

2018 FINANCIAL REPORT

Stichting Practica
Papendrecht

CONTENTS

- Management report	3
- Annual Financial Statements	5
- Balance as of December 31, 2018	6
- Statement of revenues and expenses for 2017	7
- Cash flow statement for the year ended December 31, 2018	8
- Notes to the balance sheet and the statement of revenues and expenses	9
- Explanatory notes regarding the balance	11
- Explanatory notes to the statement of revenues and expenses	14
- Auditor's report	15

Management report

Our foundation was established on 21 February 2001 and is registered under the name 'Stichting PRACTICA' at the Chamber of Commerce Arnhem, registration number 09119363. As by the statutes, PRACTICA is a non-profit organization. The foundation is governed by a board, consisting of a minimum of three members. In 2018, the board was formed by Mr. H. Aalderink, Chairman, Mr. B.J. Kouwenhoven, Treasurer, Mr. V. Post, Secretary and Mrs. A. Kuiken, member. The executive management is formed by Mr. R. Vuik and Mr. J. Nederstigt. Next to the head office in Papendrecht, the Netherlands, we have a field office in Antananarivo, Madagascar under the management of Country Director Mr. X. Gras.

PRACTICA foundation facilitates the use of innovative technologies to address the global water, sanitation challenges and to enable the renewable energy transition in irrigation for smallholder farmers. Our vision is a global availability of affordable and well-managed drinking water services, safe and affordable faecal sludge collection and disposal services and affordable market-based options for responsible solar-powered irrigation for smallholder farmers.

Our mission is to improve the living standard of the rural population of developing countries by introducing practical, affordable and innovative small scale technologies within our key themes being rural water supply, groundwater development, smallholder farmer irrigation and faecal sludge management. By developing and disseminating technologies and concepts including successful business models, we trigger socio-economic change and sustainable services.

On operational level, PRACTICA acts as a non-profit consultancy organization: We partner with international and local organizations and support those organizations to implement technical innovations within their programs. We charge a consultancy fee for those services based on an organizational cost-recovery basis.

In case the activities result in revenues, these are being used for applied research and product development to ensure continued innovation in the sector. In 2018, we have been able to continue to invest in the development of concepts and products, using our reserves.

Part of the financial reserves of the foundation are deposited at savings accounts of Dutch banks with an aim for a maximum of €100.000 per bank. Financial reserves are never invested in stock exchange funds or similar high-risk products.

At the start of the new calendar year, the overhead costs and personnel costs are budgeted, as are the internal projects that are financed from earmarked reserves in case earmarked reserves are available. Due to the unpredictable nature of the acquisition, contracting and progress of execution of external projects, it is not possible to accurately estimate the total cost and incomes of this project portfolio at the start of the new calendar year. Once a project is contracted a detailed project budget is available, which is used as basis for the contract sum as well as to monitor actual project cost and progress and make detailed and accurate prognosis on project profitability.

In 2018, we have been able to execute 48 different projects under contract with a team of 8 (4,9 FTE) in our head office in the Netherlands, 6 in our Madagascar office, 5 technical experts in Kenya, Benin, Morocco and Mauretania, and 2 technical experts in a voluntary role.

The contracted projects were in line with our mission and have resulted in a turnover that was in line with the planning and with our ambition. Next to the contracted projects, we have been able to continue investing in innovation, which is essential for the continuity of the organization. Focal areas for innovation were in line with our four key themes. The combination of contracted activities and investment in innovation has resulted in a calculated loss for the organization.

With the current reserves of the foundation and the project portfolio, the solvency of the organisation at the balance sheet date is good enough to continue operations in the foreseeable future. With the liquidity position at the balance sheet date, the organization is able to pay off its short-term obligations. With the contracted projects and evaluation of the prospects, we do not expect that we will require loans to continue the viable operation of the organization.

In the course of 2019, we will have a hand-over of the operational management of the organization. One of the task for the new management will be to diversify income streams for the organisation. As we do expect the diversification to show results in 2020, the planning for 2019 is to continue operations in the same manner, aiming for a healthy increase in turnover, which is feasible with the current project portfolio. Actual turnover for 2019 will depend on the success of acquiring addition project over the course of the year. Looking at our current position in the market, we do expect the acquisition to be successful as per our prognosis.

In 2019 we will invest in expanding the team to strengthen the technical capacity of the organization and continue to invest in research and development to safeguard a continues pipeline of innovations. Investments will mainly be in staff time rather than hardware and materials.

The major risks that we foresee for 2019 is related to our work in unstable states. Within our project portfolio, we see a risk in Burkina Faso, where it is becoming increasingly dangerous to work for our staff. We may need to adjust the scope of our Burkina Faso farmer led irrigation programs by reallocating resources to safer areas within the country or to expand to other countries in the region. Worst case scenario would be to postpone or cancel the project activities, which will result in a reduction of the turnover. In that event, we will use the human resources for additional acquisition for farmer led irrigation projects in West Africa, where we see a large potential for PRACTICA to increase our work and impact.

Changing donor policies is seen as a minor risk for the short term and a medium risk for the long term; our project portfolio relies on a wide range of different clients and donors and the immediate effects can be offset by other projects. For the long term, we are looking at diversification of income sources to reduce donor dependency, exploring closer cooperation with Dutch SME's on basis of their Corporate Social Responsibility policies.

Papendrecht, May 22, 2019

H. Alderink
Chairman

Statement of revenues and expenses for the year 2018

	<i>ref</i>	<u>2018</u> EUR	<u>2017</u> EUR
Revenues		1.166.989	1.059.997
Project costs		<u>-623.321</u>	<u>-550.391</u>
		543.668	509.606
Personnel costs	3.1	415.018	423.654
Depreciation	3.2	7.815	7.083
Other operational expenses	3.3	<u>136.440</u>	<u>102.632</u>
Total expenses		559.273	533.369
Operating result		-15.605	-23.763
Finance result		<u>-450</u>	<u>-8.390</u>
Deficit for the year		-16.055	-32.153

The deficit for the year 2018 is added to the following reserves:

	<u>2018</u> EUR	<u>2017</u> EUR
- Continuity reserve	0	23.742
- Other reserves	<u>-16.055</u>	<u>-55.895</u>
	-16.055	-32.153

Cash flow statement for the year ended December 31, 2018

	<u>2018</u> EUR	<u>2017</u> EUR
Cash flow from operating activities		
Operating result	-15.605	-23.763
<i>Adjustments for:</i>		
Depreciation	7.815	7.083
<i>Changes in working capital</i>		
Changes in receivables	179.024	-185.033
Changes in inventories	-10.355	-947
Changes in liabilities	<u>-137.718</u>	<u>216.986</u>
	30.951	31.006
Cash flow from operating activities	23.161	14.326
Interest received	<u>-450</u>	<u>-8.390</u>
Cash flow from operating activities	22.711	5.936
Cash flow from investment activities		
Investments in tangible fixed assets	-7.287	-6.695
Desinvestments in tangible fixed assets	<u>0</u>	<u>0</u>
	-7.287	-6.695
Cash flow from investment activities	-7.287	-6.695
Net increase/(decrease) in cash and cash equivalents	15.424	-759
Cash and cash equivalents as per January 1	338.432	339.191
Changes in cash and cash equivalents	<u>15.424</u>	<u>-759</u>
Cash and cash equivalents as per December 31	<u><u>353.856</u></u>	<u><u>338.432</u></u>

Notes to the balance sheet and the statement of revenues and expenses

1 General notes

1.1 General

Objective/mission/management

The mission, as stipulated in the statutes, is poverty reduction by sustainably improving water, sanitation and energy services in developing countries through technical interventions; By innovating and disseminating existing proven technologies and methods including successful business models, we facilitate sustainable access to the technologies and services. The registered and actual address of Stichting Practica is Geulweg 16, 3356 LB in Papendrecht. The foundation is registered at the Chamber of Commerce under number 09119363.

In 2018, the Foundation Board was comprised of Mr. R.H. Alderink, Mr. B.J. Kouwenhoven, Mr. V.C.K.A.M. Post and Mrs. A. Kuiken

1.2 Prior-year comparison

The accounting policies have been consistently applied to all the years presented.

1.3 Estimates

The preparation of the financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the foundation. If necessary for the purpose of providing the essential view, the nature of these estimates and judgements, including the related assumptions, is disclosed in the notes to the financial statement items in question.

1.4 Accounting policies for the balance sheet

General

The financial statements have been prepared in accordance with the Dutch Accounting Standard C1 "Kleine-organisaties-zonder-winststreven" as issued by the Dutch Accounting Standards Board. The financial statements are expressed in euros. In general, assets and liabilities are stated at the amounts at which they were acquired or incurred. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred. The balance sheet and statement of revenues and expenses include references to the notes.

Tangible Fixed Assets

Other non-current assets are valued at historical cost or manufacturing price including directly attributable expenditure, less straight-line depreciation over their estimated useful lives and impairment losses

Inventories

Inventories are valued at cost price based on the FIFO method (first in, first out) or lower realisable value.

Current projects

Current contracts commissioned by third parties comprises the balance of project costs realised, profit attributed, and if applicable, recognised losses and instalments already invoiced. Current projects are separately presented in the balance sheet under current assets. If it shows a credit balance, this will be presented under current liabilities

Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank balances. Cash and cash equivalents are carried at nominal value.

Short-term debts

On initial recognition current liabilities are recognised at fair value. After initial recognition current liabilities are recognised at the amortised cost price, being the amount received, taking into account premiums or discounts, less transaction costs. This usually is the nominal value.

1.5 Accounting policies for the statement of revenues and expenses

General

Results are determined as the difference between the realisable value of the services rendered, and the costs and other charges for the year. Revenues are recognised in the year in which they are realized; losses are taken as soon as they are foreseeable.

Revenues

The subsidies and gifts are accounted for in the year to which they relate. Revenues are recognized based on the services performed to the balance sheet date as a percentage of the total services to be performed and in accordance with the subsidy conditions.

Depreciation

Tangible fixed assets are depreciated over their estimated useful lives as from the inception of their use. Future depreciation is adjusted if there is a change in estimated future useful life.

Projectcosts

Costs of projects represents direct expenses attributable to the services performed.

Employee benefits

Salaries, wages and social security contributions are taken to the statement of revenues and expenses based on the terms of employment, where they are due to employees.

Other operational expenses

Other operating expenses comprise costs chargeable to the year that are not directly attributable to the costs of projects.

1.6 Notes to the cash flow statement

The cash flow statement has been prepared using the indirect method. The cash and cash equivalents disclosed in the cash flow statement comprised of cash and cash equivalents. Cash flows denominated in foreign currencies have been translated at average exchange rates. Interest received is included in net cash from operating activities.

2 Explanatory notes regarding the balance

2.1 *Tangible Fixed Assets*

	Other non current assets
	<u>EUR</u>
January 1, 2018	
Acquisition price	37.787
Accumulated depreciation	-22.870
	<hr/>
Book value	14.917
Changes in 2018	
Investments	7.287
Depreciation	-7.815
	<hr/>
	-528
December 31, 2018	
Acquisition price	45.074
Accumulated depreciation	-30.685
	<hr/>
Book value	14.389
Depreciation percentages	20- 33,3%

2.2 *Accounts Receivable*

	31-12-2018	31-12-2017
	<u>EUR</u>	<u>EUR</u>
Accounts Receivable	144.604	319.071
Provision for doubtful debts	0	0
	<hr/>	<hr/>
	144.604	319.071

2.3 Other receivables, prepayments and accrued income

	<u>31-12-2018</u> EUR	<u>31-12-2017</u> EUR
Interest bank	0	175
Tax benefit personnel	0	2.000
Pre-paid costs and other receivables	<u>530</u>	<u>2.912</u>
	530	5.087

2.4 Cash and cash equivalents

	<u>31-12-2018</u> EUR	<u>31-12-2017</u> EUR
ASN Bank	103.630	103.455
Triodos Bank	242.339	171.632
Societe Generale Madagascar	7.510	63.345
Cash USD	<u>377</u>	<u>0</u>
	353.856	338.432

2.5 Equity

	<u>2018</u> EUR	<u>2017</u> EUR
Continuity reserve		
At 1 January	276.562	252.820
Result appropriation	<u>0</u>	<u>23.742</u>
At 31 December	276.562	276.562

The continuity reserve serves as a buffer in the event certain calamities occur in the future. The Board agreed that Practica will work towards a continuity reserve in 2022 of € 395.273 (based on 50% of the annual operational costs prognosis for 2022 of € 790.546), increasing linearly every year if the surplus allows.

	<u>2018</u> EUR	<u>2017</u> EUR
Other reserves		
At 1 January	14.224	70.119
Result appropriation	<u>-16.055</u>	<u>-55.895</u>
At 31 December	-1.831	14.224

Short-term debts

2.6 Taxes and social insurance premiums

	<u>31-12-2018</u> EUR	<u>31-12-2017</u> EUR
Payroll taxes	<u>13.712</u>	<u>25.479</u>
	13.712	25.479

2.7 Other debts, accruals and deferred income

	<u>31-12-2018</u> EUR	<u>31-12-2017</u> EUR
Current projects	133.210	224.717
Other debts	15.487	11.841
Holiday allowances	15.005	14.467
Vacation days	23.163	16.905
Restricted performance based bonuses employees (maximum 8% of annual salary)	25.887	26.729
Net wages	2.042	1.244
Auditor's fees	<u>6.655</u>	<u>6.655</u>
	221.449	302.558
<i>Current projects</i>		
- Invoiced in advance	195.531	330.853
- To be invoiced	<u>-62.321</u>	<u>-106.136</u>
	133.210	224.717

2.8 Rights and obligations not included in the balance sheet

The foundation has entered into a rental obligation for housing for an amount of € 29.048 per year. This obligation expires with a notice period of 1 year.

3 Explanatory notes to the statement of revenues and expenses

3.1 Personnel costs

	<u>2018</u> EUR	<u>2017</u> EUR
Wages and salaries	338.130	344.966
Social security contributions	57.986	57.527
Other personnel costs	<u>18.902</u>	<u>21.161</u>
	415.018	423.654
Average number of FTEs in service	4,9	6,1

3.2 Depreciation

	<u>2018</u> EUR	<u>2017</u> EUR
Depreciation	7.815	6.179
Book result desinvestments	<u>0</u>	<u>904</u>
	7.815	7.083

3.3 Other operational expenses

	<u>2018</u> EUR	<u>2017</u> EUR
Housing costs	47.649	39.675
Office expenses	42.587	33.661
General costs	26.391	22.312
Internal projects	<u>19.813</u>	<u>6.984</u>
	136.440	102.632

Papendrecht, May 22, 2019

On behalf of the General Management

H. Aalderink
Chairman

B.J. Kouwenhoven
Treasurer

Stichting Practica
Geulweg 16-18
3356 LB PAPENDRECHT

Auditor's report

INDEPENDENT AUDITOR'S REPORT

To: the Board of Directors of Stichting Practica

A. Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 of Stichting Practica, based in Wageningen.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Stichting Practica as at 31 December 2018, and of its result for 2018 in accordance with the Dutch Accounting Standard C1 "Kleine-organisaties-zonder-winststreven".

The financial statements comprise:

1. the balance sheet as at 31 December 2018;
2. the profit and loss account for 2018 ; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Stichting Practica in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

B. Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of the management report.

Based on the following procedures performed, we conclude that the other information is consistent with the financial statements and does not contain material misstatements.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements. Management is responsible for the preparation of the other information, including the management report in accordance with the Dutch Accounting Standard C1 “Kleine-organisaties-zonder-winststreven”.

C. Description of responsibilities regarding the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Dutch Accounting Standard C1 “Kleine-organisaties-zonder-winststreven”. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the entity’s ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the entity’s ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit 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 entity's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Ridderkerk, 22 May 2019

BAKKER accountants & adviseurs



R. de Geus MSc RA MBA