

**MEKONG RIVER COMMISSION
OPERATING EXPENSE BUDGET**

**Income and Expenditure Statement
for the year ended 31 December 2006**

**Mekong River Commission – Operating Expense Budget
Income and Expenditure Statement for the year ended 31 December 2006**

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REPORT OF THE INDEPENDENT AUDITORS

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

Scope

We have audited the income and expenditure statement (“the statement”) of the Operating Expense Budget of the Mekong River Commission (“the Commission”) for the year ended 31 December 2006, as set out on pages 2 to 8. This statement is the responsibility of the Commission’s management. Our responsibility is to express an opinion on this statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the statement has 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.

Audit Opinion

In our opinion the income and expenditure statement presents fairly, in all material respects, the income and expenditure of the Commission in respect of its Operating Expense Budget for the year ended 31 December 2006 in accordance with the basis of accounting and accounting policies set out in Notes 2 and 3.

KPMG Lao Co., Ltd.
KPMG Lao Co., Ltd.
Vientiane
22 March 2007

A blue circular stamp of KPMG Lao Co., Ltd. The outer ring contains the text 'KPMG' at the top and 'Lao Co., Ltd.' at the bottom. The inner circle contains the Lao text 'ຄອມພອນລາວ' (KPMG Lao) and 'ຈຳກັດ' (Co., Ltd.) around the perimeter. In the center, it reads 'KPMG LAO CO., LTD.' and 'ທະວາງ ວິໄນ' (Tavang Vinn).

Mekong River Commission – Operating Expense Budget
Income and Expenditure Statement for the year ended 31 December 2006

	Notes	2006 USD	2005 USD
Income			
Contributions			
Contributions - riparian governments	4	1,157,253	1,078,332
Contributions - other governments		106,935	50,000
		<u>1,264,188</u>	<u>1,128,332</u>
Revenue			
Professional revenue	5	41,402	-
Interest	6	7,207	13,883
Management and administration fees	7	873,552	873,712
Miscellaneous revenue		10,323	11,875
		<u>932,484</u>	<u>899,470</u>
Total Income		<u>2,196,672</u>	<u>2,027,802</u>
Expenditure			
Salaries and fees	8	745,111	671,086
Common staff costs	9	412,726	402,500
Official travel	10	19,668	22,047
Contractual services	11	97,943	81,484
General operating expenses	12	276,557	180,726
Supplies	13	27,879	27,571
Furniture and equipment	14	66,022	70,290
MRC meeting expenses	15	168,548	146,489
Support to National Mekong Committees and Water Utilisation Programme	16	192,879	221,803
Repayment of relocation loan	17	60,000	60,000
Total Expenditure		<u>2,067,333</u>	<u>1,883,996</u>
Foreign exchange gain/(loss)		4,529	(3,290)
Operating Surplus		<u>133,868</u>	<u>140,516</u>
Operating Expense Budget balance at 1 January		334,065	193,549
Operating Expense Budget balance at 31 December	19	<u>467,933</u>	<u>334,065</u>

The notes set out on pages 3 to 8 form an integral part of this statement



Dr. Olivier Cogels
Chief Executive Officer

Approved by:



Dr. Dirk Overweg
Chief Finance and Administration

Mekong River Commission – Operating Expense Budget
Notes to the Income and Expenditure Statement for the year ended 31 December 2006

These notes form an integral part of, and should be read in conjunction with, the accompanying income and expenditure statement.

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. All property and equipment is expended in full at the date of acquisition.

(b) 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.

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(continued)

4. Contributions from riparian governments

	2006	2005
	USD	USD
Cambodia	264,534	250,328
Lao PDR	264,534	250,328
Thailand	321,536	294,703
Vietnam	306,649	282,973
	<u>1,157,253</u>	<u>1,078,332</u>

5. Professional revenue

Professional revenue was received from the Government of Australia through the “Appropriate Hydrological Network Improvement Project” (2.1/16/01/AUL). The revenue is equal to the actual costs (salary and related items) of MRC personnel working on this project charged to the Operating Expense Budget.

6. Interest

Interest is earned on MRC funds and contributions from donors. The interest is used following the specific agreement between MRC with the donors for either project expenditures or OEB expenditures, or is returned to the donors.

7. Management and administration fees

Revenue for management and administration fees comes from donors. Management and administration fees are calculated at 11% of expenditure for most projects. The revenue is used to cover the expenses of the Secretariat in rendering technical and administrative services to MRC projects.

8. Salaries and fees

	2006	2005
	USD	USD
Professional posts	496,549	448,612
General service posts	186,459	175,355
Temporary general services	54,135	40,599
Overtime payments	7,968	6,520
	<u>745,111</u>	<u>671,086</u>

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9. Common staff costs

	2006	2005
	USD	USD
Dependency allowances – professional staff	14,166	9,652
Assignment/relocation allowances	5,766	8,876
Housing allowances	22,567	45,011
Post allowances	72,227	54,068
Hardship allowances	44,793	40,853
Dependency allowances – general staff	36,940	30,563
Uniforms/laundry allowances	1,388	823
Provident fund – professional staff	74,159	58,675
Provident fund - general staff	23,320	22,798
Medical insurance	1,490	36,324
Life and accident insurance	4,247	3,619
Medical examinations	1,527	117
Education grants	24,173	32,858
Home leave travel	14,995	10,326
Recruitment	17,298	10,244
Separation costs	8,357	33,287
Other training	33,610	-
Other costs	11,703	4,406
	<u>412,726</u>	<u>402,500</u>

10. Official travel

	2006	2005
	USD	USD
Programming mission	3,088	18,362
External travel	14,600	1,411
Riparian travel	1,980	2,274
	<u>19,668</u>	<u>22,047</u>

11. Contractual Services

	2006	2005
	USD	USD
External printing	21,607	4,242
EDP system development	21,072	10,652
EDP hardware	-	200
External audit	31,793	38,500
Security guards	14,868	15,739
Miscellaneous contractual services	8,603	12,151
	<u>97,943</u>	<u>81,484</u>

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12. General operating expenses

	2006	2005
	USD	USD
Office improvements	116,153	25,049
Office maintenance	6,534	7,211
Utilities	53,345	53,234
Equipment rental and maintenance	5,612	6,971
Vehicle operation and maintenance	4,057	10,232
Vehicle insurance	2,146	2,358
Internet and e-mail	35,774	26,244
Telephone installation, rent and maintenance	1,587	12
Local telephone calls	4,987	5,941
Long distance telephone calls	4,373	9,370
Pouch and courier	8,528	6,297
Postage	6,357	1,565
Facsimile	2,122	2,566
Hospitality expenses	1,385	12,431
Non-life insurance	7,396	2,856
Bank charges	11,274	7,870
Miscellaneous expenses	4,927	519
	<u>276,557</u>	<u>180,726</u>

13. Supplies

	2006	2005
	USD	USD
Stationery	13,370	16,033
Document reproduction	1,181	-
Computer supplies	3,642	1,552
Books/periodicals	2,830	3,626
Audio visual aids	763	552
Other supplies	6,093	5,808
	<u>27,879</u>	<u>27,571</u>

14. Furniture and equipment

	2006	2005
	USD	USD
Furniture and fixtures	5,800	773
Non-EDP equipment	18,609	7,523
EDP equipment	32,057	38,553
EDP Software – ready made	9,556	23,441
	<u>66,022</u>	<u>70,290</u>

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15. MRC meeting expenses

	2006	2005
	USD	USD
Council meetings	61,801	56,717
Joint Committee meetings	78,505	63,624
Donor Consultative Group meetings	17,426	6,794
Dialogue meetings	2,228	16,054
Other meetings	8,588	3,300
	<u>168,548</u>	<u>146,489</u>

16. Support to National Mekong Committees (“NMC”) and Water Utilisation Programme (“WUP”)

	2006	2005
	USD	USD
Support to NMCs	(4,256)	10,177
Cambodia NMC	20,853	10,088
Lao NMC	17,881	15,000
Vietnam NMC	10,238	12,839
Support to WUP	147,978	167,198
Other support	185	6,501
	<u>192,879</u>	<u>221,803</u>

The Secretariat provides funds for the staff costs of personnel working at the Secretariat specifically for the Water Utilisation Programme in accordance with the MRC’s agreement with the World Bank. In 2006, the Secretariat funded 75% (2005: 75%) of the salaries of these personnel amounting to USD143,917 (2005: USD161,151). In addition, the above amounts include other operating expenses incurred by the MRC for the WUP amounting to USD4,061 (2005: USD6,047).

In 2006, Support to NMCs represents an initial expense of USD862 and this account was reimbursed by MRC Donors through a related project by a sum of USD5,118.

17. 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 generation of surpluses from the OEB funds shall be subject to the approval of the Joint Committee.

During the year, the MRC made the second repayment amounting to USD60,000.

18. Provident Fund

The Commission manages a provident fund, which had a balance at 31 December 2006 of USD1,511,697 (2005: USD1,400,660), to provide a savings scheme in lieu of a pension fund on behalf of 130 (2005: 123) 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.

19. Operating Expense Budget balance at 31 December

The operating expense budget balance at 31 December represents the Administrative Reserve Fund maintained by the MRC and recorded as "Operating Expenses Budget Surplus" in the financial statements of MRC.