,368,454
Direct project costs	20 and 21		9,601,798	11,571,812	8,758,588
Operational costs	22		1,332,689	1,158,678	1,609,866
TOTAL SPENT ON SPECIFIED OBJECTIVES			11,047,830	12,770,490	10,381,666
SURPLUS (DEFICIT)			(662,187)	8,291	(374,269)
SURPLUS (DEFICIT) IS ADDED TO			(662,187)	8,291	(374,270)
Freely disposable capital	5		(587,617)	8,291	31,605
Appropriation funds	6		(134,874)	-	(398,665)
Operational assets fund	6		60,304	-	(7,210)

CASH FLOW STATEMENT				
<i>(In euros)</i>			31 December 2005	31 December 2004
RESULT			(662,187)	(374,270)
CASH FLOW FROM OPERATIONAL ACTIVITIES			(1,723,130)	1,195,236
Depreciation			18,462	13,519
Receivables from institutional donors			(6,470,550)	(5,574,553)
Other receivables			(55,608)	(69,429)
Budgetary commitments			5,021,974	6,512,833
Direct transaction as a result of system change			(378,545)	-
Reimbursements			(27,336)	330,370
Other short-term debts			168,473	(17,505)
CASH FLOW FROM INVESTMENT ACTIVITIES			(78,766)	(3,849)
Investments			(78,766)	(3,849)
CASH FLOW FROM FINANCING ACTIVITIES			-	-
Long-term loan			-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			(2,464,083)	817,118
Liquidity balance as of 1 January 2005			3,398,272	2,581,152
Liquidity balance as of 31 December 2005			934,189	3,398,272

NOTES TO THE FINANCIAL STATEMENTS

General

HealthNet TPO is a foundation that originated from a merger between HealthNet International, established on 26 October 1992, and the Transcultural Psychosocial Organization, established on 12 June 1995. The most important objective of the organization 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.

The comparative figures for 2004 appearing in this annual report reflect the annual reports of HNI and TPO. The merger of the two organizations is formally acknowledged in reporting for 2005. The combined figures are used in this annual report for purposes of comparison.

Reporting directive for fundraising institutions

The 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 expense are recognized in the year to which they relate, unless stated otherwise.

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 fittings	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 funds assets management. 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 fixed assets lies with the donor.

Receivables

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

Project subsidies

Project subsidies pledged to HealthNet TPO and resulting budget obligations are included in the annual report at the time of the pledge. These subsidies are based on real project costs assigned to statements of profits and losses.

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.

System change

The basis for the allocation of project turnover was revised in 2005. This resulted from an EU decision entailing that contributions by the local population must be re-invested in the project or otherwise deducted from the financial grant. As a result of this ruling, project turnover decreased in terms of local population contributions, insofar as these did not lead to additional project investments. The effect of this change on preceding years is booked as a direct transaction in equity.

1 Tangible fixed assets				
	Fixtures & Fittings	Equipment	Computers	Total
Acquisition cost				
Balance as of 1 January 2005	67,162	16,109	38,989	122,260
Investments	4,595	54,672	19,500	78,766
Divestments	1,004	(1,004)	-	-
Balance as of 31 December 2005	70,753	71,785	58,488	201,026
Depreciation				
Balance as of 1 January 2005	58,041	12,239	33,444	103,724
Investments	3,649	7,862	6,951	18,462
Divestments				
Balance as of 31 December 2005	61,691	20,101	40,394	122,186
Net book value				
Balance as of 31 December 2005	9,063	51,683	18,094	78,840

In 2005, new investments were made in connection with the merger and the office move of HealthNet TPO's head office in Amsterdam.

2 Receivables from institutional donors				
	2005		2004	
Balance as of 1 January 2005		13,455,146		10,872,228
Pledged project subsidies		14,617,824		14,126,146
Exchange rate differences as of 31 December 2005		528,984		(293,735)
Received project subsidies		(7,730,095)		(10,375,653)
Provisions		(124,232)		(124,232)
Unused project subsidies		(946,163)		(873,841)
Balance as of 31 December 2003		19,801,464		13,330,914

The decrease in received project subsidies is due, among other things, to the completion of projects where pre-financing was requested by the donor.

A provision dating from last year concerning a project in Afghanistan remains in effect, since a decision has been made by the donor but not yet by the consortium members.

3 Other receivables			
		2005	2004
Prepaid expenses		20,315	26,883
Other receivables		230,384	162,914
Prepaid pension contributions		7,007	10,200
Interest receivable		320	2,420
Balance as of 31 December 2005		<u>258,025</u>	<u>202,417</u>

4 Cash and cash equivalents			
		2005	2004
Cash and cash equivalents in Amsterdam		246,414	2,168,282
Credit facility		(111,135)	-
Cash and cash equivalents in project countries		<u>798,910</u>	<u>1,229,990</u>
Balance as of 31 December 2003		<u>934,189</u>	<u>3,398,272</u>

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.

In 2005, a credit agreement came into force, aimed at absorbing fluctuations in liquidity.

5 Freely disposable capital				
				Total freely disposable

Balance as of 1 January 2005				563,141	<p>The freely disposable capital can be allocated for a specific purpose by management. The transaction in Equity concerns the system change and is the effect of this change on the preceding years. Free capital is generated by revolving funds.</p>
Transaction in Equity				475,615	
From tied-up to free capital				32,926	
Profit appropriation				<u>(1,096,159)</u>	
Balance as of 31 December 2005				<u>(24,476)</u>	

6 Tied-up capital					
		Appropriation funds	Operational asset fund	Total	

Balance as of 1 January 2005		550,728	14,870	565,598	<p>Related to the system change, appropriation funds are written off and used to cover the costs of a specific project / programme. This amount is deducted from the project turnover of the donor. The amount mentioned relates to a restricted fund. For appropriated reserve, see point 5.</p>
Transaction in Equity		(475,615)	-	(475,615)	
From tied-up to free capital		(32,926)	-	(32,926)	
Profit appropriation		<u>(4,877)</u>	<u>60,304</u>	<u>55,427</u>	
Balance as of 31 December 2005		<u>37,309</u>	<u>75,174</u>	<u>112,484</u>	

7 Long-term loan			2005	2004	
Balance as of 1 January 2005	-	-			No new loans were obtained.
Additions (withdrawals)	-	-			
Balance as of 31 December 2005	-	-			

8 Budgetary commitments			2005	2004	
Balance as of 1 January 2005	14,853,497	7,299,255			In 2005, several large contracts were concluded, particularly in Afghanistan and the Great Lakes region of Burundi-Sudan-Congo. A portion of this is TMF funding.
Pledged project subsidies	14,892,131	14,126,146			
Exchange rate differences as of 31 December 2005	504,731	(432,323)			
Used project subsidies	(9,724,189)	(9,024,248)			
Unused project subsidies	(946,056)	(873,841)			
Reimbursement of project subsidies	(106,132)	(367,999)			
Balance TPO as of 31 December 2005	<u>401,488</u>	<u>4,126,506</u>			
Balance as of 31 December 2005	<u>19,875,471</u>	<u>14,853,497</u>			

9 Budgetary commitments per country						
			2005	2004		
Afghanistan			6,246,027	5,679,393		
Bosnia			89,952	20,018		
Burundi			2,813,326	229,089		
Cambodia			3,856,513	5,080,671		
Democratic Republic of Congo			1,485,165	930,233		
Eritrea			984,477	981,966		
Indonesia			(76,676)	229,087		
Kosovo			-	-		
The Netherlands			418,479	250,384		
Nepal			73,630	104,100		
Pakistan			190,781	178,393		
Rumania			-	98,946		
Rwanda			1,845	3,690		
Sri Lanka			348,341	246,873		
Southern Sudan			2,017,922	555,083		
Uganda			1,406,184	-		
East Timor			(16,238)	114,260		
Other budgetary commitments			<u>35,742</u>	<u>151,312</u>		
Balance as of 31 December 2005			<u>19,875,470</u>	<u>14,853,497</u>		

10 Reimbursements						
			2005	2004		
Balance as of 1 January 2005			526,941	196,571		In 2005, EUR 133,468 was returned
Repaid			(133,468)	(37,628)		to donors because of under-
Added			<u>106,132</u>	<u>367,999</u>		spending on pre-funded
Balance as of 31 December 2005			<u>499,605</u>	<u>526,941</u>		project activities.
						The addition is the result of
						not having fully spent the budget.

11 Other current liabilities					
			2005	2004	
Accounts payable			277,631	266,464	Included under 'Accounts payable' are invoices payable to consultants, suppliers, local partner organizations and others. Personnel costs payable consist mainly of holiday entitlements. Other costs payable consist of insurance premiums, taxes and social security charges.
Personnel costs payable			91,453	76,717	
Costs payable in project countries			-	-	
Other costs payable			240,350	97,780	
Balance as of 31 December 2005			<u>609,435</u>	<u>440,961</u>	

12 Off-balance sheet commitments

a) 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.

b) 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.

c) 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.

d) For some EU projects, there is a mandatory local contribution or co-funding. This is reflected in the figures for year-end of 2005, either as a local contribution or as a post-project result. The development of these projects in 2006 and in the future is unknown and may involve potential risks, but also positive effects (if co-funding can be realized).

e) In 2005, a credit agreement with the bank was signed in order to deal more effectively with fluctuations in liquidity. In 2006, this agreement was dissolved and a new credit agreement was signed with another bank.

13 Income from own fundraising			2005	2004	
Earmarked donations			0	-	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 2005.
Freely disposable donations		<u>202,666</u>	<u>190,208</u>		
Total income from own fundraising		<u>202,666</u>	<u>190,208</u>		
14 (In)direct fundraising costs			2005	2004	
Direct fundraising costs			<u>31,487</u>	<u>11,273</u>	Direct fundraising costs were incurred for a business plan with the Rabobank; an external party was hired to do research on fundraising in private companies.
Total (in)direct fundraising costs			<u>31,487</u>	<u>11,273</u>	
15 Share in third-party activities			2005	2004	
Contribution from PLAN Netherlands			<u>207,602</u>	<u>136,963</u>	The contribution from PLAN Netherlands helps to support the Child Thematic Programme.
Total share in third-party activities			<u>207,602</u>	<u>136,693</u>	

16 Summary of income per donor			
		2005	2004
Achmea		215,848	-
Asian Development Bank		1,040,640	740,848
European Commission		3,075,470	2,463,955
Caritas		116,055	516,639
Ministry of Foreign Affairs (The Netherlands)		1,470,759	1,658,331
GTZ		-	-
Global Fund		388,318	247,899
ITG		376,285	118,773
ICCO		3,823	-
PLAN		277,942	139,661
PSO		284,737	344,957
Racha		427-	-
SIDA		25,313	580,152
Stichting VISIO		-	-
URC		89,054	100,126
United Nations organizations		373,008	480,650
World Bank		689,422	862,289
Others		828,071	769,968
Subtotal of project turnover		9,254,318	9,024,248
Turnover from consultancies		-	-
Local project income		470,517	562,216
Total project turnover		9,724,835	9,586,464

Coverage for indirect costs is what HealthNet TPO receives to cover overhead costs. In 2005, this amounted to 6.4% of the project turnover (2004: 7.8%).
Local project income consists of donations from benefactors for services provided (medicines, consultations and mosquito nets in Afghanistan and Pakistan).

17 Summary of income per project country				
		2005	2004	
Afghanistan		3,833,639	3,897,643	In the case of Afghanistan, local project income is included under project income.
Bosnia		133,804	136,605	
Burundi		1,120,524	662,986	
Cambodia		1,767,627	1,268,029	
Democratic Republic of Congo		1,008,966	1,433,178	
Eritrea		3,028	261,319	
Indonesia		76,676	35,000	
Kenya		-	-	
Kosovo		-	-	
The Netherlands		214,766	11,716	
Nepal		99,621	150,250	
Pakistan		326,124	425,085	
Rumania		49,065	592,339	
Rwanda		6,859	47,938	
Somalia		878-	7,022	
Sri Lanka		276,013	48,147	
Southern Sudan		260,031	215,204	
Uganda		154,126	-	
East Timor		276,489	394,001	
Other		118,266	-	
Total project turnover		<u>9,724,746</u>	<u>9,586,464</u>	

18 Other results				
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This item includes income and costs that cannot be attributed to the organization's standard operations.

19 Costs of own information-related activities					
				2005	2004
Own information-related activities				<u>21,765</u>	<u>13,211</u>
Total own information-related activities				<u>21,765</u>	<u>13,211</u>

Information costs in 2005 relate to improving and renewing the website.

20 Project expenditure per country					
				2005	2004
Afghanistan				4,020,654	3,191,276
Bosnia				138,733	136,607
Burundi				1,114,050	857,446
Cambodia				1,689,541	1,195,999
Democratic Republic of Congo				903,756	1,412,426
Eritrea				3,028	(1,240)
Indonesia				76,676	9,413
Kenya				-	1,147
Kosovo				-	-
Netherlands				110,884	487,200
Nepal				99,621	46,150
Pakistan				487,931	443,108
Rumania				24,155	47,102
Rwanda				1,009	563,053
Somalia				-	6,931
Sri Lanka				257,513	4,774
Southern Sudan				270,847	356,927
Uganda				135,132	-
East Timor				242,790	201,835
Other project costs				<u>25,478</u>	<u>(201,568)</u>
Total project expenditure				<u>9,601,798</u>	<u>8,758,587</u>

21 Project expenditure per cost category			2005	2004
International staff			1,201,305	928,470
Local staff			2,852,449	2,408,297
Project office costs			909,686	825,681
Transportation			1,028,656	695,668
Training and education			473,621	415,074
Medical and other goods			2,500,140	2,792,487
Revaluations			29,846	106,093
Consultancies			606,095	586,819
Total project expenditure			9,601,798	8,758,587

22 Operational expenses according to use						
	Recon- struction	Fundraising	Information	Actual 2005	Budget 2005	Actual 2004
Salaries and social security charges	969,621	24,509	43,634	1,037,764	951,914	872,262
Pension contributions	114,962	2,941	5,027	122,930	100,242	73,195
Other personnel costs	58,238	1,360	7,542	67,140	87,330	31,356
Personnel costs charged on	(179,466)	-	-	(179,466)	(325,690)	(402,027)
Accommodation costs	133,237	3,112	17,256	153,605	131,937	118,188
Office expenses	67,155	1,565	8,681	77,401	115,214	80,337
Other general expenses	134,268	1,702	9,438	145,408	97,732	64,367
Subtotal operational expenses	1,298,014	35,189	91,578	1,424,781	1,158,679	837,678
Post project results	34,675	-	-	34,675	-	786,559
Total operational expenses	1,332,689	35,189	91,578	1,459,456	1,158,679	1,624,237

Personnel

In 2005, the head office in Amsterdam employed 19 FTEs (2004: 17.1 HNI + 5.3 TPO)

Board members are not employed by the organization and receive no remuneration. The costs for organizing board meetings in 2005 amounted to EUR 168 (2004: EUR 168 HNI + EUR 454 TPO)

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, July 2006

The Executive Board:

A.M.F. Winkler, Chairman

P. Aukema, Treasurer

G.J. Doornkate, Secretary

Foundation HealthNet Transcultural Psychosocial Organization, Amsterdam