

# **Annual Accounts 2011**

**IRC**

**International Water and Sanitation Centre**

**Bezuidenhoutseweg 2**

**2594 AV The Hague**

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### **Other Information**

Auditors Report

## Corporate information

Legal form:	Foundation
Corporate name:	Stichting IRC, International Water and Sanitation Centre
Statutory seat:	The Hague
Director:	Terra, Nicolaas Gerardus Maria
Supervisory Board:	de Waal, Lodewijk Justus den Haas, Dirk Cornelis Bernhard van der Sijp, Regina Nina Maria van Dord, Hans van den Top, Gerhard Martin

## Vision and Mission statement

*"From charitable giving to sustainable services that lasts 24/7/365"*

IRC's vision is a world where everyone has access to WASH services that are appropriate, safe and sustained. Service providers operate to high professional standards in an open market. Costing and financing in the sector take account of the full life-cycle costs of service provision and costs are balanced by expected income. To help realise this vision it is our mission to facilitate the sharing, promotion and use of knowledge so that governments, professionals and organizations can better support poor men, women and children in developing countries to obtain water and sanitation services they will use and maintain.

## Directors report

The above mission statement reflects how IRC sees its role as an international knowledge and innovation centre in the WASH sector, striving for a change towards the delivery of sustainable water and sanitation services that last. This is an ambition we share with our partners and is in line with the MDG's for 2015 to which the wider community is committed.

For IRC, 2011 was the last year of its 5 years Business Plan 2007 - 2011. This period has both from a strategic as from an operational point of view been crucial for the development of IRC.

During these years it became clear that delivering services through stand-alone projects would never address the problems of scale or sustainability, and that achieving sustainable services demands a much greater degree of collaboration, joint learning and fact-finding.

As a result we started working more intensively in a reduced number of focus countries, to become an active sector actor in tackling the challenges to service delivery at scale. We also developed and lead large programmes aimed at innovating and piloting sector change. Both of these shifts were driven by a desire to achieve a greater understanding and more lasting impact. Both have led to important internal organisational changes and to considerable growth of our activities and staff.

Both have raised IRC's impact, effectiveness and international profile, which is demonstrated e.g. by our listing at the international Philanthropedia review as the 4<sup>th</sup> top international WASH non-profit organisation of 2011 for its ability to achieve impact (See: <http://www.myphilanthropedia.org/top-nonprofits/international/water-sanitation-hygiene>)

and also by an independent evaluation of IRC's work commissioned by the Dutch Government states that: "there is little doubt that IRC's core competences (innovation, knowledge management, advocacy and capacity building) are highly relevant" and that "the IRC goes well beyond ... simplistic water supply targets that only attempt to measure access to services while completely ignoring the quality and sustainability of the services".

For IRC, 2012 is the first year of our new 5 years Business Plan 2012-2016. We will remain committed to our profile as an internationally recognised and relevant sector knowledge organisation with the overarching goal to change the focus of the sector to service delivery that last.

Our strategy is described in our Business Plan and includes further internationalisation and decentralisation, identification of new financiers and increasing the organization's flexibility to respond more easily to fluctuations in funding.

This business plan and scope of work is based on a total budget of €51 million for the period 2012-2016, is the sum required to maintain our level of impact and our work on information management, the programmes in focus countries and regions, and our international programme. Of this total approximately 40% has currently been committed. The other 60% will be acquired by means of responding to tenders, proactive proposal development and strategic acquisition and fundraising.

During the coming business plan period IRC is again supported by the Dutch government through a renewed 5 years programmatic funding of € 10.4 million. This funding is however substantially lower than in the previous business plan period. One of the contributing ministries to our funding, the Ministry of I&M, has decided to reduce its contribution from €3.4 million to €450.000,=, a reduction of almost €3 million. We will try to compensate for this reduction by looking for additional programmatic funding from other donors and by rearranging and reducing our activities.

IRC will retain our headquarters in The Hague, governed by a Director and a Supervisory Board. The focus in the next five years will be on further decentralisation and internationalisation.

We will seek to continue to diversify the composition of staff by recruiting more actively in the South for core staff positions, by attracting high quality local staff to work in our country programmes and by forming long-term relationships with professionals as part of our associate programme.

#### Financial report

The revenues show a stabilization as compared to 2010. The total revenues for 2011 amount to € 9.75mio. The same applies to the shift in the funding base of IRC towards more private funding. In 2011, the programme subsidy from the Dutch government accounts for 26% of the total revenues for 2011, project based funding accounts for 74% of the total revenues.

The balance of 2011 ended positive with a profit of € 3,526,=. This result will be added to the foundations reserves.

The Dutch government had issued a disposition for the provision of a core programme subsidy totalling € 12.7 million for the period 2007-2011, which consists of € 12.5 million to be used for the core activities and programmes of IRC (programme subsidy) and € 0.2 million to be used for the execution of advisory assignments. The year 2011 therefore also marks the last year of the subsidy by the Dutch government, which follows the programmatic framework agreed in the 2007-2011 Business Plan.

The remaining balance, amounting to € 2.5 million for the year 2011, has been fully spent in line with the framework of the 2011 Annual Plan. Interest received on advance payments has been allocated accordingly.

This subsidy continues to be the strategic basis on which the core programmes of IRC are built and from which they are financed. The Dutch Government has issued a new disposition for the provision of a core programme subsidy totalling € 10.4 million for the period 2012-2016.

The investment that the Dutch government has made and continues to make in IRC is leveraged by \$ 39 million in external funding over a 6-year period, predominantly from the Bill & Melinda Gates Foundation. In 2011 € 4.2mio of this external funding is spent by IRC partners through joint projects. This is also a leverage effect of the core funding.

The year 2011 was the third financial year with the two large grants from the Bill & Melinda Gates Foundation in the balance sheet. The WASHCost project started in 2008 with a budget of \$ 14 million for a period of 5 year and was in 2011 fully operational. The Triple-S project, with a budget of \$ 22 million for a 6 years period, started in December 2008 and became fully operational in 2011. Both projects account together for 50% of the 2011 revenues.

Furthermore, at the same time of granting the Triple-S project, the Bill & Melinda Gates Foundation awarded IRC with a core funding of \$ 2 million to be spent on financing the organisational change process and maintaining and enforcing IRC's innovative strength. In 2011, an amount of \$ 224,788 was spent, the remaining balance for the years 2012 and 2013 amounts to \$ 780,555.

The investment and treasury policy, which was initiated in 2008, continued in 2011. Current assets were accommodated in deposits and savings accounts to avoid unnecessary financial risks. Despite the financial crisis, which started to show its effects in 2010 and continued in 2011, IRC remained having a stable liquidity balance.

#### Organisational report

The increased scope of our operations and especially the two projects WASHCost and Triple-S have resulted in a significant increase in staff over the last years. As of 31 December 2011 IRC employs directly 61 staff members (59 fte) and indirectly some 40 local staff employed on our programmes in the countries by our partners. Future expansion will largely be through local staff. As a consequence of the growth in our overall programme, and taking into account some turnover in 2012, we plan to stabilize our directly employed staff volume at around 60 fte.

In 2011 the change process, to align the organisational model of IRC with the strategy of the business plan and the requirements of the large projects granted by the Bill & Melinda Gates Foundation, was finalized. IRC operates a decentralised model where each country programme develops its strategy and sets its targets within IRC programmatic framework. There are three outcome-based programmes (International, Africa and South Asia), supported by cross-cutting functional teams that provide support on communications, innovation, monitoring & learning and programme management. IRC has its headquarters in The Netherlands, a branch office in Ghana and local presence (through project hosting) in Mozambique, Uganda, India and Burkina Faso.

#### Miscellaneous

In 2011, no changes have been made in the Statutes of the Foundation, nor in the Board of Directors by-laws or the Supervisory Board by-laws.

The Supervisory Board had 5 regular and 1 extra meetings in 2011. The extra meeting was dedicated to the new Business Plan 2012-2016. The different functions of all Board members can be found on [www.irc.nl](http://www.irc.nl). The Director and the Works Council had quarterly meetings in 2011. There was 1 meeting with the Supervisory Board. There were also additional informal meetings to discuss and synchronise specific issues.

The Board members received a remuneration of € 1,600 in 2011, while the chairman received € 4,000. One Board member received a remuneration of € 4,000 for additional management support. The remuneration of the director of IRC for 2011 amounts to € 104,440 which includes an amount of € 15,321 for pension contributions.

## Budget 2012

### **Revenues**

Programmatic funding	€ 3,321,883
Project funding	<u>€ 9,380,138</u>
Total	€ 12,702,021

### **Expenditure**

Personnel expenses	€ 5,528,165
Programmatic expenses	€ 815,831
Project expenses	€ 5,914,000
Operating expenses	<u>€ 480,000</u>
Total	€ 12,737,996

<b>Financial income</b>	<u>€ 50,000</u>
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<b>Operating profit</b>	€ 14,025
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The year 2012 will be the first year of the Business Plan 2012-2016, with a new five-year subsidy commitment from the Dutch government of € 10.4 million and the continuation of the two large grants from the Bill & Melinda Gates foundation (budget € 4.4 million in 2012). Furthermore, IRC is signing large grants with BRAC (budget € 1.8 million in 2012) and Florida International University/USAID (budget € 0.8 million in 2012).

The programmatic funding by the Dutch government and other institutional funding, is budgeted at € 3.3 million or 26% of the total budget.

In addition to the subsidy from the Dutch government (€ 3.0 million in 2012), an amount of € 0.3 million from the remaining balance of the core funding received from the Bill & Melinda Gates Foundation will be applied for acquisition, the innovation programme and organization.

The total budget for 2012 amounts to € 12.7 million, an increase of approximately 33% as compared to 2011.

IRC is more and more taking the lead in external projects, which is increasing our visibility in the sector, but at the same time we are executing these projects with a decreasing input of IRC own staff, cooperating as much as possible with partner organisations.

The total budget increase in 2012 is primarily due to the implementation of large projects via partners in which IRC leads.

To mitigate the risks connected to the implementation of the large projects, IRC aims to be more flexible and cost effective. In 2012, we will invest more in personnel expenses and operating expenses in order to achieve this in the next years.

All the HR basics like legal status, international staff contracts, tax issues and international labour conditions will be developed.

In addition, we will invest in the overall education of staff, both from the perspective of core competences needed at IRC level as from the perspective of individual and team competences.

Office running costs and ICT costs will remain at the same level as 2011.

The current lease agreement for the International Water House expires in July 2013 with 12 months' notice. IRC will evaluate and decide on the housing in the first half year of 2012.

### Acknowledgements

IRC is very grateful to the Dutch government for its continued support and thanks both the Ministry for Development Cooperation and the Ministry of Infrastructure and Environment for the trust they have shown. Without this support IRC would not have been able to reach the unique position it now occupies in the sector, as witnessed by the great interest from the sector.

The interest of the Bill & Melinda Gates Foundation and other donors in the concepts that IRC develops, can be reflected as spin-off of all the years the Dutch government has invested in IRC.

Last but not least, I would like to thank, also on behalf of the Supervisory Board, the international and local staff of IRC, for their great commitment with which they again dedicated themselves in 2011.

With the new course IRC will continue to make a positive contribution in the future, to the improvement of the living conditions of the poorest in developing countries.

The Hague, 21 May 2012

N.G.M. Terra  
Director

## Balance Sheet as at 31 December 2011

(After profit appropriation)

(For further explanation please see chapter "Notes to the balance sheet")

	<u>31 December 2011</u>		<u>31 December 2010</u>	
	€	€	€	€
<b><u>ASSETS</u></b>				
<b>Non-current Assets</b>				
Tangible fixed assets	136.437		212.367	
Loans to staff	30.499		30.499 *	
		166.936		242.866
<b>Current assets</b>				
Accounts receivable	283.747		176.696	
VAT receivable	55.056		66.873	
Other receivables	230.749		194.058 *	
Cash and cash equivalents	10.127.949		10.028.931	
		10.697.501		10.466.558
<b>Total assets</b>		<b>10.864.437</b>		<b>10.709.424</b>
<b><u>LIABILITIES</u></b>				
<b>Foundation's general reserves</b>				
Foundation's general reserves	2.173.643		2.166.971	
Result current financial year	3.526		6.672	
		2.177.169		2.173.643
<b>Provisions</b>				
Sabbatical leave provision	23.814		23.814	
Jubilee provision	55.850		55.380	
		79.664		79.194
<b>Non-current liabilities</b>				
Annuity	14.155		37.483	
		14.155		37.483
<b>Current liabilities</b>				
Pre-invoiced on projects	6.220.857		7.506.637	
Subsidy advance	1.500.000		-	
Accounts payable	273.278		308.629 *	
Other current liabilities	599.314		603.838 *	
		8.593.449		8.419.104
<b>Total liabilities</b>		<b>10.864.437</b>		<b>10.709.424</b>

\* Amounts reclassified in previous year for reason of comparison



## INCOME STATEMENT FOR 2011

(For further explanation please see chapter "Notes to the income statement")

	2011 Actual €	2011 Budget €	2010 Actual €
<b><u>INCOME</u></b>			
Core programme funding	2.707.042	2.534.281	2.610.640
Triple-S	2.688.811	2.530.138	2.772.323
WASHCost	2.069.310	1.883.964	2.643.971
Other projects	<u>2.278.576</u>	<u>2.585.939</u>	<u>1.887.326</u>
	9.743.739	9.534.322	9.914.260
<b><u>EXPENSES</u></b>			
Personnel costs	4.667.350	5.177.362	4.284.918
Core programme costs	439.167	501.460	626.587
Triple-S	1.797.495	1.750.000	1.837.466
WASHCost	1.388.507	1.250.000	1.907.337
Other projects	<u>1.053.228</u>	<u>450.000</u>	<u>897.502</u>
	9.345.747	9.128.822	9.553.810
<b>General &amp; administration expenses</b>	445.681	446.000	450.461
<b>Total expenses</b>	9.791.428	9.574.822	10.004.271
<b>Operating profit</b>	<u>-47.689</u>	<u>-40.500</u>	<u>-90.011</u>
<b>Financial income and expenditures</b>	<u>51.215</u>	<u>48.000</u>	<u>96.683</u>
<b>Annual profit</b>	3.526	7.500	6.672

The annual result has been added to the foundation's general reserves.

## CASH FLOW STATEMENT FOR 2011

	€	2011 €	€	2010 €
<b>Cash flows from operating activities</b>				
Operating result		-49.735		-80.029
Adjustments for depreciation	88.157		91.191	
Movement in provisions	<u>470</u>		<u>-3.332</u>	
		88.627		87.859
<b>Changes in working capital</b>				
Inventories	-1.285.780		1.259.117	
Receivables	-131.925		216.440	
Current liabilities	<u>1.460.125</u>		<u>37.341</u>	
		<u>42.420</u>		<u>1.512.898</u>
<b>Cash generated from operations</b>		81.312		1.520.728
Interest received	53.032		46.750	
Interest paid	<u>-2.480</u>		<u>-3.734</u>	
		<u>50.552</u>		<u>43.016</u>
<b>Net cash generated from operating activities</b>		131.864		1.563.744
<b>Cash flows from investing activities</b>				
Purchases of assets		-12.227		-41.127
<b>Cash flows from financing activities</b>				
Repayments of borrowings		<u>-23.328</u>		<u>-37.605</u>
<b>Net cash flow</b>		96.309		1.485.012
Currency exchange gains / loss		<u>2.709</u>		<u>43.686</u>
<b>Net increase in cash &amp; cash equivalents</b>		<b>99.018</b>		<b>1.528.698</b>

## Basis of the Valuations

### Objective

The foundation aims to support people in developing countries with the best affordable and sustainable water and sanitation supply possible. In doing so, it pays particular attention to knowledge generation and transfer related to fundamental and structural problems in the area of water supply and sanitation and related topics like hygiene education and the environment. It acts as a central link in an international network of regional and national institutes and consultants.

To realize its goals, the foundation works together with partner organisations in developing countries as well as other agencies and individuals within and outside the Netherlands that work in the same areas of focus.

### General

The annual accounts have been prepared in compliance with the generally accepted accounting principles.

Assets and liabilities are at face value and all amounts are in Euro (functional currency), unless specified otherwise. If assets and liabilities are expressed in foreign currencies, conversion takes place against the official exchange rate at the balance sheet date. The resulting exchange rate results are included in the statement of assets and liabilities.

All current assets and liabilities are due within one year, while all non-current assets and liabilities are due after one year.

The basis for the valuations has not changed in comparison to previous years.

### Tangible fixed assets

The tangible fixed assets are valued at the purchase price less straight-line depreciation over the estimated useful economic life. The residual value of the tangible fixed assets is set at zero.

Computer equipment is depreciated in three years.

The telephone switchboard with accessories has been depreciated in five years.

Other durable business assets are depreciated over ten years.

No extra-ordinary depreciations or value adjustments have been determined at balance sheet date.

### Accounts receivable

Receivables are at face value less a provision for possibly uncollectable amounts.

The provision for uncollectable amounts is calculated by using the static method (expected non-payment per debtor).

### Cash and cash equivalents

Cash and cash equivalents are at face value and at full disposal for IRC to execute its projects and programmes.

It consists of petty cash and the balances on the ABN AMRO bank accounts. Two types of bank accounts can be distinguished: non-interest bearing current accounts and interest-bearing deposit accounts.

The balances on the bank and deposit accounts are withdrawable on demand, whereas the balances on the deposit accounts have a maximum of twelve months' interest maturity.

Balances on the foreign currency accounts (U.S. Dollars and British Pounds) have been converted to Euro at the official exchange rate at the balance sheet date.

### Inventory

Inventory of publications is not included in the balance sheet; the production costs of these publications are externally financed or are charged to the income statement in the year of production.

Purchase costs of paper, office supplies, etc. are included in the profit and loss account in the year they were incurred. Any inventory of paper and office supplies at the balance sheet date is valued at zero.

Any other inventory present at the balance sheet date is at face value.

**Provisions**

Provisions are calculated to cover specific risks that exist at the balance sheet date of which the size is uncertain but can be reasonably estimated.

The provisions are based on estimates and are recognised at face value.

**Pre-invoiced on projects**

The post 'pre-invoiced on projects' comprises amounts that were already received or billed to external clients for projects that were not completed at the balance sheet date.

Projects in progress are valued on the basis of the directly attributable salary expenses at the rates applicable for the year in question, plus other direct expenses.

Project losses/gains are recognised upon completion. Provisions for expected losses are made at the moment they are foreseeable and are deducted from the work in progress balance.

Work in progress is balanced with the item 'pre-invoiced on projects' and is shown in the balance sheet.

**Pensions benefits**

IRC operates a defined benefit pension plan at ABP. This provides defined pension benefits to staff upon reaching retirement age. The amount depends on age, years of service and compensation. IRC has accounted for the multi-employer defined benefit plan as if it were a defined contribution plan. IRC has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods other than higher future contributions.

**Liabilities**

Liabilities are at face value.

**Income from projects**

Income from projects comprises the hours spent per employee on the basis of time registration at the rates applicable in the reporting year, increased by the equipment costs that can be charged to clients. This is consistent with the 'completed contract method'.

**Exchange rate results**

Transactions in foreign currencies during the reporting period are included in the profit and loss account at the exchange rate at completion date of the transaction.

**Cash flow statement**

The cash flow statement has been prepared according to the indirect method.

The cash flow is derived from the operating result (including depreciations and the movements in provisions) with adjustments for the changes in working capital and the cash generated from investing and financing activities such as purchases of assets, repayment and collection of debts, interest and currency exchange results.

The result of the cash flow statement matches the change in the balance of cash and cash equivalents as compared to the previous year.

## Notes to the Balance Sheet

### ASSETS

#### **Tangible fixed assets**

The movement in the tangible fixed assets can be specified as follows:

	<b>Balance</b>	<b>Office inventory</b>	<b>Computer inventory</b>
	€	€	€
<u>Position as of 1 January 2011</u>			
Purchase price	542.462	188.645	353.817
Minus: Accumulated depreciation	-330.095	-56.825	-273.270
Book value	212.367	131.820	80.547
<u>Transactions during financial year</u>			
Additions	12.227	3.213	9.014
Minus: Depreciation	-88.157	-27.581	-60.576
Minus: Disposals	0	0	0
Plus: Accumulated depreciation disposals	0	0	0
Total transactions	-75.930	-24.368	-51.562
<u>Position as of 31 December 2011</u>			
Purchase price	554.689	191.858	362.831
Minus: Accumulated depreciation	-418.252	-84.406	-333.846
Book value	136.437	107.452	28.985

#### **Loans to staff**

The respective IRC employee has been posted abroad for three years as from July 2010.

For relocation, a non-interest bearing loan has been provided to be repaid upon return in July 2013.

At the end of 2010, the item 'loans to staff' was not accounted for separately. For reason of comparison, the amount of € 30,499 has been reclassified from "other receivables" and therefore the opening balance shows € 30,499.

	€
Position as of 1 January 2011	30.499 *
Plus: addition to loan	0
Minus: repayment of loan	0
Position as of 31 December 2011	30.499

#### **Accounts receivable**

The outstanding balance for accounts receivable amounts to € 283,747 as of 31 December 2011.

For the outstanding accounts receivable, a provision has been made for uncollectable amounts. This provision is based on the age of the outstanding accounts receivable and expected payment per debtor (static method).

The total amount of the provision for uncollectable debts amounts to € 1,000 as of 31 December 2011.

At the end of 2010 the provision for uncollectable debts amounted to € 8,826.

The deduction of the provision for uncollectable debts of € 7,826 has been added to the result.

The aging of the outstanding receivables can be specified as follows:

	<b>Balance</b>	<b>Provision</b>	<b>Original amount</b>
	€	€	€
Less than 6 months	198.406	0	198.406
6 to 12 months	85.341	1.000	86.341
12 to 18 months	0	0	0
More than 18 months	0	0	0
	283.747	1.000	284.747

At the end of 2010, the outstanding balance of accounts receivable amounted to € 176,696.

### VAT receivable

As of 31 December 2011, a VAT amount of € 55,056 can be claimed from the tax authorities.

At the end of 2010 the refundable VAT amounted to € 66,873.

The item 'VAT receivable' can be specified as follows:

	31-12-2011	31-12-2010
	€	€
VAT to be claimed 6%	854	2.184
VAT to be claimed 19%	65.383	67.088
VAT to be paid 19%	-11.181	-2.399
VAT declaration 4th quarter 2011	55.056	66.873

### Other receivables

The item 'other receivables' amounts to € 230,749 as of 31 December 2011.

At the end of 2010, the item 'other receivables' amounted to € 224,577. For reason of comparison, an amount of € 30,499 has been reclassified to "loans to staff" and therefore the balance at the end of 2010 shows € 194,058.

The item 'other receivables' can be specified as follows:

	31-12-2011	31-12-2010
	€	€
Interest receivable	101.069	52.762
IWH shared exploitation costs	679	20.453
Advances to expatriates	20.385	20.385 *
Credit invoices/reimbursements to be received	388	350
Prepaid amounts	90.990	21.314
Transitory accounts	17.238	78.794
	230.749	194.058

### Inventories

Any inventory of office supplies and paper at the balance sheet date is valued at zero.

There was no other inventory as of 31 December 2011.

### Cash in banks and in hand

The specification of cash at banks and in hand present as of 31 December 2011 is as follows:

	31-12-2011	31-12-2010
	€	€
ABN / AMRO Deposit Accounts	8.700.000	8.630.000
ABN / AMRO Current Account	124.626	138.813
ABN / AMRO Board Account	153.070	109.946
ABN / AMRO Capital Market Index accounts	1.150.000	1.150.000
ABN / AMRO Bonus Interest Account	0	72
Cash	253	100
	10.127.949	10.028.931

The high balance on the bank deposit accounts is caused to an important extent by the prepayments received from the Bill & Melinda Gates Foundation for the WASHCost and Triple-S projects.

The interest on the deposit accounts is 2.00% - 2.20% as of 31 December 2011.

The interest on the Capital Market Index accounts is 2.65% as of 31 December 2011.

NOTE: Interest rates have increased in comparison with 2010 when we received 1.70% on our deposit account and 2.40% on the Capital Market Index accounts.

## **LIABILITIES**

### **Foundation's general reserves**

The foundation's general reserves serve to cover general business risks.

The result for 2011 of € 3,526 is added to the foundation's general reserves.

	€
Position as of 1 January 2011	2.173.643
Plus: result financial year 2011	3.526
Position as of 31 December 2011	<u>2.177.169</u>

The general reserves can be split into the following designated reserve allocations:

	€
Unemployment (WW) and disability (WIA) risk reserve allocation	269.712
Fixed asset equalization reserve	136.437
Other resistance equity	1.771.020
Total	<u>2.177.169</u>

### **Sabbatical leave provision**

There is one IRC employee that still has rights with respect to sabbatical leave, which could be taken on in future.

The size of the sabbatical leave provision is based on the number of accrued days per member of staff and the individual daily pay as of 31 December 2005, including a raise for national insurance contributions.

As of 1 January 2006 it is no longer possible to accrue more after the introduction of the "life cycle plan".

The balance will be frozen until the time the sabbatical is taken.

In 2011 the employee did not take up sabbatical leave while in 2010 sabbatical leave amounting to € 6,426 was taken up.

	€
Position as of 1 January 2011	23.814
Plus: addition to provision	0
Minus: releases from provision	0
Position as of 31 December 2011	<u>23.814</u>

### **Jubilee provision**

At 25 years employment with IRC, an employee is entitled to receive an extra allowance equal to one month salary.

The jubilee provision calculation is based on pro rata accrued number of working years at IRC for staff employed at balance sheet date. One IRC employee will reach 25 years' jubilee in 2012.

	€
Position as of 1 January 2011	55.380
Plus: addition to provision	10.653
Minus: releases from provision	-10.183
Position as of 31 December 2011	<u>55.850</u>

### **Non-current liabilities**

The item long-term liabilities relates to the annuity mortgage with NSI (previously Vastned) and a financial lease contract with Ask Roger for the telephone switchboard and are both having a term of less than 5 years (non-current settlement in 2012).

	€
Annuity NSI/Vastned	37.483
Position as of 1 January 2011	23.328
Repayments	<u>14.155</u>
Position as of 31 December 2011	

### Pre-invoiced on projects

The item 'pre-invoiced on projects' amounts to € 13,094,958 as of 31 December 2011. It concerns amounts that were received and invoiced for projects that were not completed as of 31 December 2011. As of the end of 2010 this item amounted to € 15,547,511.

The item work in progress amounts to € 6,874,101 as of 31 December 2011. This item includes the directly allocated salary expenses and other direct costs of externally financed projects that were not completed as of 31 December 2011. As of the end of 2010, the balance of the item work in progress amounted to € 8,040,874.

Currency exchange effects, interest income, and transitory items of the projects WASHCost and Triple-S are included in the work-in-progress

Furthermore included in the work-in-progress is a provision of € 229,894 for expected future losses.

As of the end of 2010, a provision was created for an amount of € 305,927. The largest part of the risk concerns execution risks and match funding risks for IRC for the EU-funded and USAID-funded projects.

In the balance sheet the items 'pre-invoiced on projects' and 'work in progress' have been netted.

	Balance €	Pre - invoiced €	Work-in-progress €
WASHCost	951.947	2.869.793	1.917.846
Triple-S	4.322.988	5.491.775	1.168.787
Other projects	945.922	4.733.390	3.787.468
Total	6.220.857	13.094.958	6.874.101

With the Bill & Melinda Gates Foundation it has been agreed that approval of the Annual Project Report provides endorsement of the expenses made for that period. It is therefore deducted from the work-in-progress and pre-invoiced amounts.

The Annual Cycle for Triple-S is 1 June - 31 May and for WASHCost 1 January - 31 December.

The endorsements for WASHCost is until 31 December 2010 and for Triple S until 31 May 2011.

	Balance € (EUR)	WASHCost \$ (USD)	Triple-S \$ (USD)
Available for the total project period	24.623.679	14.481.635	22.081.160
Minus: endorsed WIP 31/12/2010	-6.429.461	-8.800.612	-
Minus: endorsed WIP 31/05/2011	-4.534.574	-	-7.272.071
Project Balance	13.659.644	5.681.023	14.809.089

### Accounts payable

The outstanding balance for accounts payable amounts to € 273,278 as of 31 December 2011.

At the end of 2010, the item 'accounts payable' amounted to € 369,082. For reason of comparison, an amount of € 60,453 for pension premiums has been reclassified to "other current liabilities" and therefore the balance at the end of 2010 now shows € 308,629.

The aging of the outstanding items is as follows:

	31-12-2011 €	31-12-2010 €
Less than 6 months	273.278	308.629 *
6 to 12 months	0	0
More than 12 months	0	0
	273.278	308.629



**Subsidy advance**

The Ministry of Foreign Affairs (DGIS) has issued a subsidy totalling € 10,420,000 for the period 2012 through 2016. Based upon the Business Plan 2012-2016 and Annual Plans, IRC will receive two instalments per year: in December (preceding year) and in June.

	<u>31-12-2011</u>	<u>31-12-2010</u>
	€	€
Subsidy instalment received for following year	1.500.000	-

**Other current liabilities**

The item other current liabilities amounts to € 599,314 as of 31 December 2011.

At the end of 2010, the item 'other current liabilities' amounted to € 543,385. For reason of comparison, an amount of € 60,453 for pension premiums has been reclassified from "accounts payable" and therefore the balance at the end of 2010 now shows € 603,838.

The other current liabilities are specified as follows:

	<u>31-12-2011</u>	<u>31-12-2010</u>
	€	€
Subsidy balance current year	0	47.087
Holiday allowance payable	159.514	162.926
Taxes payable	93.318	85.972
Pension premiums payable	59.079	60.453 *
Employee leave rights payable	78.871	59.909
Year-end allowance payable	19.443	20.355
Annuity Mortgage Vastned	23.328	22.192
Lease obligation telephone switchboard	0	12.479
Other payable items	165.761	132.465
	<u>599.314</u>	<u>603.838</u>

## Contingencies and commitments not included in the balance sheet

### Subsidy

The Ministry of Foreign Affairs (DGIS) had issued a disposition for the provision of a subsidy totalling € 12,684,000 for the period 2007 through 2011.

This subsidy consisted of the following parts:

- €12,455,000 to be used for the core activities and programmes of IRC (programme subsidy)
- € 229,000 to be used for the execution of ad-hoc advisory assignments for DGIS by IRC

As stipulated in the subsidy conditions, IRC can spend the basic subsidy and the additional subsidy part 1 in accordance with the agreed activities in the business plan over the five years of the subsidy period. The additional subsidy of € 229,000 has been spent on the request of DGIS.

The programme subsidy has been fully spent per the end of 2011:

Basic subsidy	€
Available for the period 2007 - 2011	12.455.000
Minus: expenditures in 2007	-2.313.711
Minus: expenditures in 2008	-2.589.726
Minus: expenditures in 2009	-2.456.282
Minus: expenditures in 2010	-2.610.640
Minus: expenditures in 2011	-2.544.153
Plus: allocated interest income 2007-2011	59.512
Balance	0

The income and expenses in the context of the programme subsidy are accounted for in the Profit and Loss Account. Interest received on advance payments are allocated and included.

### Additional subsidy in regard to ad-hoc advise assignments DGIS

The expenditure with respect to the available subsidy for ad-hoc advisory assignments DGIS amounts to € 6,053 for 2011 and is closed per the end of 2011.

The project concerned was completed at the end of 2006 and the balance of € 229,000 was included in the subsidy disposition 2007 - 2011, together with the balance for reorganisation, for the same purposes.

	€
Available for the periode 2007-2011	229.000
Minus: expenditure 2007	-49.937
Minus: expenditure 2008	-77.801
Minus: expenditure 2009	-51.535
Minus: expenditure 2010	-43.674
Minus: expenditure 2011	-6.053
Balance	0

### Additional subsidy with respect to maintaining innovative strength and professionalisation processes and systems IRC

The Bill & Melinda Gates Foundation made an amount of 2,000,000 USD available with respect to the professionalisation of systems and processes within IRC and to maintaining innovative strength.

	\$ (USD)	€ (EUR)
Available for the period 2008 - 2013	2.000.000	1.265.823
Revaluation receipt of funds	0	183.453
Minus: expenditure 2008	-59.144	-42.858
Minus: expenditure 2009	-478.937	-347.056
Minus: expenditure 2010	-456.576	-330.852
Minus: expenditure 2011	-224.788	-162.890
Balance	780.555	565.619

**Fictitious unemployment (WW) commitments**

IRC is responsible for the potential unemployment commitments of its own personnel.

The maximum unemployment commitment amounts for which IRC could be held responsible in the event of fictitious liquidation, effective 1 January 2012, are as follows:

	€
Maximum unemployment commitment nominal as of 31-12-2011	3.979.525

The calculated maximum unemployment commitment is based on the number of years of service at IRC.

**Sick pay**

IRC bears its own risk for the Sickness Benefits Act. The costs of continued salary payments to personnel in the event of illness are to be borne entirely by IRC.

The costs in the first year of illness is 100% whereas in the second year, it is 70%.

**Own risk carrier for disability (WIA)**

IRC bears the risk for disability (WIA). Any compensation as a result of disability will be deducted from IRC's profit and loss account for a period of 10 years.

**Rental agreement**

With regard to the housing in the International Water House, IRC together with NWP entered into a rental agreement with NSI/Vastned for a period of five years, effective as from 1 August 2008.

The annual rent amounted to € 84,000 in 2008 and after annual indexations

(CPI alle huishoudens on the basis of 2006 = 100), it amounts to € 87,247 in 2011.

The annual service costs amounts to € 3,000 and are annually indexed based upon the final electricity declaration of the respective year.

The actual expenditures are included in the profit and loss account under the item Housing.

## Notes to the income statement

### Income from projects

The income from projects consists of the paid days spent by IRC employees on externally financed projects (at the current external rates), increased by equipment costs charged (for projects with a rate based on direct costs), out-of-pocket expenses on projects (particularly travel expenses and costs of partners) and project results that are derived from subsequent calculation of projects at completion.

The total income from projects can be specified as follows:

	Actual 2011	Budget 2011	Actual 2010
	€	€	€
Core programme funding (DGIS+BMGF)	2.707.042	2.870.281	2.610.640
Triple-S	2.688.811	2.530.138	2.772.323
WASHCost	2.069.310	1.883.964	2.643.971
Other IRC projects	2.294.101	2.249.939	1.919.752
Result on closed projects	6.647	0	9.986
Additions / releases project accruals	-22.172	0	-42.412
	9.743.739	9.534.322	9.914.260

The income from projects for the financial year 2011 amounts to € 9,743,739 which is slightly lower than in 2010.

This is mainly due to the no-cost extension for WASHCost: budget has been shifted to the years 2012/2013.

The income derived from hours executed by IRC staff members slightly increased from € 4,677,794 in 2010 to € 4,694,908 in 2011. The income from projects were budgeted at € 9,534,322.

### Subsidy

Programmatic funding comprises the part of the five-year subsidy (2007-2011) from the Ministry of Foreign Affairs (DGIS) and the balance of the Core Funding from the Bill & Melinda Gates Foundation (BMGF).

An amount of € 2,707,042 is attributed to the income in 2011, of which € 2,544,153 derives from the remaining balance of the subsidy (including interest).

## **EXPENSES**

### **Personnel costs**

The total personnel costs for 2011 amounts to € 4,667,350

This is significantly higher than in 2010, when the total personnel costs amounted to € 4,284,919.

The difference is mainly attributable to the average increase in salary expenses of 4% and the fact IRC has been operating with an average of 2 FTE more as compared to last year.

An amount of € 5,177,362 was budgeted for personnel costs. The deviation can be explained by the fact that IRC has been operating with an average of 5 FTE less in comparison with budget. Furthermore IRC received compensation for pregnancy leave (which was not budgeted for) and spent less on education, recruitment and posting.

The specification of personnel costs is as follows:

	<b>Actual 2011</b>	<b>Budget 2011</b>	<b>Actual 2010</b>
	€		€
<b><u>Salary expenses</u></b>			
Gross salaries including vacation allowance	3.621.228		3.316.039
Employer's expenses for salary savings scheme	3.486		2.682
National insurance contributions	303.003		292.805
Pension premium deductions	-268.672		-244.499
Pension premium contributions	728.144		671.319
Other	114.476		102.333
Subtotal	4.501.665		4.140.678
Other salary items to be deducted	6.111		-3.891
Total salary expenses	4.507.775	4.961.362	4.136.787

	<b>Actual 2011</b>	<b>Budget 2011</b>	<b>Actual 2010</b>
	€	€	€
<b><u>Other personnel costs</u></b>			
Temporary employees	57.264	50.000	40.889
Reimbursement pregnancy leave	-14.914	0	-38.713
Recruitment	10.558	15.000	31.965
Posting costs	11.871	20.000	6.000
Training and education	26.327	50.000	22.459
Associates	1.248	2.000	2.007
Personnel administration	17.018	20.000	16.528
Health expenses and health support	15.330	20.000	33.191
Travel free weeks and social events	17.255	17.000	7.467
Personnel insurances	13.984	15.000	16.681
Miscellaneous	3.634	7.000	9.658
	159.575	216.000	148.132

Total personnel costs	4.667.350	5.177.362	4.284.919
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### **DGIS-Funded Projects**

DGIS-funded projects are activities set up as projects, for which only a small amount or no direct external funding takes place. The costs related to these projects are charged directly to the basic subsidy from the Ministry of Foreign Affairs.

The direct costs of DGIS-funded projects are charged to the result in the year to which they apply.

The specification of expenditures for DGIS-funded projects is as follows (in accordance with the division used in the business plan 2007 - 2011):

	<b>Actual 2011</b>	<b>Budget 2011</b>	<b>Actual 2010</b>
	€	€	€
Programme personnel costs	2.153.201	2.043.521	1.984.053
Information and Global Services	60.240	90.000	113.124
Innovation Programme	55.200	66.500	62.765
Regional and Country Programmes	264.232	279.260	357.190
Programme and general management	11.280	55.000	93.508
	2.544.153	2.534.281	2.610.640

The expenditures for the DGIS-funded projects for 2011 (the final year of 5-year subsidy 2007-2011) were budgeted at € 2,534,281.

### General & administration expenses (G&A)

G&A concern all office-related expenses and expenses related to the management of the organisation.

G&A amounts to € 445,681 in the year 2011, while an amount of € 446,000 was budgeted.

This is slightly lower than in 2010, when G&A amounted to € 450,461.

ICT and communication costs were considerably lower in 2011, while the legal consultancy fees have increased due to the internationalisation of IRC and the decentralisation of activities in-country.

The specification of the G&A is as follows:

	Actual 2011	Budget 2011	Actual 2010
	€	€	€
Housing	264.576	266.000	256.031
Information Technology	111.999	130.000	130.701
Office inventory	29.549	37.000	29.411
Office supplies	11.154	8.000	7.052
Printing	14.827	14.000	18.053
Postage	3.495	5.000	3.735
Communication	12.042	25.000	17.726
Supervisory Board	15.299	15.000	17.429
Auditor	24.450	25.000	34.245
Management, marketing, PR and Advisory	41.497	20.000	19.633
Tax & legal consultancy	17.472	8.000	17.282
Literature & WorksCouncil	5.516	3.000	6.970
Equipment & supplies invoiced to projects	-106.195	-110.000	-107.807
	445.681	446.000	450.461

### Financial income & expenditures

Financial income & expenditures in 2011 amounts to € 51,215 while an amount of € 48,000 was budgeted.

This is substantially lower than in 2010, when the financial income was € 96,683.

This effect is caused by the currency exchange results on USD and GBP payments/receipts while on the other hand the interest income is higher due to increased interest rates. Furthermore, there was a release of the accrual for bad debts thanks to the improved debt collection process.

Financial income & expenditures can be specified as follows:

	Actual 2011	Budget 2011	Actual 2010
	€	€	€
ABN / AMRO Current Account	0	0	-3
ABN / AMRO Capital market index accounts	30.470	40.000	29.165
ABN / AMRO Deposit Accounts	22.562	30.000	17.585
Bank costs	-8.599	-8.000	-8.144
Interest annuity (NSI/Vastned)	-2.480	-4.000	-3.731
Accrual bad debts	7.826	-10.000	19.306
Currency exchange result	2.709	0	43.686
Cash & payment differences	-1.273	0	-1.181
	51.215	48.000	96.683

### Remuneration of the Director and the Supervisory Board

The remuneration of the director of IRC for 2011 amounts to € 104,440 which includes an amount of € 15,321 for pension contributions.

The Supervisory Board has received a financial compensation of € 12,800. There are no loans, advances or guarantees provided to the director or one of the Supervisory Board members.

### Annual result

The annual result for 2011 is a profit and amounts to € 3,526. This amount will be added to the foundation's general reserves.

Approved and signed in the Supervisory Board Meeting on 21 May 2012

*The Hague, 21 May 2012*

*The Hague, 21 May 2012*

*N.G.M. Terra*  
*Director*  
*IRC International Water and Sanitation Centre*  
*Be Zuidenhoutseweg 2*  
*2594 AV The Hague*

*L.J. De Waal*  
*Chairman Supervisory Board*  
*IRC International Water and Sanitation Centre*  
*Be Zuidenhoutseweg 2*  
*2594 AV The Hague*



## *Independent auditor's report*

To: the Supervisory Board of IRC, International Water and Sanitation Centre

We have audited the accompanying financial statements 2011 of IRC, International Water and Sanitation Centre, The Hague, which comprise the balance sheet as at 31 December 2011, the income statement for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

### *Management's responsibility*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Guideline for annual reporting 640 "Not-for-profit organisations" of the Dutch Accounting Standards Board. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the foundation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of IRC, International Water and Sanitation Centre as at 31 December 2011, and of its result for the year then ended in accordance with the Guideline for annual reporting 640 "Not-for-profit organisations" of the Dutch Accounting Standards Board.

Amsterdam, 22 May 2012  
PricewaterhouseCoopers Accountants N.V.

Original signed by H.A. Wink RA MBA