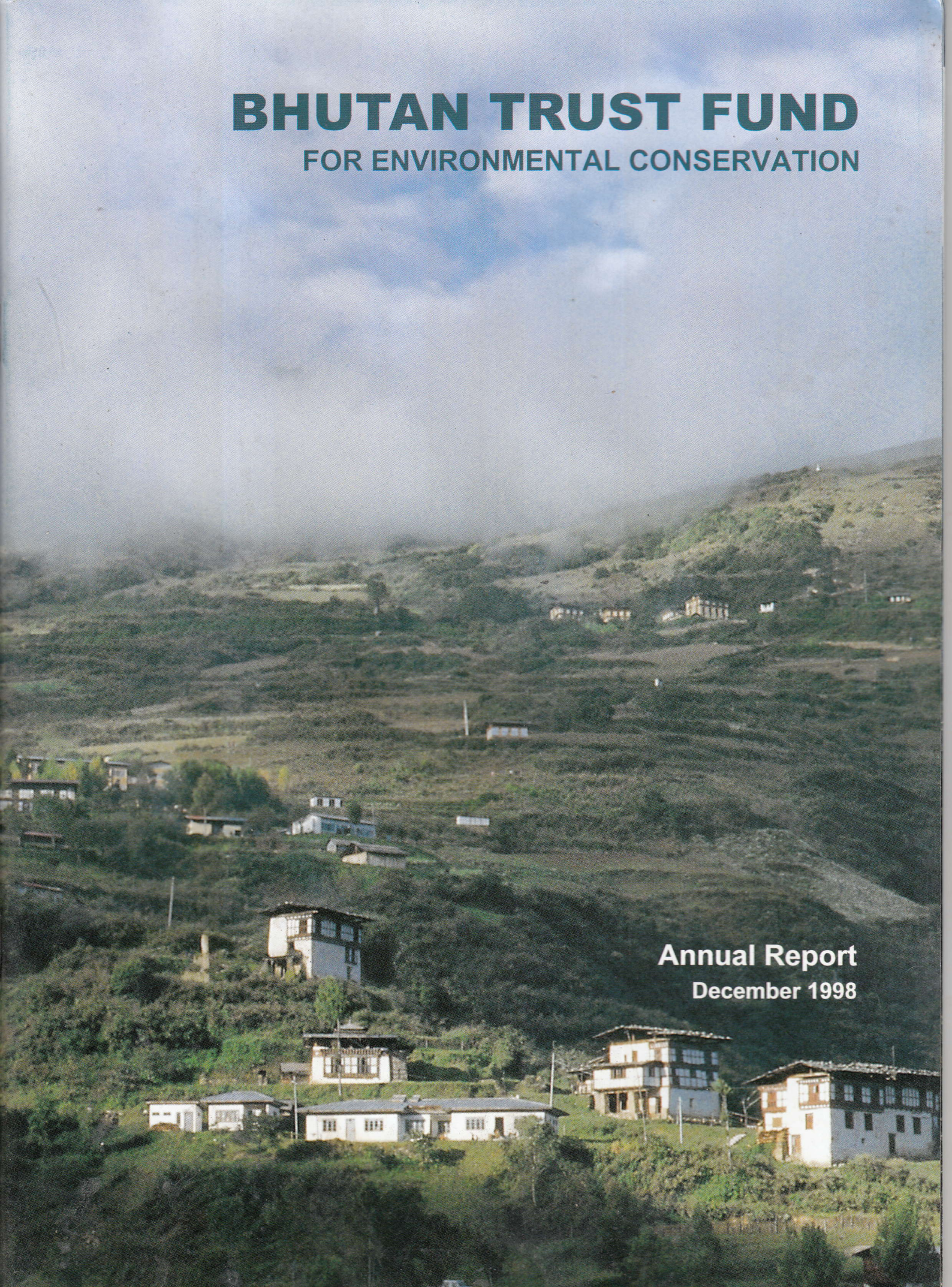


BHUTAN TRUST FUND

FOR ENVIRONMENTAL CONSERVATION

Annual Report
December 1998





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CHAIRMAN'S STATEMENT



I am extremely honored to be the new Chairman of the Management Board. The first five years of the Bhutan Trust Fund for Environmental Conservation (BT FEC) concluded in September 1997, with the BT FEC established as a highly transparent and accountable Fund. The outgoing Chairman and members are to be credited with this outstanding success, as well as realizing a vision for a sustainable financial endowment to better conserve our country's natural heritage.

Operationally, the benchmark mandates set for the US\$10-million grant from the Global Environment Facility (GEF) were successfully met. In November 1997, a joint mission of the World Bank and the Royal Government of Bhutan evaluated the GEF project, and the Implementation Completion Report prepared by the mission rated the overall outcome of the grant as "satisfactory"

Financially, meanwhile, the BT FEC's capital investments were marked by excellent performance. During the fiscal year ending 30 June 1998, the book value of the BT FEC portfolio increased by 13 percent, raising the total assets from US\$ 23.25 million to US\$ 26.25 million. The Government of Norway also disbursed a final installment of NOK 3 million from a committed contribution of NOK 8 million.

In addition, the BT FEC has made some substantive progress in awarding grants outside the traditional forestry sector. This has been the first year for implementing the Strategic Plan developed in 1997, and the BT FEC is supporting two innovative projects concerning the critical issues of fuelwood consumption and environmental education. However, the implementation capacity of BT FEC grantees continues to remain low and may require further investments to become satisfactory. Certainly, the ongoing human resources development project implemented by the Royal Government and financed by the BT FEC is expected to strengthen the absorptive and implementation capacity of grantees.

A handwritten signature in black ink, consisting of stylized, overlapping loops and a long horizontal stroke extending to the right.

Fiscal 1997-1998 saw a few changes at the Bhutan Trust Fund because of changes at the senior government level. Most prominently, the Management Board elected a new Chairman and two previous members representing the Royal Government were replaced by new members.

The Management Board assigned BTFEC asset management to 1838 Investment Advisors after the dissolution of the joint venture between Mees Pierson and 1838 Investment Advisors in May 1998. The Finance Committee was redesignated as the Asset Management Committee and three new committee members were appointed.

In December 1997, the World Bank supervision of the GEF grant formally ended. The grant Implementation Completion Report prepared by the joint mission of the World Bank and the Royal Government of Bhutan concluded that the overall outcome of the grant implementation was “*satisfactory*”. Key lessons learned from grant implementation confirmed that several enabling factors contributed to the successful evolution of BTFEC. These included a legal framework, optimum stakeholder participation, and recipient’s strong reputation for integrity in governance and demonstrated commitment to conservation.

In order to strengthen BTFEC’s grant-making capability, the Management Board appointed a Deputy Director who will oversee program implementation. Further, in order to streamline program administration, the BTFEC adopted the Administrative and Financial Manual 1998. The Fund also adopted a strategic plan, which provides a long-term vision and operational guidelines for its programs.

BTFEC AND ITS VISION

Vision Statement

Within 20 years, BTFEC funds will effectively contribute to conservation programs in the entire “green” sector. This will be governed by the Royal Charter of 1996, resolution of the fourth meeting of the Management Board, the National Biodiversity Action Plan and the National Environment Strategy. BTFEC income will be used to develop fully functioning protected area management systems in at least nine areas through:

- Developing park management systems to systematically involve local communities and promote livelihood practices consistent with biodiversity conservation and its principle of sustainable utilization;
- Developing comprehensive scientific management plans based on integrated conservation and development principles in and around protected areas;
- Conserving biodiversity and maintaining sustainable use outside and inside protected areas;
- Protecting and/or restoring the environment from manmade or natural threats; and
- Investing in forestry or agriculture-related biodiversity conservation and sustainable use programs.

In addition, BTFEC will either directly fund or leverage funding for building a central conservation information management system. The main activities would include:

- A complete inventory of protected areas;
- Building a system of biodiversity conservation information analyses, storage, access, use and management, applicable to protected areas and elsewhere;
- Funding of periodic biological monitoring, consistent with the National Biodiversity Action Plan and the National Environment Strategy, of the protected areas and the regions outside protected areas; and
- A demand-driven conservation research program.



Moreover, BTFEC will help to fully incorporate environmental awareness and education into the national education system, making environmental education part of the standard curriculum at all levels and systematically exposing teachers and administrators to the topic. Conservation ethics and knowledge will be reinforced in local communities through non-formal education on conservation policies and legislation for community leaders and members of the community. At the same time, extension officers and other field-level personnel will be trained and religious communities will be involved in strengthening conservation ethics.

For its part, the BTFEC Secretariat will allocate BTFEC's annual investment income to field projects, maximizing its benefit. An efficient and well-functioning system of program management and performance monitoring will be operational.

Initial Priorities

Compared with other countries in the region, Bhutan is better off in terms of environmental conservation. Even so, there is need for improvement. For example, during its initial five years of operation, the BTFEC Secretariat invited proposals on field-related conservation activities. Although the need for such activities existed,

potential BTFEC grantees were unable to put forward formal proposals because of their inadequate implementation capacity. The number of staff and professional qualifications of BTFEC grantees remain below requirement, while institutions to support the effective management of conservation programs need strengthening. This results in a far from satisfactory investment of the BTFEC fund on field-related conservation and sustainable use of biodiversity and genetic resources.

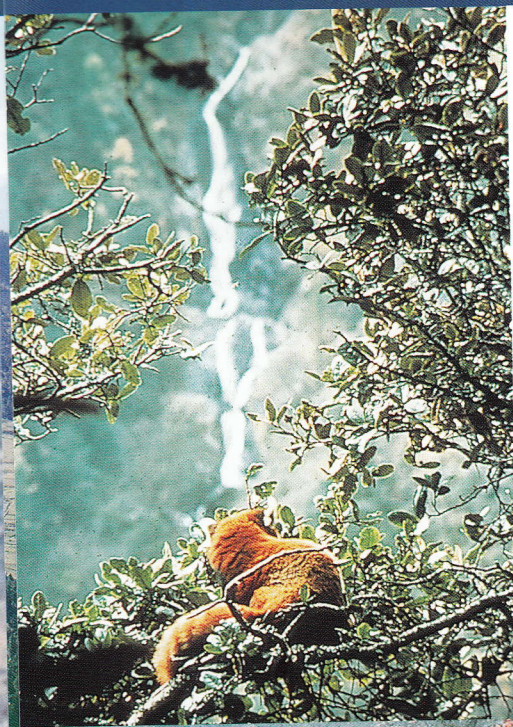
Therefore, as a logical and strategic priority, BTFEC will pursue a set of objectives directed toward strengthening institutions that will promote effective management of conservation programs and building capacity of grantees to implement field activities. BTFEC funding will focus on:

- Recruitment of additional staff;
- Incremental local recurrent expenditures and establishment costs;
- Capacity building of Bhutanese nationals through in-country and overseas training; and
- Relevant environmental projects where implementation capacity exists.

As the institutions grow effective and implementation capacity of grantees increases, the BTFEC focus will shift toward funding worthwhile field-related conservation activities.



PROGRAM PRIORITIES AND OBJECTIVES



Objective (i): Supporting conservation programs in the entire “green” sector including sustainable utilization of genetic and species resources.

This objective will be pursued by:

- (a) Increasing capacity of park staff and resident communities of parks that have management plans;
- (b) Increasing capacity of grantees and stakeholders, including district administration, for planning integrated conservation and development programs;
- (c) Developing and implementing practical integrated conservation and development plans for protected areas;
- (d) Instituting management planning, building of infrastructure and developing of management systems for protected areas yet to be brought under scientific management;
- (e) Developing mechanisms for coordination, collaboration and joint implementation to implement and manage conservation and development programs in protected areas;
- (f) Building capacity of the Nature Conservation Section to provide functional support and coordination to individual park and sanctuary management;
- (g) Investing in forestry or agriculture-related biodiversity conservation and sustainable use programs;
- (h) Protecting/restoring the biophysical environment from natural or manmade threats, both outside and inside protected areas;
- (i) Promoting biodiversity conservation and sustainable use outside and inside protected areas.

Objective (ii): Developing an information management system to strengthen integrated conservation and development planning through conservation research, biodiversity inventories, socio-economic surveys and monitoring of biodiversity change.

The objective will become tenable by implementing the following activities:

- (a) Increasing capacity for socioeconomic surveys, biodiversity inventories and conservation and development research, as well as setting up an information management system at the Nature

- Conservation Section, other governmental agencies and non-governmental organizations;
- (b) Stepping up the capacity of the Nature Conservation Section for organizing, storing, analyzing and providing access to information;
 - (c) Funding assessment and monitoring of biological change in the protected areas and national forests, consistent with the National Biodiversity Action Plan and the National Environment Strategy; and
 - (d) Strengthening biodiversity conservation aspects of commercial forest management through funding activities such as forest management planning and monitoring for sustainable use of forest resources.

Objective (iii): Promoting awareness of conservation policies and issues and strengthening conservation ethics through formal and non-formal education.

This objective will be achieved by undertaking the following activities:

- (a) Developing and implementing non-formal conservation awareness programs;
- (b) Integrating environmental education into the national school curriculum at the primary, secondary and tertiary levels;
- (c) Increasing the capacity for planning, implementing and managing conservation education programs by exposing teachers, planners and administrators to such education through periodic refresher courses and training workshops;
- (d) Developing teaching materials and resource books on Bhutan's natural heritage and current conservation issues;

- (e) Involving religious communities in promoting conservation ethics;
- (f) Developing awareness of policies, regulations and management systems that are beneficial to conservation; and
- (g) Providing support to in-service training institutions such as the Bhutan Forestry Institute, the Natural Resources Training Institute, the Nature Study Center and Sherubtse College.

Objective (iv): Building capacity of the BTFEC Secretariat to ensure sound and effective management of BTFEC programs.

Pursuit of this objective will involve:

- (a) Managing financial assets;
- (b) Allocating available investment income to effective programs;
- (c) Reviewing performance and demonstration of accountability by grantees;
- (d) Developing the capability of the BTFEC Secretariat to develop and manage conservation programs in collaboration with conservation partners and grantees; and
- (e) Communicating effectively with stakeholders and grantees to ensure direct support for need-based conservation activities.

HOW BTFEC WORKS

The annual investment income of the BTFEC endowment is utilised to finance program activities. If necessary, the endowment principal can be drawn down by US\$ 500,000.

1838 Investment Advisors, a professional fund management firm based in Philadelphia, USA, manages the BTFEC portfolio. CoreStates Bank, Philadelphia, provides custodial services. The investment management and custodial services contracts and the investment strategy issued by the Management Board bind the investment management.

The BTFEC portfolio is comprised of broadly diversified international equities, US large-cap and small-cap equities, and fixed income and money market instruments. The investment manager and the custodian submit quarterly performance reports to the Management Board.

The BTFEC awards grants to eligible recipients out of the investment income. The BTFEC Secretariat invites grant proposals that are reviewed based on established criteria. Only those proposals that pass review are submitted to the Management Board for approval. Following approval by the Board, the Secretariat withdraws funds from the investment manager and makes quarterly disbursements to grantees.

Grantees report to the BTFEC Secretariat on project progress, both technical and financial on a semi-annual basis. At the end of the fiscal year (July 1 to June 30 of subsequent year), grantees submit a consolidated progress report to the Secretariat. In addition, the Secretariat conducts regular on-site supervision of project activities.

Within six months of the end of the fiscal year, BTFEC grant accounts are audited and the Secretariat publishes an annual report bringing out consolidated audited financial statements and technical achievements.



HIGHLIGHTS OF 1999-1998 ACHIEVEMENTS

During fiscal 1997-1998 BT FEC program activities included infrastructure and socio-economic development activities in Jigme Dorji National Park that had been rolled over from the previous fiscal year.

A new project, “*Environmental Education at Lower Primary Level*”, was launched during fiscal 1997-98. The project is implemented by the Education Division of the Royal Government of Bhutan.

A: Activities Rolled Over from fiscal 1996-97 in Jigme Dorji National Park

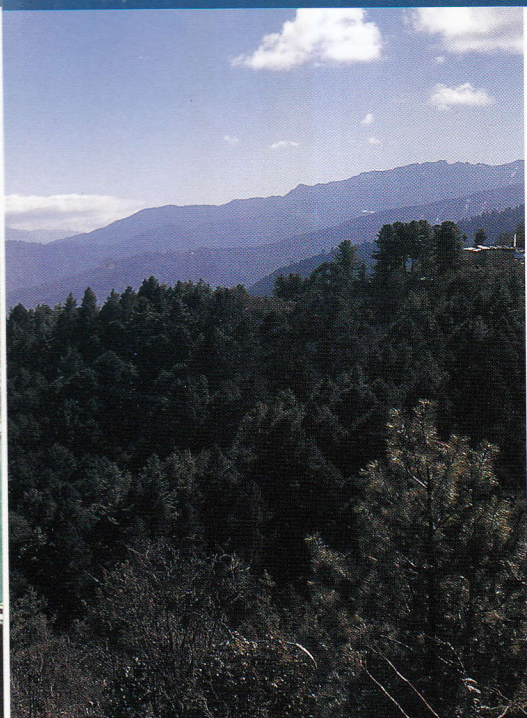
- The Gas a dzongkhag administration and local communities constructed three community schools at Damje, Laya and Lunana.
- The Gas a dzongkhag administration and local people improved bathing facilities at Gas a hot springs, a popular destination for visitors seeking cures for various ailments.
- A project on community hygiene and sanitation launched at Damje was completed, successfully equipping the community with a basic knowledge of personal health and hygiene.

B: Environmental Education at Lower Primary Level Launched During Fiscal 1997-98

The program was planned and launched to (a) integrate environmental education into the primary school curriculum, (b) promote conservation education for teachers, planners and administrators and (c) develop teaching materials and resource books on Bhutan’s natural heritage and conservation issues.

Integrating Environmental Education into Primary Curriculum

Monitoring and evaluation of pilot activities for Class I Dzongkha Environmental Studies (EVS) were carried out. Four teams visited two schools in the western region of the country; nine schools in the central region; 16 schools in the east; and three schools in the south.



The teams evaluated the standard of Dzongkha teachers in teaching environmental studies, as well as the receptivity (listening, reading and writing abilities) of students learning environmental studies in Dzongkha.

The evaluation confirmed that teaching environmental studies in Dzongkha greatly contributed to promoting environmental awareness, besides improving the Dzongkha standard of students. However, a shortage of Dzongkha teachers, lack of reference materials and lack of trained teachers to teach environmental studies have been recognized as constraints.

Promoting Conservation Education for Teachers, Planners and Administrators

A training workshop was conducted for 109 Dzongkha-language teachers, with 12 previously trained Dzongkha teachers serving as resource persons. Specifically, the objectives of the workshop were:

- (i) To enhance the technical knowledge of Dzongkha teachers in teaching environmental studies;
- (ii) To improve pedagogical skills of Dzongkha teachers in using reference materials and teaching aids, and in preparing teaching materials for environmental studies; and
- (iii) To enhance the capability of Dzongkha teachers in planning for annual, monthly and day-to-day environmental studies lessons.

C: BTFEC Secretariat

- The BTFEC Secretariat published and distributed the BTFEC Strategic Plan to its donors and relevant organizations.
- The 1996-97 Annual Report was published and widely distributed for general readership.
- The World Bank and the Royal Government fielded a joint mission in October 1997 to review the implementation of GEF-mandated activities. An Implementation Completion Report was prepared, published and distributed to the donors of the Bhutan Trust Fund and relevant organizations.
- The Management Board approved two new grants, "Purchase of Heavy Duty Bulk Cookers as an Alternative to Firewood" and "Institutional Support to the Royal Society for Protection of Nature". Both project proposals were evaluated and screened by the Secretariat.
- During the year, the Finance Officer visited the United States for three weeks, where he trained in Investment Management Analysis. The Secretary visited the Asian Institute of Technology in Thailand, where she took part in a three-month training on Programs in Computer Application and Development.

The BTFEC is a long-term financial endowment, initially capitalized with contributions from bilateral, multilateral and non-government donors. Assets are invested overseas to optimize annual investment income, which is utilized to support environmental conservation activities in Bhutan. To hedge against inflation and maintain the endowment in real terms, certain portions of endowment investment income are being reinvested. During fiscal 1997-98 the book value of the BTFEC portfolio increased from US\$ 23.25 million to US\$ 26.25 million.

As of 30 June 1998, the total accumulated income since inception amounted to US\$ 7.058 million, while total expenses amounted to about US\$ 1.25 million. During fiscal 1997-98, about US\$ 0.177million was spent, while US\$ 0.044 million was rolled over to the next year.

As in previous years, utilization of BTFEC resources continued to remain low because of the low implementation capacity of BTFEC grantees.



Management Board

A Management Board comprised of six members and one *ex-officio* oversees the governance of the BTFEC, establishes broad program policies and awards annual grants. Currently, five members are from the Royal Government, while WWF-US and the United Nations Development Program have a representative each on the Board. All members represent their respective organizations. During 1997-98, the Management Board met in November 1997 and April 1998.

Management Board Members

| | |
|----------------------------|--|
| Lyonpo (Dr.) Kinzang Dorji | Chairman <i>Minister for Agriculture</i> |
| Lyonpo Yeshey Zimba | Treasurer <i>Minister for Finance</i> |
| Dasho (Dr.) Jigme Singye | Member <i>Secretary, Royal Civil Service Commission</i> |
| Dr. Bruce Bunting | Member <i>Vice President Asia & Pacific Programs, WWF-US</i> |
| Ms. Akiko Naito-Yuge | Member (ex-officio) <i>Resident Representative UNDP, Bhutan</i> |

Other RGOB members are yet to be appointed.

BTFEC Secretariat

The BTFEC is administered by a Secretariat of five full-time staff, which implements Board decisions and provides day-to-day oversight of program activities. With the recruitment of a Deputy Director in 1998, the BTFEC Secretariat is now made up of the following individuals:

| | |
|-----------------------|------------------|
| Mr. Karma Phuntshog | Director |
| Mr. Tobgay S. Namgyal | Deputy Director |
| Mr. Singye Dorji | Finance Officer |
| Ms. Tshering Zangmo | Secretary |
| Mr. Kadola | Messenger/Driver |



Financial Statements



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ROYAL AUDIT AUTHORITY

TASHI CHHODZONG : THIMPHU
BHUTAN

TELE : 22388
22112
22111
FAX : 23491

**AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF THE
BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
(BT FEC) FOR THE YEAR ENDED 30 JUNE 1998.**

The Royal Audit Authority (RAA) has audited the Consolidated Financial Statements of the Bhutan Trust Fund for Environmental Conservation (BT FEC) for the year ended 30 June 1998, prepared for the activities in Bhutan and in case of the of Funds held by the Custodian in Philadelphia, on the basis of the information provided to the BT FEC Secretariat, Thimphu.

The examination was made in accordance with the generally accepted auditing standards and in conformity with the General Auditing Rules and Regulations of Bhutan.

The audit was primarily aimed at expressing an opinion on the financial statements of the BT FEC. Accordingly, it included such tests of accounting records, transaction, internal controls and such other procedures as were considered necessary for the purpose of the audit.

Based on the examination of the accounts and records made available and information and explanation provided, the Royal Audit Authority reports that in its opinion, the Financial Statements of the BT FEC together with the notes on accounts and accounting policies as set out in the Schedule XIII, fairly reflect the operating surplus of the fund for the year ended 30 June 1998 and its state of affairs as on that date.

The RAA further reports that:

- 5.1 In its opinion, the expenses reflected are valid and supported by adequate documentation.
- 5.2 To facilitate proper control over the movement of fund to and from the BT FEC, a separate government Project Letter of Credit account has been maintained by the implementing Agency.



- 5.3 Use, control and disposal of non-expendable equipment are in accordance with the Government rules.
- 5.4 Unlike in the past years, the Management Board of the said Fund had decided in the sixth Board Meeting to charge off expenditure of capital nature incurred on programme activities in the Revenue and Expenditure Statement in the year in which it is incurred since the assets are not owned by the BTFEC. Related assets capitalized in the past years have been adjusted under the prior years' adjustment in these accounts. The impact of this change, in accounting policy, on the reported operating surplus and fixed assets of the fund is not readily ascertainable.



NOTED:

(B.B. CHHETRI)
ASSISTANT AUDITOR GENERAL

**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
FOREST DIRECTORATE BUILDING
THIMPHU : BHUTAN**

**Statement of Revenue and Operating Expenditure for the Fiscal Year 1997-98.
US\$ (Rounded)**

| | Schedule | 1997-98 | 1996-97 |
|---|------------|----------------------|----------------------|
| <u>Revenue</u> | | | |
| Investment Income | <i>I</i> | 990,240 | 905,098 |
| Income from WB's 2nd Tranche | | - | 513,255 |
| Net Capital Gain Realized | <i>II</i> | 2,141,913 | 488,382 |
| RGOB Matching Funds | | - | 13,380 |
| Miscellaneous Income | | - | 809 |
| Total Revenue | | 3,132,153 | 1,920,924 |
| <u>Expenditure</u> | | | |
| Secretariat Expenses | <i>III</i> | 56,648 | 32,351 |
| Program Expenses | <i>III</i> | 17,033 | 11,340 |
| Fund Manager's Fees | | 96,252 | 71,283 |
| Expenditure on Govt. Obligations | | 105,522 | 102,870 |
| Custodian's Fees | | 7,529 | 11,181 |
| UNDP Accounting Fees | | - | 2,939 |
| Interest Expenses | | 4,595 | 16,812 |
| Miscellaneous Expenses | | - | 7 |
| Sub-total | | 287,579 | 248,783 |
| Depreciation on Fixed Assets | <i>IV</i> | 5,665 | 9,392 |
| Exchange Rate Adjustments | <i>V</i> | 25,035 | 11,574 |
| Total Expenses | | 318,279 | 269,749 |
| Net Revenue for the Year | | 2,813,874 | 1,651,175 |
| <u>Statement of Operating Fund</u> | | | |
| Opening balance as at July 1, 1997 | | 3,088,210 | 1,437,035 |
| Add: Net Revenue for the Year | | 2,813,874 | 1,651,175 |
| Deduct Prior Year's Adjustment | <i>VI</i> | (274,326) | - |
| Closing Fund Balance as of 30.06.1998 | | 5,627,758 | 3,088,210 |


Chairman
Management Board


Treasurer
Management Board



Director
Secretariat




**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
FOREST DIRECTORATE BUILDING
THIMPHU : BHUTAN**

**Balance Sheet as at 30th June,1998.
US\$ (Rounded)**

| | Schedule | 1997-98 | 1996-97 |
|--|----------|-------------------|-------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash at Bank of Bhutan | VII | 55,142 | 9,962 |
| Receivables and Prepayments | VIII | 14,846 | 18,087 |
| Accrued interest with Fund Mgt. | IX | 154,089 | 87,840 |
| Fund held by RGOB | X | 36,878 | 20,273 |
| Total current Assets | | 260,955 | 136,162 |
| | | | |
| Fixed Assets (Net) | IV | 29,033 | 11,684 |
| Investment at cost | XI | 26,250,447 | 23,255,736 |
| Environmental activities (Net) | | - | 274,326 |
| Total of Fixed Assets | | 26,279,480 | 23,541,746 |
| | | | |
| Total Assets | | 26,540,435 | 23,677,908 |
| | | | |
| LIABILITIES | | | |
| Current Liabilities | | - | 2,325 |
| | | | |
| FUND BALANCES | | | |
| | XII | | |
| World Bank - GEF | | 10,000,000 | 10,000,000 |
| Govt. of Switzerland | | 2,586,207 | 2,586,207 |
| Govt. of Netherlands | | 2,454,500 | 2,454,500 |
| Govt. of Norway | | 2,297,422 | 2,008,662 |
| World Wild Life Fund Inc. | | 1,000,000 | 1,000,000 |
| Govt. of Finland | | 66,312 | 29,768 |
| Govt. of Denmark | | 2,334,418 | 2,334,418 |
| Royal Govt. of Bhutan | | 173,818 | 173,818 |
| Total Fund Balances | | 20,912,677 | 20,587,373 |
| Add: Operating Fund | | 5,627,758 | 3,088,210 |
| | | | |
| TOTAL FUND BALANCES | | 26,540,435 | 23,675,583 |
| | | | |
| TOTAL LIABILITIES AND FUND BALANCES | | 26,540,435 | 23,677,908 |


Chairman
Management Board


Treasurer
Management Board


Director
Secretariat



**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
FOREST DIRECTORATE BUILDING
THIMPHU : BHUTAN**

Schedule I.

Investment Income Details

| | US\$ | US\$ |
|---|----------|----------------|
| (i) Interest Income | 821,690 | |
| Less: Income accounted in the previous year | (87,840) | 733,850 |
| (ii) Dividend Income | | 102,301 |
| (iii) Accrued Interest as of 30 June 1998 | | |
| -US Government & Agencies | 105,480 | |
| - Mortgage Backed Securities | 19,596 | |
| - Corporate Bonds | 29,013 | 154,089 |
| Total Investment Income earned during the year | | 990,240 |

Schedule II.

Net Capital Gain Realized During 1997-98

| | US\$ |
|---|---------------------|
| (i) From Sale of US Treasury/Bonds | 103,455.86 |
| (ii) From Sale of US Equities | 1,688,136.19 |
| (iii) From Sale of Mortgage Backed Securities | 3,801.31 |
| (iv) From International Equities | 346,519.24 |
| Total Capital Gain Realized | 2,141,912.60 |



Schedule III.

**DETAILED STATEMENT OF EXPENDITURE INCURRED FOR THE FISCAL YEAR 1997-98
US\$ (ROUNDED)**

| | 1997-98 | | 1996-97 | | Total |
|---------------------------------------|-----------------|----------------|----------------|----------------|----------------|
| | Field Program | Secretariat | Field Program | Secretariat | |
| Operating Expenditure | | | | | |
| Personnel Emoluments | - | 10,428 | 10,428 | 17,137 | 27,565 |
| Other P. Emoluments | - | 254 | 254 | 1,187 | 1,441 |
| Travel | - | 2,426 | 2,426 | 9,037 | 11,463 |
| Utilities-Tele, fax, etc. | - | 1,566 | 1,566 | 1,426 | 3,000 |
| Utilities-Postage/Bank Charges | - | 498 | 498 | 126 | 624 |
| Utilities - Electricity | - | - | - | 340 | 340 |
| Rental of Building | - | 1,952 | 1,952 | 6,998 | 8,950 |
| S & M - Stationery, Prtg. | - | 7 | 7 | 53 | 60 |
| Maint. of Building | - | 5,513 | 5,513 | 69 | 5,582 |
| Maint. of Vehicle | - | 384 | 384 | 1,799 | 2,183 |
| Maint. of Equipment | - | 8,940 | 8,940 | 498 | 9,438 |
| Workshops/Seminars | 8,940 | 3,429 | 3,429 | 2,053 | 14,851 |
| Hospitality | - | 849 | 849 | 742 | 1,591 |
| PF-Employers Contribution | - | - | - | 141 | 141 |
| Misc. Expenditure | - | 846 | 846 | 47 | 893 |
| Transportation | - | 578 | 578 | - | 578 |
| Advertisement | - | 5,350 | 5,350 | - | 5,350 |
| Printing of Annual Report | - | 4,172 | 4,172 | - | 4,172 |
| Printing of BTF Strategic Plan | - | 18,396 | 18,396 | - | 18,396 |
| Training | - | 56,648 | 65,588 | - | 122,236 |
| Sub-total | 8,940.00 | 103,781 | 103,781 | 30,311 | 133,802 |
| Fund Management Expenditure | | | | | |
| UNDP Fees (Accounting) | - | - | - | 2,939 | 2,939 |
| Custodian's fees | - | 7,529 | 7,529 | 11,181 | 18,710 |
| Fund Manager's fees | - | 96,252 | 96,252 | 71,283 | 167,535 |
| Interest Expenses | - | - | - | 16,812 | 16,812 |
| Gov't. Obligation Expenses | - | - | - | 102,870 | 102,870 |
| Misc. Expenses | - | - | - | 7 | 7 |
| Sub-total of Operating Expense | - | 103,781 | 103,781 | 205,092 | 308,892 |
| Capital Expenditure | | | | | |
| Furniture | - | 294 | 294 | - | 294 |
| Equipment | - | 15,156 | 15,156 | 173 | 15,329 |
| Purchase of Vehicle | - | 10,834 | 10,834 | - | 10,834 |
| Sub total of Capital | - | 26,284 | 26,284 | 173 | 26,457 |
| Program Expenditure | 8,093 | 8,093 | 8,093 | 1,082 | 17,361 |
| Office Equipment/Furniture | - | - | - | 48,466 | 48,466 |
| Expenditure on Structures | - | - | - | 37,151 | 37,151 |
| Environmental Activities | - | - | - | 86,700 | 86,700 |
| Total of Program Expenditure | 8,093 | 8,093 | 8,093 | 133,319 | 149,419 |
| Grand Total | 17,033 | 186,713 | 203,746 | 335,656 | 507,542 |



[Signature]
Director
Secretariat

[Signature]
Chairman
Management Board

[Signature]
Chairman
Management Board

BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
 FOREST DIRECTORATE BUILDING
 THIMPHU : BHUTAN

Schedule IV.

Depreciation Table for the Fixed Assets of the Secretariat

| Particulars of Assets | Net Block at 30.06.1997 | | Addition during the Year | | Adjustments during the Year | | Gross Block as at 30.06.1998 | | Depreciation | | | | | | As at 30.06.1998 | | Net Block as at 30.06.1998 | |
|-----------------------|-------------------------|---------------|--------------------------|---------------|-----------------------------|------|------------------------------|---------------|-----------------|-----------------|----------------|--------------|----------|--------------|------------------|---------------|----------------------------|---------------|
| | Nu. | US\$ | Nu. | US\$ | Nu. | US\$ | Nu. | US\$ | Upto 30.06.1997 | During the Year | Exchange | Gain/(Loss) | Nu. | US\$ | Nu. | US\$ | Nu. | US\$ |
| Equipments | 211,808 | 5,966 | 608,022 | 15,156 | | | 819,831 | 21,122 | 146,593 | 4,567 | 81,983 | 1,896 | - | 2,167 | 228,576 | 8,630 | 737,848 | 17,060 |
| Furniture | 37,019 | 1,043 | 10,950 | 294 | | | 47,969 | 1,337 | 22,804 | 717 | 4,797 | 111 | - | 228 | 27,601 | 1,055 | 43,172 | 998 |
| Vehicle | 165,971 | 4,675 | 466,933 | 10,834 | | | 632,904 | 15,509 | 403,828 | 12,084 | 158,226 | 3,658 | - | 875 | 274,924 | 16,617 | 474,678 | 10,975 |
| Total | 414,798 | 11,684 | 1,085,905 | 26,284 | | | 1,500,704 | 37,968 | 573,225 | 17,367 | 245,006 | 5,665 | - | 3,270 | 531,101 | 26,302 | 1,255,698 | 29,033 |

[Signature]
 Chairman
 Management Board

[Signature]
 Director
 Management Board

[Signature]
 Director
 Secretariat



**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
FOREST DIRECTORATE BUILDING
THIMPHU : BHUTAN**

Schedule V.

Exchange Rate Adjustments as of 30.06.1998

| | | US\$ |
|---|--------|---------------|
| (i) Arising from translating foreign exchange transactions to account for US \$. | 21,765 | |
| (ii) Arising from translating fixed assets recorded at historical cost into US \$ as at 30.06.1998. | 3,270 | |
| Total Exchange Loss | | 25,035 |

Schedule VI.

Prior Period's Adjustments

| | Nu. | US\$ |
|---|------------------|----------------|
| 1 Building & Structure as of 30 June 1997 | 6,933,730 | 195,316 |
| 2 Furniture/ Equipments as of 30 June 1997 | 324,065 | 9,129 |
| 3 Environmental Activities as of 30 June 1997 | 2,480,771 | 69,881 |
| | 9,738,565 | 274,326 |

Schedule VII.

Cash in Hand/Bank of Bhutan

| | Nu. | US\$ |
|--|---------------------|------------------|
| (i) Cash in Hand | 43,632.23 | 1,008.84 |
| (ii) Cash with Bank | 1,315,723.34 | 30,421.35 |
| (iii) Cash with Foreign Currency Account | 1,025,547.89 | 23,712.09 |
| Total Amount | 2,384,903.46 | 55,142.28 |



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THIMPHU : BHUTAN**

Schedule VIII.

Receivables and Prepayments

| | Nu. | US\$ |
|---------------------------------|----------------|---------------|
| (i) Outstanding Advances | 638,707 | 14,768 |
| (ii) Cash Balance with AFD, MoA | 3,382 | 78 |
| Total Amount | 642,089 | 14,846 |

Schedule IX.

Accrued Interest on Investments

| | US\$ |
|---------------------------------|----------------|
| (i) US Government & Agencies | 105,480 |
| (ii) Mortgage Backed Securities | 19,596 |
| (iii) Corporate Bonds | 29,013 |
| Total Amount | 154,089 |



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Schedule X.

Fund Held by RGoB:

| | Nu. | USS |
|---|---------------------|------------------|
| (i) Opening Balance as of 30.07.1997 | 719,676.26 | |
| (ii) Additional Release during the year | <u>1,611,951.00</u> | |
| | 2,331,627.26 | |
| (iii) Less: Expenses incurred by Education | 736,646.30 | |
| Fund Balance with Budget as of 30.6.1998 | 1,594,980.96 | 36,878.17 |

Schedule XI.

Investment held by BTF as of 30 June 1998:

| Sl.No | Investment | Book Value (US\$) | Market Value (US\$) |
|-------|------------------------|----------------------|------------------------|
| 1 | Money Market | 1,641,969 | 1,641,969 |
| 2 | Fixed Income | 12,854,809 | 13,149,614 |
| 3 | US Equities | 5,260,667 | 7,676,235 |
| 4 | International Equities | 5,973,001 | 7,260,197 |
| 5 | Small Cap Equities | 520,000 | 537,874 |
| | Accrued Interest | | 154,089 |
| | Total | 26,250,447 | 30,419,977 |



**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
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THIMPHU : BHUTAN**

Schedule XII.

STATEMENT OF FUND BALANCES FOR THE YEAR ENDED 30.06.1998

| Particulars | US\$ 1997-98 | US\$ 1996-97 |
|--|-----------------|-----------------|
| 1 WORLD BANK -GEF: | | |
| Opening Balance July 1997 | 10,000,000.00 | 7,000,000.00 |
| Funds received during the year | - | 3,000,000.00 |
| Funds returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 10,000,000.00 | 10,000,000.00 |
| 2 WORLD WILD LIFE FUND: | | |
| Opening Balance July 1997 | 1,000,000.00 | 1,000,000.00 |
| Funds received during the year | - | - |
| Funds returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 1,000,000.00 | 1,000,000.00 |
| 3 GOVT. OF NORWAY: | | |
| Opening Balance July 1997 | 2,008,662.00 | 1,568,418.00 |
| Funds received during the year | 288,760.00 | 440,244.00 |
| Funds returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 2,297,422.00 | 2,008,662.00 |
| 4 GOVT. OF NETHERLANDS: | | |
| Opening Balance July 1997 | 2,454,500.00 | 2,454,500.00 |
| Funds received during the year | - | - |
| Funds returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 2,454,500.00 | 2,454,500.00 |
| 5 GOVT. OF FINLAND: | | |
| Opening Balance July 1997 | 29,768.00 | 29,768.00 |
| Funds received during the year | 36,544.00 | - |
| Funds returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 66,312.00 | 29,768.00 |



**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
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Schedule XII.

STATEMENT OF FUND BALANCES FOR THE YEAR ENDED 30.06.1998

| Particulars | US\$ 1996-97 | US\$ 1995-96 |
|--|----------------------|----------------------|
| 6 GOVT. OF SWITZERLAND: | | |
| Opening Balance July 1997 | 2,586,207.00 | - |
| Funds received during the year | - | 2,586,207.00 |
| Fund returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 2,586,207.00 | 2,586,207.00 |
| | | |
| 7 ROYAL GOVT. OF BHUTAN: | | |
| Opening Balance July 1997 | 173,818.00 | 173,818.00 |
| Funds received during the year | - | - |
| Fund returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 173,818.00 | 173,818.00 |
| | | |
| 8 GOVT. OF DENMARK: | | |
| Opening Balance July 1997 | 2,334,418.00 | - |
| Funds received during the year | - | 2,334,418.00 |
| Fund returned during the year | - | - |
| Funds utilized for revenue during the year | - | - |
| Closing balance at 30th June 1998 | 2,334,418.00 | 2,334,418.00 |
| | | |
| Total Fund as at 30.06.1998 | 20,912,677.00 | 20,587,373.00 |


Chairman
Management Board


Treasurer
Management Board


Director
Secretariat



**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
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Schedule XIII.

NOTES ON FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1998

1. Significant Accounting Policies

1.1 Basis of Accounting:

The accounts of Bhutan Trust Fund have been prepared on an accrual basis, using double entry accounting except gratuity expenses, which is recognized on cash basis.

1.1.1 Income:

All income earned by the 1838 Investment Advisors, Fund Management, Philadelphia, USA including accrued interest on investment has been recognized as Revenue in the Revenue and Operating expenses.

1.1.2 Government Obligation and Interest Expense:

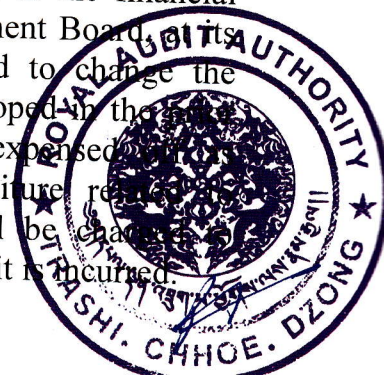
Accrued interests on securities paid at the time of purchases have been treated as expenditure and the same, on realization, has been recognized as revenue in the Revenue and Expenditure Statement.

1.1.3 Capital Gain/Loss:

Net cash realized and net loss incurred from sale of investments and the difference of gain and loss has been recognized as Revenue/Expenses in the Statement of Revenue and Operating Expenses.

1.2 Fixed Assets:

Until now, assets developed from the Trust Fund's grants have been reflected as properties of Trust Fund and only the provision on depreciation has been charged to the Revenue & Expenditure Statement. In essence, such assets are not the properties of the Fund and reflecting them as properties of the Fund is a misinterpretation in the financial statements. In order to correct this flaw, the Management Board at its sixth meeting held on September 9, 1998, approved to change the current accounting policy. Therefore, the assets developed in the years pertaining to program activities have been expensed as mentioned in schedule VI. Henceforth, all expenditure related to program activities, whether capital or recurrent, will be charged to Revenue & Expenditure Statement in the year in which it is incurred.



**BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION
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However, the Trust Fund will make annual provision for depreciation on buildings, vehicles, equipment and furniture, owned by the BTF Secretariat at the rates indicated below. At the end of the asset's useful life the historical cost will be written off (against the related accumulated provisions for depreciation). If such assets are of no further use they will be disposed off in accordance with the RGoB regulations, otherwise they will be maintained and used.

1.3 Depreciation:

Depreciation is provided in the accounts on written down value method at the undernoted rates on all assets for full year irrespective of date of acquisition. But no depreciation is charged in the year of disposal.

| <u>Assets</u> | <u>Depreciation Rate</u> |
|-----------------------|--------------------------|
| Vehicle | 25% |
| Furniture & Equipment | 10% |
| Buildings | 3% |

1.4 Consumable items including spares, etc. are charged off in the accounts in the year of purchase.

1.5 The figures rounded up/down to the nearest dollar.

1.6 Conversion/Translation of Currency:

1.6.1 The funds withdrawn from the 1838 Investment Advisors, Fund Management, Philadelphia, USA in US\$ have been translated into local currency on telegraphic transfer rate of the Royal Monetary Authority of Bhutan at the rate prevailing at the time of withdrawal.

1.6.2 All Secretariat transactions and environmental program payments in local currency have been translated into US\$ using Bank of Bhutan's exchange rate in the effect of date of payment. Year-end fund balances made in the local currency have been translated into US\$ at the Bank of Bhutan's exchange rate at the year-end.

1.6.3 Exchange Gain/Loss arising from translation of local currency to US\$ has been recognized in the Statement of Revenue and Operating Expenses as Revenue/Expenses accordingly.

2. The Schedules and Notes attached hereto form an integral part of the Financial Statements.



**FOR MORE INFORMATION
PLEASE CONTACT**

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