

MEKONG RIVER COMMISSION

**Financial Statements
for the year ended 31 December 2005**

Mekong River Commission
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Contents

	Page
1. Report of the independent auditors	1
2. Balance sheet	2
3. Income and expenditure statement	3
4. Notes to the financial statements	4

REPORT OF THE INDEPENDENT AUDITORS

To the members of the Joint Committee of the Mekong River Commission

Scope

We have audited the financial statements of the Mekong River Commission (“the Commission”) set out on pages 2 to 8, comprising the balance sheet as at 31 December 2005 and the related income and expenditure statement for the year then ended. These financial statements are the responsibility of the Commission’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements have been prepared in accordance with a modified cash basis of accounting. This is a basis of accounting used by the Commission; it does not produce financial statements that are compatible with International Financial Reporting Standards.

Audit Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Mekong River Commission as at 31 December 2005 and its income and expenditure for the year then ended in accordance with the basis of accounting and the accounting policies set out in Notes 2 and 3.

KPMG Lao Co., Ltd.
KPMG Lao Co., Ltd.
Vientiane

22 March 2006



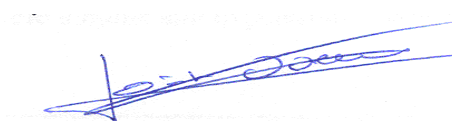
Mekong River Commission
Balance Sheet as at 31 December 2005

	Notes	2005 USD	2004 USD
Assets			
Cash on hand and at banks	4	8,820,409	7,054,341
Advances, accounts receivable and prepayments	5	720,749	691,490
Deposits		5,610	4,710
Total Assets		<u>9,546,768</u>	<u>7,750,541</u>
Liabilities			
Relocation project loan	6	540,000	600,000
Other liabilities	7	31,468	3,097
Total Liabilities		<u>571,468</u>	<u>603,097</u>
Net Assets		<u><u>8,975,300</u></u>	<u><u>7,147,444</u></u>
Represented by:			
Fund Balances			
Government of Australia		286,650	225,329
Asian Development Bank		399,583	-
Government of Denmark		3,127,240	2,751,160
Deutsche Gesellschaft Für Technische Zusammenarbeit (GTZ) GmbH		127,303	95,390
European Commission		71,136	1,269
Government of Finland		1,335,593	915,146
Government of France		74,908	135,284
International Bank for Reconstruction and Development	8	176,591	(193,262)
Government of Japan		679,600	476,390
Murray Darling Basin Commission	8	28,812	(18,372)
Government of Netherlands		469,497	1,375,971
Government of New Zealand		56,762	69,259
Government of Norway		-	412
Government of Sweden		1,023,457	1,017,907
Government of Switzerland	8	(26,942)	573,726
Government of Belgium		1,175,606	-
UNDP Cambodia		2,301	11,308
Government of the United States		163,752	61,409
Australian Centre for International Agricultural Research		53,879	25,588
Others	8	(44,493)	14,997
Operating Expense Budget Surplus		334,065	193,549
Relocation project fund	6	(540,000)	(585,016)
Total Fund Balances		<u><u>8,975,300</u></u>	<u><u>7,147,444</u></u>

The notes set out on pages 4 to 8 form an integral part of these statements

Approved by:


 Dr. Olivier Cogels
 Chief Executive Officer


 Dr. Dirk Overweg
 Chief Finance and Administration

Mekong River Commission
Income and Expenditure Statement for the year ended 31 December 2005


	Notes	2005 USD	2004 USD
Contributions			
Donors	9	13,754,662	12,897,394
Riparian governments	10	<u>1,078,332</u>	<u>1,006,586</u>
		<u>14,832,994</u>	<u>13,903,980</u>
Revenue			
Interest	11	13,883	5,293
Miscellaneous	12	<u>11,876</u>	<u>21,014</u>
		<u>25,759</u>	<u>26,307</u>
Total Income		<u>14,858,753</u>	<u>13,930,287</u>
Expenditure			
<i>Project expenditure</i>			
	11		
Personnel services		5,888,778	4,706,284
Sub-contracts		539,478	429,291
Training		1,106,553	944,343
Equipment		834,765	493,199
Miscellaneous expenses		632,513	383,427
Water Utilisation Programme ("WUP")		<u>2,126,540</u>	<u>1,915,798</u>
		<u>11,128,627</u>	<u>8,872,342</u>
<i>Relocation project</i>			
Secretariat relocation expenditure	6	14,984	551,678
<i>Administrative expenditure</i>			
Staff salary and fees		671,086	702,053
Common staff costs		402,500	392,080
Travel		22,047	3,420
Contractual services		141,484	60,826
General operating expenses		180,726	168,343
Supplies		27,571	31,431
Furniture and equipment		70,290	18,634
MRC meeting expenses		146,489	157,243
Support to National Mekong Committees		54,605	52,487
WUP management support		<u>167,198</u>	<u>168,997</u>
		<u>1,883,996</u>	<u>1,755,514</u>
Total Expenditure		<u>13,027,607</u>	<u>11,179,534</u>
Foreign exchange (loss)		(3,290)	(7,756)
Movement in Fund Balances		1,827,856	2,742,997
Fund Balances as at 1 January		<u>7,147,444</u>	<u>4,404,447</u>
Fund Balances as at 31 December		<u>8,975,300</u>	<u>7,147,444</u>

The notes set out on pages 4 to 8 form an integral part of these statements

Approved by:



Dr. Olivier Cogels
 Chief Executive Officer



Dr. Dirk Overweg
 Chief Finance and Administration

These notes form an integral part of, and should be read in conjunction with, the accompanying financial statements.

1. Principal activities

The Mekong River Commission (“MRC” or “the Commission”) was established in 1995 with the signing of the Agreement on the Cooperation for the Sustainable Development of the Mekong River Basin. The MRC member countries are Cambodia, the Lao PDR, Thailand and Vietnam, with China and Myanmar as dialogue partners.

The role of the MRC is to promote and coordinate sustainable management and development of water and related resources for the countries’ mutual benefit and the people’s well being. It fulfils this role by providing scientific information and policy advice and implementing strategic programs and activities in accordance with the 1995 Agreement.

2. Basis of preparation

The financial statements, expressed in United States Dollars (“USD”), have been prepared in accordance with a modified cash basis of accounting. This is a basis of accounting used by the Mekong River Commission; it does not produce financial statements that are compatible with International Financial Reporting Standards. Under this basis of accounting, income is recognised when received rather than earned, except for interest income which is recognised when earned. Expenditure is recognised when paid rather than incurred, except for: staff health and life insurance premiums, personal telephone costs charged to staff and repatriation fee, which are recognised on an accruals basis; and advances to National Mekong Committees, projects and employees, which are recognised when cleared.

3. Summary of significant accounting policies

(a) Property and equipment

For control and management purposes, a memorandum account for property and equipment is maintained by way of a property and equipment listing.

(b) Advances

Monies advanced to National Mekong Committees, projects and employees are recorded under the advances, accounts receivable and prepayments account on the balance sheet. Advances spent on projects or secretariat operations are recorded as expenditure in the period that they are reported to the Mekong River Commission Secretariat.

(c) Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than USD are translated into USD at rates of exchange ruling at the balance sheet date. Transactions in currencies other than USD are translated into USD at the MRC operational rates of exchange on the date of the transactions. All exchange differences are recorded in the income and expenditure statement.

4. Cash on hand and at banks

	2005	2004
	USD	USD
Cash on hand	517	-
Cash at banks	8,819,892	7,054,341
	<u>8,820,409</u>	<u>7,054,341</u>

5. Advances, accounts receivable and prepayments

	2005	2004
	USD	USD
Advances for general project expenditure	587,016	506,459
Other advances	114,615	173,968
Accounts receivable	19,118	11,063
	<u>720,749</u>	<u>691,490</u>

Advances for general project expenditure represent imprest funds given to some satellite projects for petty cash expenses and other disbursements within their limits of authority. The related project expenditure is charged to the income and expenditure statement upon submission of clearance forms. Other advances are education allowances of staff dependants attending training. Accounts receivable are personal telephone calls to be collected from staff as a deduction from payroll, prepaid insurance and medical claims.

6. Relocation project loan

This represents the drawdown of a loan facility amounting to USD600,000 from the Government of the Lao PDR which was used to finance the MRC Secretariat relocation to Vientiane (Lao PDR). The loan is unsecured and interest free. The MRC shall repay the loan gradually, upon availability of surplus funds from the MRC Operational Expense Budget (“OEB”) and/or funds made available from other sources, within five years; this may be extended to a maximum of ten years. The use of surpluses from the OEB funds shall be subject to the approval of the Joint Committee.

During the year, the MRC incurred expenditure of USD14,984 (2004: USD551,678) for the relocation project and made the first repayment amounting to USD60,000.

7. Other liabilities

	2005	2004
	USD	USD
Accrued repatriation fee	18,244	-
Others	13,224	3,097
	<u>31,468</u>	<u>3,097</u>

Accrued repatriation fee, which is charged to the operating expense budget, represent the MRC expatriate staff separation fees payable on leaving the MRC to return their home country.

8. Negative fund balances

The relocation project fund is described in Note 6 above. Other negative fund balances represent expenditures incurred in excess of receipts. These deficits are expected to be reimbursed by the donors.

9. Contributions from donors

	2005	2004
	USD	USD
Project contributions from donors	13,702,703	12,981,980
Interest earned on donors' funds	23,494	11,560
Contributions returned to donors	(1,750)	(105,662)
Other income	30,215	9,516
	<u>13,754,662</u>	<u>12,897,394</u>

Main donors in the year include the governments of Australia, Belgium, Denmark, Finland, Japan, Sweden, Switzerland and the Netherlands and the World Bank.

Project contributions from donors comprise the following:

	2005	2004
	USD	USD
Government of Australia	432,588	272,439
Asian Development Bank	400,000	9,411
Government of Denmark	4,089,929	5,095,387
Deutsche Gesellschaft Für Technische Zusammenarbeit (GTZ) GmbH	300,239	260,528
European Commission	221,755	41,148
Government of Finland	1,294,611	1,142,037
International Bank for Reconstruction and Development	1,801,067	1,245,281
Government of Japan	660,103	328,837
Murray Darling Basin Commission	94,209	115,354
Government of Netherlands	290,000	1,388,502
Government of New Zealand	15,620	64,380
Government of Sweden	1,852,237	1,263,592
Government of Switzerland	320,000	1,201,857
Government of Belgium	1,178,161	-
UNDP Cambodia	47,612	13,324
Government of the United States	448,215	318,453
Others	256,357	221,450
	<u>13,702,703</u>	<u>12,981,980</u>

Mekong River Commission
Notes to the financial statements for the year ended 31 December 2005 (continued)

Contributions returned to donors comprise the following:

	2005	2004
	USD	USD
USAID Manila		
3.1\53\03\USA	-	89,255
3.1\53\04\USA	-	10,085
Miscellaneous		
1.1\00\04\OTHT	440	141
Deutsche Gesellschaft Für Technische Zusammenarbeit (GTZ) GmbH		
3.4/09/04/GTZ	1,310	-
Other refunds		6,181
	<u>1,750</u>	<u>105,662</u>

Other refunds include interest earned from project funds.

10. Contributions from riparian governments

	2005	2004
	USD	USD
Cambodia	250,328	237,414
Lao PDR	250,328	237,414
Thailand	294,703	270,309
Vietnam	282,973	261,449
	<u>1,078,332</u>	<u>1,006,586</u>

11. Secretariat support costs and other government contributions

Revenue for secretariat support costs and other government contributions comes from donors. Secretariat support costs are calculated at 11% of expenditure for most projects. The revenue is used to cover the expenses of the Commission's Secretariat in rendering technical and administrative services to the projects. Other government contributions have been received from the governments of Australia, Denmark, Japan and Sweden to fund specific services at the Commission's Secretariat. These balances have been eliminated on preparation of the financial statements for the MRC as a whole as set out below.

	2005	2004
	USD	USD
Secretariat support costs – Income	873,712	683,015
Other government contributions	50,000	189,060
	<u>923,712</u>	<u>872,075</u>
Secretariat support costs – Expense	<u>923,712</u>	<u>872,075</u>

12. Interest

Interest is earned on MRC funds and contributions from donors. Interest is credited to the OEB interest balance with the exception of interest earned on contributions received from Australia, Denmark, the European Commission, Finland, GTZ, Norway, Sweden, Switzerland and the UNDP, which is included in project contributions from donors.

13. Provident fund

The Commission manages a provident fund, which had a balance at 31 December 2005 of USD1,400,660 (2004:USD 1,354,923), to provide a savings scheme in lieu of a pension fund on behalf of 123 (2004:100) members of staff eligible for the scheme. Staff and Commission contributions are banked in a separate bank account. The Commission's contributions to the fund are included in the income and expenditure statement, as personnel services in respect of project expenditure, and as staff salaries and fees in respect of administrative expenditure; the provident fund is not otherwise reflected in the financial statements of the Commission.