United Nations
Educational, Scientific and
Cultural Organization

FINANCIAL STATEMENTS 2014

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CONTENTS

1 FINANCIAL REPORT OF THE DIRECTOR-GENERAL

INTRODUCTION

In accordance with Article 11.1 of the Financial Regulations, I have the honour to submit the financial statements and financial report of the Organization for the year ended 31 December 2014.

The External Auditor has expressed an unqualified (clean) opinion on the financial statements. His report is submitted to the governing bodies in accordance with Article 12 of the Financial Regulations.

This section, the financial report, presents the Director-General's discussion and analysis of UNESCO's financial position and financial performance for the financial year ended 31 December 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) as required under Article 11.1 of the Financial Regulations of the Organization. Consolidated financial statements are prepared for all UNESCO operations and entities including the ten category 1 institutes. The financial statements cover all four business segments, namely;

The General Fund (GEF)
This segment, financed from the assessed contributions of Member States, covers the main operations of the Organization. The programme appropriations for the financial period are voted by the General Conference of Member States.

Other Proprietary Funds (OPF)
Includes revenue-generating activities, programme support costs for special accounts and trust funds, the Staff Compensation Fund, the Terminal Payment Fund and Headquarters-related special accounts.

Programme Fiduciary Fund (PFF)
This segment relates to programmes and activities financed from funding provided by donors through agreements or other legal authority. The UNESCO category 1 institutes which are set up as separate entities are accounted for under this segment.

Staff Fiduciary Funds (SFF)
Activities/funds under this segment have been established for the benefit of UNESCO's staff members through the Medical Benefits Fund, the Commissary, the Restaurant Services and the Day Nursery and Children's Club.

The financial statements consist of:

A Statement of Financial Position
This provides information about the accumulated surplus/deficit at the reporting year end date – the difference between UNESCO's total assets and liabilities. It gives information about the extent to which resources are available to support future operations and the unfunded liabilities.

A Statement of Financial Performance
This measures the net surplus or deficit of the reporting year – the difference between revenues and expenses. It provides information about the Organization's cost of programme delivery and the amounts and resources of revenue.

A Statement of Changes in Net Assets/Equity
Which highlights the sources of changes in the overall financial position.

A Cash Flow Statement

This provides information about UNESCO's liquidity and solvency including how the organization raised and used cash during the period and the repayment of borrowing. It measures the difference between the actual cash coming in and cash going out.

A Comparison of Budget and Actual Amounts

This highlights whether resources where used in accordance with the approved budget. It shows differences between the actual expenditure and the approved budget appropriation.

Notes to the Financial Statements

Which assist in understanding the financial statements. Notes comprise of a summary of significant accounting policies and other explanatory information. It provides additional information on the financial statements as required under IPSAS.

ORGANIZATIONAL BACKGROUND, OBJECTIVES & STRATEGY

UNESCO was created in London on 16 November 1945 by governments of the States Parties. It was to contribute to peace and security by promoting collaboration among the nations through education, science and culture in order to further universal respect for justice, for the rule of law, human rights and fundamental freedoms which are affirmed for the peoples of the world, without distinction of race, sex, language or religion, by the Charter of the United Nations Organization. Membership of the Organization comprises of 195 Member States and nine Associate Members as at 31 December 2014.

The current Medium-Term Strategy (37 C/4), approved by the General Conference in November 2013, sets out the strategic vision and programmatic framework for UNESCO's actions over the period 2014-2021 built around the following mission statement: 'As a specialized agency of the United Nations, UNESCO – pursuant to its Constitution - contributes to the building of peace, the eradication of poverty and sustainable development and intercultural dialogue through education, the sciences, culture, communication and information'. The strategy defines two overarching objectives – peace and equitable and sustainable development – as well as two global priorities – Africa and gender equality. The Strategy further defines nine strategic objectives.

These strategic objectives are translated into programmatic priorities through main lines of action and expected results in the C/5 Programme and Budget document adopted by the General Conference. Programmes are defined for four years while the budget allocation is approved every two years.

UNESCO's Medium-Term Strategy indicates that 'the proactive anticipation and management of risks and opportunities along with the development of appropriate strategic plans [are] critical factors for the attainment of results'. Risk management has been introduced in UNESCO's medium-term strategy in 2008 and a Risk Management Committee has been subsequently established. Its responsibility is to pilot the risk process in UNESCO and to manage major threats or opportunities in light of the current context and latest trends and evaluations.

NET NEGATIVE EQUITY

For the first time in the Organization's operations, the financial statements show an overall net negative equity. The net negative equity of $241.5 million is attributable to the significant increase in the After-Service Health Insurance (ASHI) liability. The ASHI liability arises from the provision of medical coverage to active staff and retirees.

The ASHI liability increased by 51% to $1.27 billion compared to the previous financial period. The increase is mainly attributable to the change from 4% to 2.3%, of the discount rate used to measure the liability

The Organization has taken measures to address the long-term funding challenges associated with the ASHI liability. As from 1 January 2015, a 4% payroll charge will be applicable to the salary costs of staff paid from extra-budgetary projects/funds and participating in the Medical Benefit Fund. The Executive Board has also recommended to the General Conference to approve a 1% charge on the staff costs of the regular budget to fund the ASHI liability with effect from 1 January 2016. A decision will be taken by the General Conference at its 38th session in November 2015.

The overall financial situation of the medical scheme over the short to the medium term has improved. The total reserves available to cover the ‘pay as you go’ scheme has increased to 13 months of expenditure cover (compared to 7 months few years ago), putting the organization on track to achieving 15-18 months cover as recommended by the external auditor.

Adequate measures are being taken to address the financial risks associated with the ASHI liability and I am confident that the Organization is on the right path towards achieving a sustainable long-term funding mechanism. I will continue to work closely with the governing bodies, the external auditor and the system-wide review of the United Nations on this important issue.

The overall financial situation of the Organization is healthy to meet its obligations in the short and medium-term. The Organization, following the completion of the restructuring exercise, is currently operating within the expenditure limit set up by the General Conference. The current cash and investments available to deliver on extra-budgetary projects and programmes stood at $637 million as at 31 December 2014.

FINANCIAL STATEMENT HIGHLIGHTS

The consolidated deficit for the year is $19.7 million compared to a deficit of $31.7 million in the previous year. The regular programme operations generated a deficit of $35.2 million, whereas the other combined operations generated a surplus of $15.5 million. The decrease in the consolidated deficit compared to the previous year is mainly due to an increase of revenue and a decrease of expenses.

Total revenue, which amounted to $782.4 million, increased by 0.4% compared to previous year. This evolution is mainly due to euro assessed contributions being converted in USD terms at a higher different exchange rate in 2014. Expenditure decreased by 1.1% ($8.6 million) to $802.1 million.

Overall, net assets decreased by $425.9 million to ($241.5) million mainly due to the After Service Health Insurance (ASHI) liability which increased by $426.4 million in 2014. This movement is explained by the change in the discount rate from 4% to 2.3%.

Total current assets of $786.7 million decreased by $4.3 million (0.5%) compared to the previous year. Short-term investments, cash and cash equivalents of $713.5 million represent 90.7% of the current assets. Cash and cash equivalent decreased by $33.2 million (15.1%) and short-term investments increased by $23.5 million (4.7%). The remaining current assets increased by $5.4 million (8.0%).

The increase of $423.7 million (45.3%) in non-current liabilities is attributable to the increase of the After-Service Health Insurance (ASHI) liability for active and retired staff.

Gross outstanding assessed contribution has increased significantly over the last three years to $353.5 million due to the suspension of payments by a Member State in 2011. The cumulative allowance made due to non-payment of contributions amounted to $335.1 million (94.8% of the total due).

FINANCIAL PERFORMANCE

BUSINESS SEGMENT ANALYSIS

As shown in Table 1, the regular programme segment (GEF) recorded a lower deficit of $35.2 million compared to a $64.5 million in the previous financial period. The decrease is due mainly to an increase of revenue (more voluntary contributions and exchange rate variations) as well as a decrease of expenses through a reduction of employee benefit expenses.

TABLE 1. SUMMARY FINANCIAL PERFORMANCE BY FUND

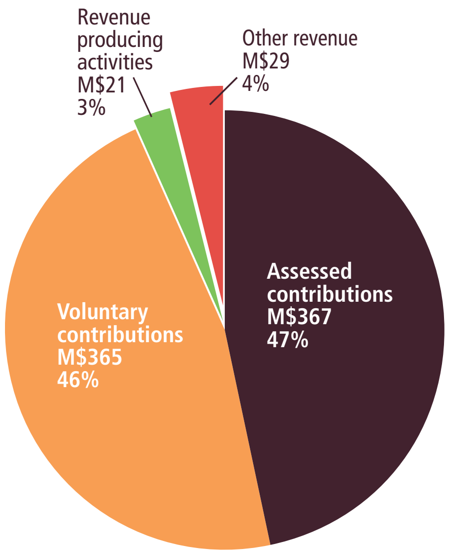
Expressed in million US dollars	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
Total Revenue	383.4	41.6	372.6	33.7	(48.9)	782.4
Total Expenses	(418.6)	(35.8)	(363.9)	(32.7)	48.9	(802.1)
(Deficit)/Surplus – 2014	(35.2)	5.8	8.7	1.0	–	(19.7)
(Deficit)/Surplus – 2013	(64.5)	2.3	26.4	4.1	–	(31.7)

REVENUE ANALYSIS

Gross assessed contributions amounting to $367.2 million accounted for 47% of the overall revenue. Voluntary contributions decreased by 1.1% to $365.1 million.

FIGURE 1

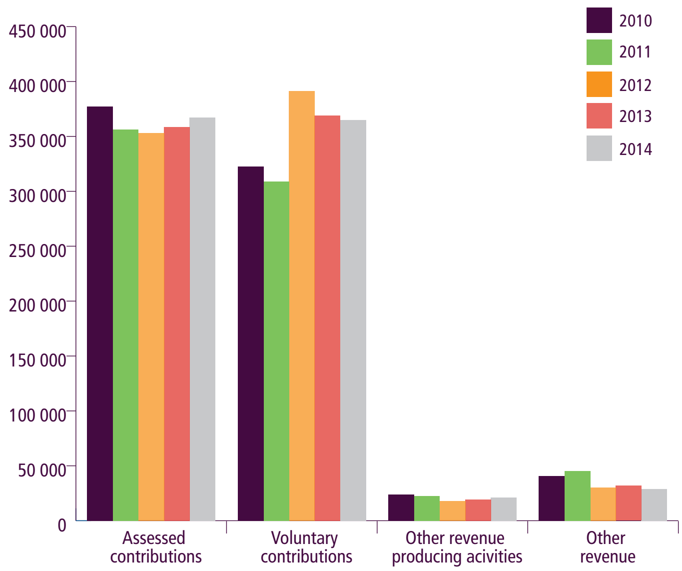
REVENUE BY SOURCE (AMOUNTS IN USD MILLIONS)



An allowance for unpaid contributions of $86.5 million was made to reflect the decision of two Member States to suspend their regular contributions, thus bringing the net assessed contributions revenue to $280.7million.

FIGURE 2

REVENUE SOURCES:
5-YEAR COMPARISON
(IN USD '000)



As Figure 2 above depicts, assessed contributions over the past four years have remained relatively stable reflecting the zero nominal growth budget in place in the last four biennia. Voluntary contributions registered a significant increase in 2012 due to additional contributions received under the Emergency Fund. However, since 2013, these contributions remain stable.

EXPENSE ANALYSIS

TABLE 2 CHANGE IN EXPENSES

Nature of expenses (Expressed in Million USD)	2014	2013	Net Change (USD)	Net Change (%)
Employee benefits expenses	365.4	402.1	(36.7)	(9.1%)
Consultants, external experts and mission costs	49.2	49.9	(0.7)	(1.4%)
External training, grants and transfers	60.5	55.9	4.6	8.2%
Supplies, consumables and other running costs	56.1	58.7	(2.6)	(4.4%)
Contracted services	139.7	130.8	8.9	6.8%
Allowance for unpaid Member States contributions	86.5	83.1	3.4	4.1%
Other expenses				
Depreciation & amortization	18.6	18.7	(0.1)	(0.5%)
Finance costs	7.3	9.4	(2.1)	(22.3%)
Other	18.8	2.2	16.6	754.5%
Total expenses	**802.1**	**810.8**	**(8.7)**	**(1.1%)**

Employee benefits expenses decreased by $36.7 million (9.1%) to $365.4 million. Salaries of international and national staff based at Headquarters, in more than 50 field and liaison offices worldwide, and in the ten Category I Institutes amounted to $251.8 million (68.9% of employee benefit). A further $30.4 million (8.3%) was spent on temporary personnel to support the delivery of programmes and activities. The remaining $83.1 million (22.8%) relate mainly to medical benefit expenses and accrual of After-Service Health Insurance costs for current and retired staff.

Consultants, external experts and mission costs remain relatively stable with $49.2 million in 2014 compared to $49.9 million in the prior year.

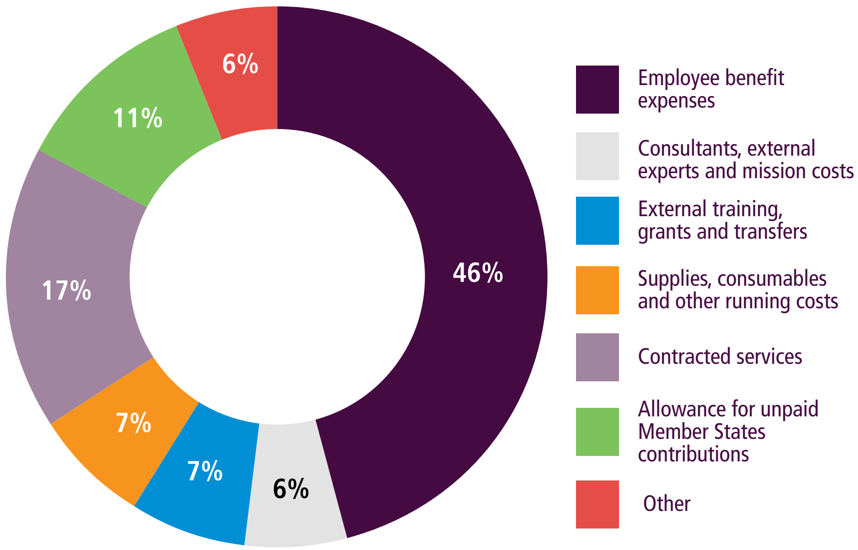
Contracted services of $139.7 million have increased by $8.9 million (6.8%). They represent expenses where a third party entity is engaged to perform work on behalf of the Organization. This could be a contract with a commercial organization, not-for-profit organizations and government ministries for the implementation of activities/programmes under UNESCO's mission and mandate.

The allowance for assessed contribution of $86.5 million represents mainly the unpaid contributions of the current year from the two Member States who have suspended the payment of their contributions to the Organization.

The main variation under other expenses is due to foreign exchange losses amounting to $16.1 million.

FIGURE 3

COMPOSITION OF 2014 EXPENSES BY NATURE



BUDGETARY PERFORMANCE

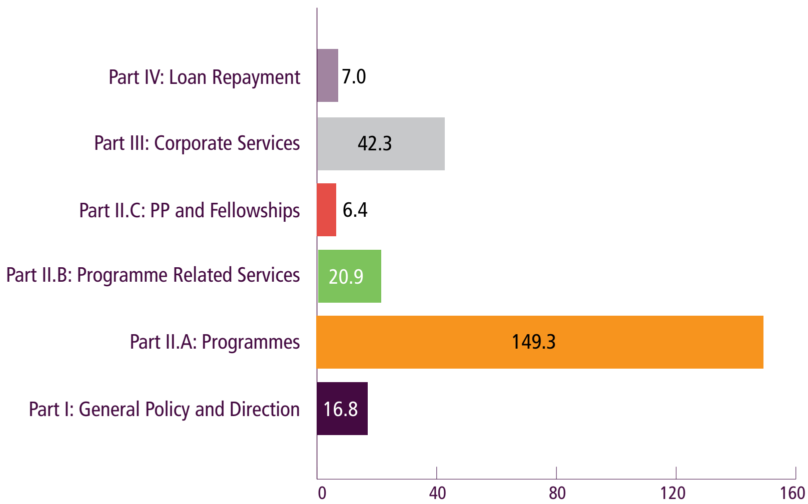
In line with IPSAS, this section analyses only the regular budget (37 C/5) as approved by the General Conference. The core budget of the Organization approved by the General Conference covering the two-year budget period 2014-2015 was $653 million.

The Organization continues to be faced with the suspension of contributions from two Member States amounting to 22.4% of the approved budget of $653 million. The General Conference accordingly approved an expenditure plan of $507 million for the 2014-2015 budgetary period in order to ensure that Organization operates within the expected cash flow.

The budget expenditure for the first year amounted to $242.7 million. As figure 4 shows, the expenditure on Programmes was $149.3 million representing 61.5% of the expenditure.

FIGURE 4

2014 BUDGETARY EXPENDITURE BY APPROPRIATION LINE (IN USD MILLIONS)



FINANCIAL POSITION

The net assets/equity of the main segment, GEF, deteriorated from a negative balance of $274 million in 2013 to $688.9 million as at 31 December 2014, mainly due to the ASHI liability of $1.27 billion. The PFF overall position remained strong with net assets of $369.4 million.

TABLE 3. SUMMARY FINANCIAL POSITION BY FUND

	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
Expressed in '000s US dollars						
Total Assets	683.8	67.3	593.0	33.4	(6.2)	1 371.3
Total Liabilities	(1 372.7)	(14.0)	(223.6)	(8.7)	6.2	(1 612.8)
NET ASSETS/EQUITY	**(688.9)**	**53.3**	**369.4**	**24.7**	**–**	**(241.5)**

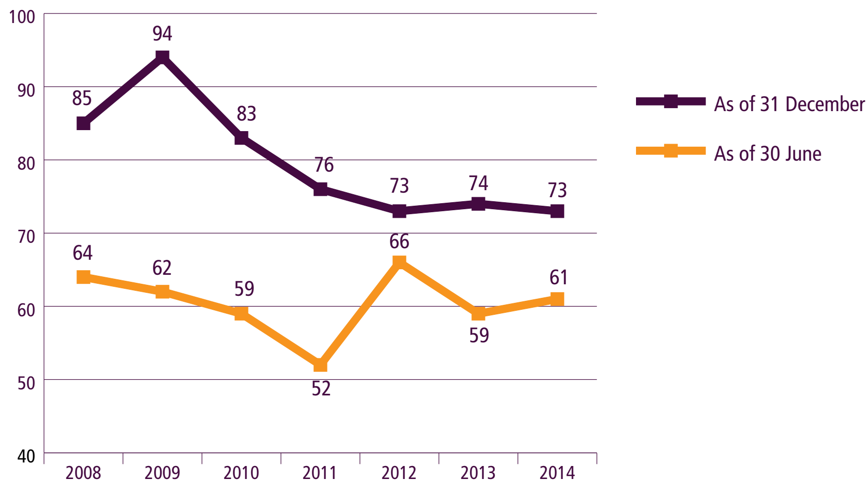
The net working capital (current assets less current liabilities) amounted to $532.9 million. This high level of working capital is attributable to the significant amount of cash held for the execution of extra-budgetary projects. The regular programme segment (GEF) working capital of $54.9 million represents only 10.3% of the overall situation.

CONTRIBUTIONS

The rate of collection of assessed contributions in the year of assessment has slightly decreased to 73% as compared to the previous year (74%).

FIGURE 5

ASSESSED CONTRIBUTIONS COLLECTION RATE (IN % IN THE YEAR OF ASSESSMENT)



Gross outstanding assessed contributions amounted to $353.5 million, an increase of 33% over the previous year's level. Outstanding contributions are due from seventy-one Member States and three Associate Members. One Member State owes 89% ($313.4 million) of the outstanding balance.

The gross assessed contributions are due and payable to the Organization in accordance with the Constitution and Financial Regulations of the Organization and none of the balance is written-off. However, as required under IPSAS, an allowance is made for the non-payment of contributions and the cumulative amount is $335.1 million thus bringing the net assessed contributions in the statement of financial position to $18.4 million.

FIGURE 6

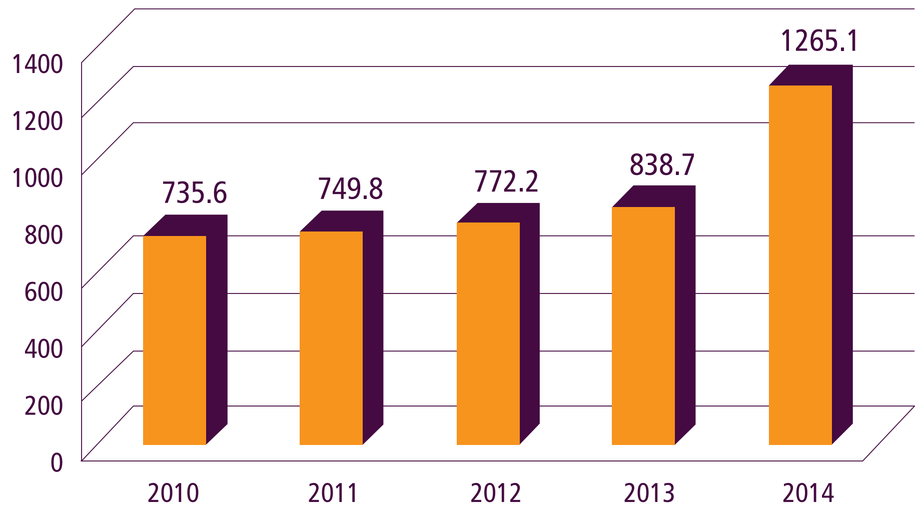
GROSS OUTSTANDING CONTRIBUTIONS VS. ALLOWANCE (IN USD MILLIONS)

AFTER-SERVICE HEALTH INSURANCE (ASHI) LIABILITY

The total liability as at 31 December 2014 amounted to $1 265.1 million, an increase of 50.8% over the 2013 level. Overall, the liability has increased by 72% over the past five years.

FIGURE 7

ASHI LIABILITY (IN USD MILLIONS)



The current status of funding for the ASHI liability is explained in paragraphs 11 to 14.

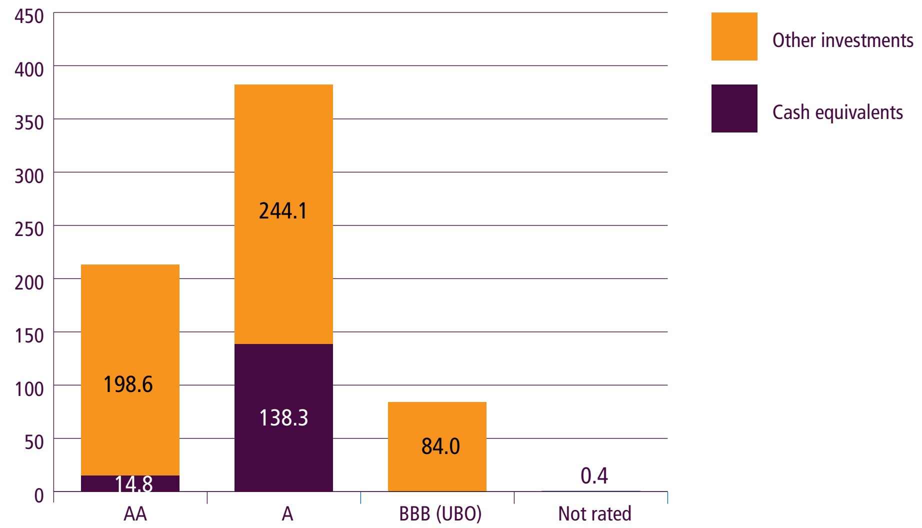
INVESTMENT PORTFOLIO

The investment portfolio of UNESCO amounted to $681.7 million as at 31 December 2014. The portfolio is mainly composed of investments in saving accounts, money market term deposits and other short term investments with major banking institutions with strong credit ratings. A substantial portion of investments with A-rated banks was placed in 'cash equivalent' instruments.

For UNESCO Brasilia (UBO) whose functional currency is the Brazilian Real (BRL), investments were made in short-term BRL Brazilian Government Treasury Bills.

FIGURE 8

RATING BREAKDOWN OF UNESCO'S INVESTMENT PORTFOLIO (IN USD MILLIONS)



Despite UNESCO's conservative risk management approach and a challenging market environment of very low interest rates both in USD and EUR, the investment revenue increased and performance was above the established benchmarks.

Irina Bokova
Director-General

2 | STATEMENT ON INTERNAL CONTROL

STATEMENT ON INTERNAL CONTROL FOR 2014

30 March 2015

Scope of responsibility

As Director-General of the United Nations Educational, Scientific and Cultural Organization (UNESCO), in accordance with the responsibility assigned to me and, in particular, Article 10 of the Financial Regulations, I am accountable for maintaining a sound system of internal control to "ensure the accomplishment of established objectives and goals for operations; the economical use of resources; the reliability and integrity of information; compliance with policies, plans, procedures, rules and regulations; and the safeguarding of assets."

Purpose of the system of internal control

Internal control is designed to reduce and manage rather than eliminate the risk of failure to achieve the Organization's aims and objectives and related policies. Therefore, it can only provide a reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks, evaluate the nature and extent of those risks and manage them efficiently, effectively and economically.

Internal control is a process, effected by the Governing Bodies, the Director-General, senior management and other personnel, and designed to provide reasonable assurance on the achievement of the following internal control objectives:

- Effectiveness and efficiency of operations and safeguarding of assets,
- Reliability of financial reporting and
- Compliance with applicable rules and regulations.

Thus, on an operational level, UNESCO's internal control system is not solely a policy or procedure that is performed at certain points in time, but rather continually operated at all levels within the Organization through internal control processes to ensure the above objectives.

My current statement on UNESCO's internal control processes, as described above, applies for the year ended 31 December 2014, and up to the date of the approval of the Organization's 2014 financial statements.

Risk management and control framework

The Organization is implementing a risk management programme which includes:

- Identification of risks classified according to relevance, impact and probability of occurrence,

- The establishment of a risk management committee whose mandate is to develop action plans to address major risks, to build up an integrated risk management framework, to strengthen risk management capacities and a risk management culture, and to regularly re-evaluate risks and the Organization's tolerance levels in light of the evolving environment, and

- The "Risk Management handbook" setting out the basic concepts and mechanisms underlying risk management and enabling UNESCO staff to set up risk profile as well as a risk management plan as applicable to their Sections, Divisions or Offices.

In addition, a comprehensive "Internal Control System Framework" has been designed and recently reviewed to ensure that the Organization's objectives are achieved efficiently through the establishment of a policy framework for internal control, comprising policies, procedures and processes underpinned by appropriate ethical values. These include, but are not limited to, current and comprehensive manuals for the management and control of administrative processes such as financial management, contracting, travel and human resources.

Furthermore, my senior team and I are committed to a continuous improvement programme to strengthen the system of internal control across the Organization.

Review of effectiveness

My review of the effectiveness of the system of internal controls is mainly informed by:

- My senior managers, in particular Assistant Directors-General, Directors of Bureaux and Offices, Directors and Heads of Established Offices and Institutes away from Headquarters who play important roles and are accountable for expected results, performance, controlling their Sector/Bureaux/Office/Institute's activities and the resources entrusted to them. The information channels mainly rely on periodic meetings held by the Senior Management Team, the Programme Management Committee and the Corporate Services Committee;
- For the year ended 31 December 2014, control issues, together with a remedial action plan, have been identified through a self-assessment process, as confirmed by my senior managers' personal written attestation;
- The Internal Oversight Service, on whose reports of internal audits, evaluations and advisory services I rely. These reports, which are also provided to the Oversight Advisory Committee and summarized in the Internal Oversight Service's annual report, include independent and objective information on the adequacy and effectiveness of the Organization's system of internal controls and programme effectiveness together with recommendations for improvement;
- The Oversight Advisory Committee whose purpose is to advise me on risk management, financial and internal controls and the related functions of oversight;
- The Ethics Advisor who provides confidential advice and counsel to the Organization and its staff on ethics and standards of conduct and promotes ethical awareness and responsible behavior in handling referrals concerning allegations of unethical behavior including conflict of interest;
- The Risk Management Committee;
- The Joint Inspection Unit of the United Nations system which undertakes independent inspections aimed at improving management and economy and achieving greater co-ordination between the UN organizations;
- The external auditor, whose comments are submitted to the Executive Board and the General Conference; and,
- The Governing Bodies' observations.

Significant matter(s) arising during the year

Further to the continued suspension of funding from Member States which had begun in the last quarter of 2011, actions were taken to continue to rationalize the use of limited resources in order to deliver on core programme areas while maintaining an effective internal control system.

In 2014, the Organization conducted a restructuring and redeployment exercise to meet the priorities set within the US $507 million expenditure plan approved by the General conference in November 2013. The outcomes of the exercise have been regularly communicated to Member States with emphasis on the need to move to a more stabilized and sustainable structure to safeguard the ability of the Organization to meet its objectives.

With regards to the field network reform, the Organization has reached agreement so as to the field structure to implement, notably in the Africa region. However, the financial constraint imposed by the US $507 million expenditure plan has led the Organization to forego the establishment of the regional support platform foreseen in Africa. Consequently, the administrative structures of field offices were reviewed taking into account the volume of financial and human resources managed by the offices as well as the level of complexity of local operations. Besides, in duty stations hosting more than one UNESCO entity, single administrative structures are being put in place with a view to efficiency gains. Where administrative structures are minimal a back stopping mechanism from headquarters is put in place to ensure appropriate control mechanisms and support to programme delivery.

Funding of the After-Service Health Insurance (ASHI) liability remains a major financial challenge for the Organization. In 2014, building upon proposals made to the Governing Bodies in order to establish a sustainable funding mechanism for the liability, the Secretariat informed the Executive Board that the Organization will be charging ASHI funding, as from 1 January 2015, to non-regular programme staff. Funding decisions on regular programme staff will be taken by the General Conference at its 38th session.

Conclusion

Effective internal control, no matter how well designed, has inherent limitations – including the possibility of circumvention – and therefore can provide only reasonable assurance. Furthermore, because of changes of conditions, the effectiveness of internal control may vary over time.

I am committed to addressing any weaknesses in internal controls noted during the year brought to my attention and, as reported to the Governing Bodies, several measures are currently being taken through structural adjustments and reinforced capacities.

Based on the above, I conclude that, to the best of my knowledge and information, there are no material weaknesses which would prevent the external auditor from providing an unqualified opinion on the Organization's financial statements nor are there other significant matters arising which would need to be raised in the present document for the year ended 31 December 2014 and up to the date of approval of the financial statements.

Irina Bokova
Director-General

3 OPINION OF THE EXTERNAL AUDITOR

Cour des comptes
FRANCE

The First President

Paris, 24 JUIL. 2015

To the General Conference of the United Nations Educational, Scientific and Cultural Organization (UNESCO)

AUDIT OPINION

We have audited the Financial Statements of the UNESCO for the 12 month period ending 31 December 2014. These financial statements include a Statement of Financial Position as at 31 December 2014, a Statement of Financial Performance, a Statement of Changes in Net Assets, a Statement of Cash Flow, a Statement of Comparison of Budget and Actual Amounts and Notes including a summary of the accounting principles and other information.

By virtue of Article 11.1 of the Financial Regulations, the Director-General is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector Accounting Standards (IPSAS). This responsibility includes the design, implementation and monitoring of internal control procedures to ensure the preparation and the fair presentation of financial statements, free of significant misstatements, resulting either from frauds or errors. This responsibility also includes the determination of fair accounting estimates adapted to the circumstances.

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with the International Standards on Auditing (ISA). These Standards require us to comply with the ethical rules and to plan and perform our audit in order to obtain a reasonable assurance that the financial statements are free from material misstatements.

An audit consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the financial statements. The design of the audit procedures is based on the external auditor's professional judgment, as well as the risk evaluation that the financial statements include significant misstatements, resulting either from frauds or errors. In the context of this risk evaluation, the auditor considers the internal control in place for the preparation and presentation of the financial statements, in order to design appropriate audit procedures and not in order to express any opinion on the internal control. An audit also consists in evaluating that the accounting method applied and the presentation of the financial statements are appropriate and that the significant accounting estimates are reasonable.

.../

Nous estimons que les éléments probants recueillis sont suffisants et appropriés pour fonder raisonnablement notre opinion.

A notre avis, les états financiers donnent une image fidèle de la situation de l'UNESCO au 31 décembre 2014, ainsi que de la performance financière, des flux de trésorerie et de l'exécution budgétaire de l'exercice clos à cette date, conformément aux normes IPSAS.

Didier MIGAUD

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4 APPROVAL OF THE FINANCIAL STATEMENTS

APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

Established by:

Nutan Wozencroft
Chief Financial Officer
30 June 2015

Approved by:

Irina Bokova
Director-General
30 June 2015

5 | CONSOLIDATED FINANCIAL STATEMENTS

I. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

Expressed in '000 US dollars	Note	31/12/2014	31/12/2013 Restated
ASSETS			
Current Assets			
Cash and cash equivalents	6	187 392	220 604
Short-term investments	7	526 103	502 570
Accounts receivable (non-exchange transactions)	8	20 614	19 515
Receivables from exchange transactions	9	2 353	1 724
Inventories	10	946	1 203
Advance payments	11	45 053	40 667
Other current assets	12	4 284	4 727
Total current assets		**786 745**	**791 010**
Non-current assets			
Accounts receivable (non-exchange transactions)	8	1 177	1 364
Long-term investments	7	2 513	2 676
Property, plant and equipment	13	580 696	595 287
Intangible assets	14	196	280
Total non-current assets		**584 582**	**599 607**
TOTAL ASSETS		**1 371 327**	**1 390 617**
LIABILITIES			
Current Liabilities			
Accounts payable (exchange transactions)	15	20 111	19 700
Employee benefits	16	8 842	23 102
Transfers Payable	17	17 705	20 173
Conditions on voluntary contributions	18	45 526	39 619
Advance receipts	19	138 695	148 716
Borrowings current portion	20	7 336	8 283
Other current liabilities	21	15 645	11 287
Total current liabilities		**253 860**	**270 880**
Non-current Liabilities			
Employee benefits	16	1 318 180	882 518
Conditions on voluntary contributions	18	1 552	2 868
Borrowings Long-term portion	20	29 142	39 991
Other non-current liabilities	21	10 078	9 884
Total non-current liabilities		**1 358 952**	**935 261**
TOTAL LIABILITIES		**1 612 812**	**1 206 141**
NET ASSETS		**(241 485)**	**184 476**
NET ASSETS/EQUITY			
Reserves and fund balances	22	(241 485)	184 476
NET ASSETS/EQUITY		**(241 485)**	**184 476**

The accompanying notes form an integral part of these consolidated financial statements.

II. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2014

Expressed in '000 US dollars	Note	31/12/2014	31/12/2013
REVENUE			
Assessed contributions		367 213	358 616
Voluntary contributions		365 095	369 196
Other revenue producing activities		21 097	19 470
Other/miscellaneous revenue		15 430	17 368
Foreign exchange gains		–	2 976
Finance revenue		13 583	11 502
Total revenue	**23**	**782 418**	**779 128**
EXPENSES			
Employee benefit expenses		365 397	402 061
Consultants, external experts and mission costs		49 242	49 882
External training, grants and other transfers		60 489	55 890
Supplies, consumables and other running costs		56 066	58 696
Contracted services		139 714	130 844
Depreciation and amortization		18 633	18 734
Allowance for assessed contributions		86 469	83 058
Other expenses		2 759	2 220
Foreign exchange losses		16 125	–
Finance costs		7 272	9 428
Total expenses	**24**	**802 166**	**810 813**
DEFICIT FOR THE PERIOD		**(19 748)**	**(31 685)**

The accompanying notes form an integral part of these consolidated financial statements.

III. STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

Expressed in '000 US dollars	Note	31/12/2014	31/12/2013
NET ASSETS/EQUITY AT THE BEGINNING OF THE PERIOD		**184 476**	**243 453**
Exchange differences on certain foreign currency transactions	22	(11 466)	(11 495)
Increase in Working Capital Fund	22	–	138
Actuarial gain/(loss)	22	(384 443)	1 866
Other adjustments	22	(1 184)	(14 446)
Return of funds to donors	22	(9 120)	(3 355)
Total of item recognized directly in Net Assets/Equity		**(406 213)**	**(27 292)**
Deficit for the period	22	(19 748)	(31 685)
Total recognized revenue and expense for the period		**(425 961)**	**(58 977)**
NET ASSETS/EQUITY AT THE END OF THE PERIOD		**(241 485)**	**184 476**

The accompanying notes form an integral part of these consolidated financial statements.

IV. CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

Expressed in '000 US dollars	Note	31/12/2014	31/12/2013 Restated
Cash flows from operating activities			
(Deficit) for the period		(19 748)	(31 685)
Depreciation and amortization		18 633	18 734
(Increase) / Decrease in accounts receivable		(2 035)	10 120
Decrease in inventories		198	300
(Increase) in advance payments		(6 184)	(6 987)
(Increase) / Decrease in other current assets		989	(10 596)
Increase / (Decrease) in accounts payable		1 383	(1 328)
Increase in employee benefits		36 447	59 552
(Decrease) in transfers payable		(1 071)	(1 958)
Increase / (Decrease) in borrowings due to revaluations		(5 341)	1 768
Increase in Conditions on voluntary contributions		6 165	4 347
Increase / (Decrease) in advance receipts		(5 728)	53 939
Increase / (Decrease) in other liabilities		(3 319)	7 739
Loss on disposal of property, plant and equipment		(13)	(103)
Net cash flows from operating activities		**20 376**	**103 842**
Cash flows from investing activities			
Purchase of property, plant and equipment		(4 536)	(5 510)
Purchase of intangible assets		–	(44)
Sale of property, plant and equipment		75	468
Decrease / (Increase) in short-term investments		(34 910)	40 196
Decrease / (Increase) in long term investments		163	(407)
Net cash flows from investing activities		**(39 208)**	**34 703**
Cash flows from financing activities			
Repayment of loans		(8 072)	(8 077)
Increase in working capital contributions		–	138
Net cash flows from financing activities		**(8 072)**	**(7 939)**
Net increase/(decrease) in cash and cash equivalents		**(26 904)**	**130 606**
Cash and cash equivalents, beginning of period	6	220 604	89 289
Exchange rate effects		(6 308)	709
Cash and cash equivalents, end of period	**6**	**187 392**	**220 604**

The accompanying notes form an integral part of these consolidated financial statements.

V. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2014 – GENERAL FUND

Main Appropriation Line Expressed in '000 US dollars	2014 Original Allotment	Authorized Transfers[1,2]	Additional Appropriations[3]	2014 Allotment as Adjusted	Actual expenditure	Final Budget less Actual Expenditture
PART I – GENERAL POLICY AND DIRECTION						
A. Governing bodies *(Including General Conference and Executive Board)*	4 051	(224)	100	3 927	3 035	892
B. Direction	9 638	(818)	324	9 144	8 640	504
C. Participation in the joint machinery of the United Nations system	7 380	(1)	–	7 379	5 105	2 274
TOTAL PART I	**21 069**	**(1 043)**	**424**	**20 450**	**16 780**	**3 670**
PART II – PROGRAMMES AND PROGRAMME-RELATED SERVICES						
A. Programmes						
Major Programme I – Education	42 489	98	4 044	46 631	41 474	5 157
Major Programme II – Natural sciences	25 528	(431)	1 259	26 356	21 971	4 385
Major Programme III –Social and human sciences	12 277	(310)	169	12 136	10 633	1 503
Major Programme IV – Culture	22 931	(340)	2 579	25 170	21 648	3 522
Major Programme V – Communication and information	11 517	179	618	12 314	11 808	506
UNESCO Institute for Statistics	3 799	–	–	3 799	3 799	–
Management of Field Offices	41 395	(30)	2 076	43 441	38 004	5 437
Total Part II.A	**159 936**	**(834)**	**10 745**	**169 847**	**149 337**	**20 510**
B. Programme Related Services						
1. Coordination and monitoring of action to benefit Africa	2 089	(50)	69	2 108	2 078	30
2. Coordination and monitoring of action to benefit Gender Equality	732	–	8	740	752	(12)
3. UNESCO's response to post-conflict and post-disaster situation	743	(359)	188	572	486	86
4. Strategic planning, programme monitoring and budget preparation	2 799	772	70	3 641	3 390	251
5. Organization-wide knowledge management	2 382	–	20	2 402	2 367	35
6. External relations and public information	10 598	409	163	11 170	11 847	(677)
Total Part II.B	**19 343**	**772**	**518**	**20 633**	**20 920**	**(287)**
C. Participation Programme and Fellowships	7 157	240	–	7 397	6 424	973
Total, Part II.C	**7 157**	**240**	**–**	**7 397**	**6 424**	**973**
TOTAL PART II	**186 436**	**178**	**11 263**	**197 877**	**176 681**	**21 195**
PART III – CORPORATE SERVICES						
A. Human resources management	14 140	934	–	15 074	13 914	1 160
B. Financial management	6 661	–	–	6 661	6 134	527
C. Management of support services	24 664	(531)	–	24 133	22 214	1 919
TOTAL PART III	**45 465**	**403**	**–**	**45 868**	**42 262**	**3 606**
TOTAL PARTS I-III	**252 970**	**(460)**	**11 687**	**264 197**	**235 724**	**28 472**
PART IV – LOAN REPAYMENTS FOR THE RENOVATION OF THE HEADQUARTERS PREMISES & THE IBE BUILDING	7 037	–	–	7 037	7 031	6
PART V – ANTICIPATED COST INCREASES	3 500	–	–	3 500	–	3 500
TOTAL APPROPRIATION	**263 507**	**(460)**	**11 687**	**274 734**	**242 755**	**31 978**

Note: The budget and accounting basis is different. This Statement of Comparison of Budget and Actual amounts is prepared on the budget basis.
1. Information concerning 'between line' transfers which were approved by the Executive Board can be found in documents 195 EX/Decision 4. 196 EX/4 Part II (Annex 1) gives also information on authorized transfers
2. Between year transfers do not require approval from the Governing Bodies as they do not modify the biennial appropriation lines.
3. Information concerning 'additional appropriations' presented to the Executive Board can be found in documents 195 EX/Decision 4 and 196 EX/4 Part II and INF.2 (Annex II).

VI. NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – **REPORTING ENTITY**

The United Nations Educational, Scientific and Cultural Organization (UNESCO) was created in London on 16 November 1945 by governments of the States Parties to contribute to peace and security by promoting collaboration among the nations through education, science and culture in order to further universal respect for justice, for the rule of law and for human rights and fundamental freedoms which are affirmed for the peoples of the world, without distinction of race, sex, language or religion, by the Charter of the United Nations Organization. As one of the specialized agencies referred to in Article 57 of the Charter of the United Nations Organization, the provisions of Articles 104 and 105 of that Charter concerning the legal status of that Organization, its privileges and immunities, apply in the same way to UNESCO.

UNESCO is governed by a General Conference, consisting of the representatives of its Member States, which determines the policies and main lines of work of the Organization. The Executive Board, which consists of 58 Member States elected by the General Conference, takes, in accordance with the decisions of the General Conference, all necessary measures to ensure the effective and rational execution of the programme of work by the Director-General.

The Organization has its Headquarters located in Paris, France. It is also composed of 50 field offices located around the world, 4 liaison offices in Geneva, New York, Addis Ababa and Brussels, and 10 Category I Institutes, 1 centre and 1 Maison de la paix (Bujumbura) spread worldwide which specialize in the fields of competency of UNESCO.

NOTE 2 – **SIGNIFICANT ACCOUNTING POLICIES**

2.1 BASIS OF PREPARATION

The financial statements have been prepared on an accrual and going concern basis and comply with the requirements of International Public Sector Accounting Standards (IPSAS). Where IPSAS is silent concerning any specific standard, the appropriate International Financial Reporting Standards (IFRS) are applied.

The preparation of financial statements in conformity with IPSAS requires the use of certain critical accounting estimates. It also requires UNESCO management to exercise its judgement in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3 - Critical Accounting Estimates and Judgements.

The accounting policies set out below have been applied consistently in the preparation and presentation of these financial statements.

2.2 CONSOLIDATION

Included within the scope of consolidation for the preparation of the UNESCO financial statements are UNESCO headquarters, field offices, liaison offices, centres and Category I Institutes.

Where Institutes or operations are considered to constitute standalone entities, they are consolidated in the UNESCO financial statements only if they are deemed to be controlled by UNESCO according to the definition of control contained within the IPSAS standards. Under IPSAS, control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

The consolidated Category I Institutes are considered to constitute controlled entities. They are listed in the following table along with their locations and functional currencies:

Institute	Location	Functional Currency
UNESCO International Institute for Educational Planning (IIEP)	Paris (France), Buenos Aires (Argentina) and Dakar (Senegal)	USD
UNESCO International Bureau of Education (IBE)	Geneva (Switzerland)	USD
UNESCO Institute for Lifelong Learning (UIL)	Hamburg (Germany)	EUR
UNESCO Institute for Information Technologies in Education (IITE)	Moscow (Russian Federation)	USD
UNESCO International Institute for Capacity-Building in Africa (IICBA)	Addis Ababa (Ethiopia)	USD
UNESCO International Institute for Higher Education in Latin America and the Caribbean (IESALC)	Caracas (Venezuela)	USD
UNESCO-IHE Institute for Water Education (IHE)	Delft (Netherlands)	EUR
International Centre for Theoretical Physics (ICTP)	Trieste (Italy)	EUR
UNESCO Institute for Statistics (UIS)	Montreal (Canada)	USD
Mahatma Gandhi Institute of Education for Peace and Sustainable Development (MGIEP)	New Delhi (India)	USD

All consolidated entities prepare their accounting information on an accrual and going concern basis and comply with the requirements of IPSAS. The financial performance and financial position of entities whose functional currency is different to the presentation currency of UNESCO consolidated financial statements are translated into the presentation currency of UNESCO (see Note 2.3).

2.3 FOREIGN CURRENCY TRANSACTIONS

The consolidated financial statements are presented in United States (US) dollars, which is the functional currency of UNESCO.

Non-monetary items that are measured in terms of historical cost or fair value in a foreign currency are translated using the United Nations Operational Rate of Exchange (UNORE) prevailing at the date of the transaction or when the fair value was determined. Monetary assets and liabilities that are denominated in foreign currencies are translated into US dollars at the exchange rate prevailing on the date of the statement of financial position. Foreign currency transactions are translated into US dollars using the UNORE prevailing at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

Some entities which are included in the consolidated financial statements of UNESCO have different functional currencies to the US dollar, which are translated for consolidation purposes as follows:

- Assets and liabilities for each statement of financial position presented are translated at the exchange rate prevailing on the date of the Statement of Financial Position;
- Revenues and expenses for each statement of financial performance are translated at exchange rates prevailing at the dates of transactions (UNORE);
- All resulting exchange differences are recognized as a separate component of net assets/equity.

2.4 SEGMENT REPORTING

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. At UNESCO, segment information is based on the principal activities and sources of financing of the Organization. As such, UNESCO reports separate financial information for four segments: the General Fund (GEF), Other Proprietary Funds (OPF), Programme Fiduciary Funds (PFF) and Staff Fiduciary Funds (SFF).

2.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments that are readily convertible to cash and subject to an insignificant risk of changes in value. Cash and cash equivalents held in a fiduciary capacity (Programme Fiduciary Funds and Staff Fiduciary Funds) that can only be used for a specific purpose are considered as restricted.

2.6 INVESTMENTS

UNESCO classifies its investments into the following two categories: loans and receivables and financial assets at fair value through surplus or deficit:

(a) Loans and receivables: these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including term deposits, and term accounts. They are included in current assets, except when they cannot be realized within 12 months after the reporting date which, in that case, are classified as non-current assets. UNESCO's loans and receivables are classified as investments in the Statement of Financial Position (see Note 7 Investments).

(b) Financial assets at fair value through surplus or deficit: a financial asset is classified in this category if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the reporting date. After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognized in the Statement of Financial Performance. Financial assets in this category are classified in investments in the Statement of Financial Position (see Note 7 Investments).

At each reporting date UNESCO assesses whether there is any objective evidence that an investment or group of investments is impaired. Any impairment losses are recognized in the Statement of Financial Performance.

2.7 CONTRIBUTIONS AND OTHER RECEIVABLES

Receivables are measured at fair value less any allowance for estimated irrecoverable amounts. An allowance is established when there is objective evidence, based on a review of outstanding amounts at the reporting date, that UNESCO will not be able to collect all amounts due according to the original terms of the receivables. In establishing the allowance for assessed contributions, the fair value of receivables is calculated as the estimated discounted cash flows arising from receivables to be collected in the future. This discounting approach is not applied to voluntary contributions. Assessed contributions received prior to the commencement of the relevant specified budget period are recorded as an asset and a corresponding advance receipt liability is recognized.

Receivables are classified into current and non-current on the basis of their due date and not on the 'expected amounts' to be received.

2.8 INVENTORIES

Inventories held for sale are valued at the lower of cost and net realizable value. Inventories held for distribution at no or nominal charge or consumption in the production of goods or the provision of services at no or nominal charge are valued at the lower of cost and current replacement cost.

Write downs from cost to current replacement cost or net realizable value are recognized in the Statement of Financial Performance. The cost of inventories is assigned in line with the weighted average cost formula.

2.9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) is carried at cost less accumulated depreciation and impairment. Heritage assets are not recognized in the financial statements, but appropriate disclosure is made in the notes to the accounts.

Additions

The cost of an item of PP&E is recognized as an asset if it is probable that future economic benefits or service potential associated with the item will flow to UNESCO and the cost of the item can be measured reliably. In most instances, an item of PP&E is recognized at its cost. When an asset is donated, it is recognized at fair value as at the date of acquisition. UNESCO applies thresholds when considering whether to capitalize PP&E additions. PP&E is recognized as an asset if it has a cost or fair value of $1,000 or more per unit, unless it is considered to be a Small Attractive Item (such as PCs, laptops, cameras, printers, personal digital assistants) for which a threshold of $300 or more per unit is applied.

Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the asset, and are included in the Statement of Financial Performance.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to UNESCO and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all PP&E other than land, at rates that will write off the cost of the assets over their useful lives. The useful lives of major classes of assets have been estimated as follows:

DEPRECIATION PERIOD – PROPERTY, PLANT & EQUIPMENT

Communications and IT equipment	4 years
Vehicles	5 years
Furniture and fixtures	5 years
Other equipment	5 years
Buildings	15-50 years
Land	N/A

Buildings are analysed by components and different depreciation periods are applied as follows: foundations and walls – 50 years; other structural components – 30 years; fittings – 15 years; technical installations – 25 years. The residual values and useful lives of assets are reviewed and adjusted, if applicable, at each financial year-end.

Impairment

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that the book value of the asset may not be recoverable. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss if any. Any provision for impairment is included in the Statement of Financial Performance.

The 'measurement after recognition' method used for property, plant and equipment is the 'cost model' described in IPSAS 17, paragraph 43, which provides that 'after recognition as an asset, an item of property, plant, and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses'.

2.10 INTANGIBLE ASSETS

Intangible assets are carried at cost less accumulated amortization and impairment. Intangible assets are capitalized in the financial statements if they have a cost exceeding $50,000.

Software acquisition and development

Acquired computer software licenses are capitalized based on costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for use by UNESCO are capitalized as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Amortization

Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will write off the cost or value of the assets over their useful lives. The useful lives of major classes of intangible assets have been estimated as follows:

AMORTIZATION PERIOD – CLASS OF INTANGIBLE ASSET

Software acquired separately	5 years
Software internally developed	5 years
Licenses and rights	2-6 years (or period of license or right if shorter)

2.11 EMPLOYEE BENEFITS

UNESCO recognizes the following categories of employee benefits:

- Short-term employee benefits due to be settled within twelve months after the end of the accounting period in which employees render the related service;
- Post-employment benefits;
- Other long-term employee benefits and
- Termination benefits.

Short-term employee benefits

Short-term employee benefits are expected to be settled within 12 months of the reporting date and are measured at their nominal values based on accrued entitlements at current rates of pay. Short-term employee benefits comprise first-time employment benefits (assignment grants), regular monthly benefits (wages, salaries, allowances) compensated absences (annual leave, sick leave, maternity/paternity/adoption leave) and other short-term benefits (education grant, reimbursement of taxes) and the current portion of long-term benefits provided to current employees. These are treated as current liabilities. Some elements of normally short-term benefits may not be expected to be settled within 12 months of the reporting date. This may be the case with some annual leave entitlements. These elements which are expected to be settled more than 12 months after the end of the reporting date are treated as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material.

Post-employment benefits

Post-employment benefits include pension plans, post-employment medical care, repatriation grants and other lump-sums payable after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans. For defined contribution post-employment plans, the obligation for each period is determined by the amounts to be contributed for that period, and no actuarial assumptions are required to measure the obligation or the expense. Post-employment benefits under defined benefit plans are measured at the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost.

United Nations Joint Staff Pension Fund (UNJSPF)

UNESCO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UNESCO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify UNESCO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence UNESCO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. UNESCO's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

After Service Health Insurance (ASHI)

The After Service Health Insurance programme extends subsidized health insurance coverage to retirees and their dependants under the same health insurance schemes as for active staff based on certain eligibility requirements. The ASHI programme at UNESCO is a defined benefit plan. Accordingly a liability is recognized to reflect the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The valuation as at 31 December 2014 was based on full valuation using the Projected Unit Credit Service Prorate.

Other long-term employee benefits

Other long-term employee benefits are benefits which are expected to be settled more than 12 months after the end of the reporting period. These are treated as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material.

Termination benefits

Termination benefits generally include indemnities for voluntary redundancy, and are expected to be settled within 12 months of the reporting date.

2.12 BORROWINGS

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are currently stated at amortised cost; any difference between the proceeds and the redemption value is recognized in the Statement of Financial Performance over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless UNESCO has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Where UNESCO holds interest-free loans or does not pay interest on loans, the benefit to UNESCO of the arrangement is treated as an in-kind contribution.

2.13 PROVISIONS

Provisions are recognized for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not made for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

2.14 TAX

UNESCO enjoys privileged tax-exemption; as such the Organization's assets, income and other property are exempt from all direct taxation.

2.15 REVENUE RECOGNITION

Accrual accounting under IPSAS does not require the matching of revenue to related expenses. The cash-flows arising from revenue and related expenses can take place in current and future accounting periods.

Non-Exchange Revenue

Revenue from non-exchange transactions is measured based on the increase in net assets recognized. Where the full criteria for recognition of an asset under a non-exchange agreement are not fulfilled, a contingent asset may be disclosed.

Assessed contributions are assessed and approved for a two year budget period. The amount of these contributions is then apportioned between the two years for invoicing and payment. Assessed contributions are recognized as revenue at the beginning of the apportioned year in the relevant two year budget period.

Voluntary contributions and other transfers which are supported by enforceable agreements are recognized as revenue at the time the agreement becomes binding and when control over the underlying asset is obtained, unless the agreement establishes a condition on transferred assets that requires recognition of a liability. In such cases, revenue is recognized as the condition liability is discharged. Voluntary contributions such as pledges and other promised donations which are not supported by binding agreements are recognized as revenue when received.

In-kind contributions of goods that directly support approved operations and activities and can be reliably measured, are recognized and valued at fair value. These contributions include the use of premises and utilities. In-kind contributions of services, such as the services of volunteers, are not currently recognized.

Exchange Revenue

Other sources of revenue from exchange transactions are measured at the fair value of the consideration received or receivable and are recognized as goods and services are delivered.

2.16 EXPENSES

Under accrual accounting, expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity. Expenses are recognized when the transaction or event causing the expense occurs, and the recognition of the expense is therefore not linked to when cash or its equivalent is received or paid.

Non-exchange transactions

Expenses from non-exchange funding agreements are recognized when the funding is legally in force, except where the agreement establishes a condition on transferred assets. In such cases, expenses are recognized as services are performed and the condition on transferred assets fulfilled consistent with the terms of the agreement. Advance payments are amortized based on objective evidence to reflect the risk of non-recovery. Where revenue is recognized from in-kind contributions, a corresponding expense is also recognized in the financial statements.

NOTE 3 – **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in accordance with IPSAS necessarily includes the use of accounting estimates and management assumptions and judgement. The areas where estimates, assumptions or judgement are significant to UNESCO's financial statements include, but are not limited to: post-employment benefit obligations, provisions for litigation, financial risk on inventories and accounts receivable, accrued charges, contingent assets and liabilities, and degree of impairment of fixed assets. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

UNESCO Staff Savings and Loan Services (USLS) is excluded from the UNESCO consolidated financial statements. USLS is not considered to be a controlled entity, as UNESCO does not govern the financial and operating policies of USLS, and does not benefit from its activities. However, as UNESCO is deemed to hold a relationship of significant influence with USLS, appropriate disclosures are made in the Notes to the UNESCO financial statements – see Note 29 Relationships of Significant Influence.

UNESCO leases the land for its headquarters sites at Place de Fontenoy and Rue Miollis from the host government. Under the lease agreements, the lease terms are for 99 years, and can be renewed for unlimited subsequent periods of 99 years.

UNESCO pays a nominal amount in rent for the use of the land. Given that the agreements effectively grant UNESCO the right to use the land at the two sites in perpetuity for a nominal rent, it is considered appropriate to recognize the land as an asset in the UNESCO financial statements – see Note 13 Property, Plant & Equipment.

NOTE 4 – CHANGES IN ACCOUNTING POLICIES

Prior to 2014, short term deposits with a maturity period up to three months were treated as short-term investment. Following a review of IPSAS 2 and 28, these short term investments have been reclassified as cash equivalent.

The effect of the change on the restated Statement of Financial Position for the year ended 31 December 2013 is as follows:

	As Reported	Adjustment	As Restated
Expressed in '000 US dollars			
Cash and cash equivalent	**146 035**	**74 569**	**220 604**
Short term investments	**577 139**	**(74 569)**	**502 570**

The effect of the change on the restated Cash Flow Statement the year ended 31 December 2013 is as follows:

	As Reported	Adjustment	As Restated
Expressed in '000 US dollars			
Decrease / (Increase) in short-term investments	**(33 212)**	**73 408**	**40 196**
Exchange rate effect	**(452)**	**1 161**	**709**
Cash and cash equivalent end of the period	**146 035**	**74 569**	**220 604**

NOTE 5 – SEGMENT INFORMATION

Segment information is based on the principal activities and sources of financing of the Organization. These segments are as follows:

- General Fund (GEF) includes both the General and Working Capital Funds set up in accordance with Financial Regulations 6.1 and 6.2. This segment has been established for the purpose of accounting for the expenditure of the regular programme appropriation voted by the General Conference of UNESCO for a given financial period.
- Other Proprietary Funds (OPF) include revenue-generating activities, programme support costs for special accounts and trust funds, the Staff Compensation Fund, the Terminal Payments Fund, and Headquarters-related special accounts. This segment carries out the programmes, or groups other authorized expenditure, of UNESCO. The funds have been established in accordance with Financial Regulation 6.5 and normally have individual special financial regulations.
- Programme Fiduciary Funds (PFF) includes Institutes, special accounts and trust funds set up in accordance with Financial Regulation 6.5. This segment carries out extra-budgetary programme activities in accordance with the respective agreements signed between UNESCO and donors or other legal authority. The resources of each fund in this segment can only be used for the purposes for which the respective fund has been established.
- Staff Fiduciary Funds (SFF) is the segment that has been established for the benefit of UNESCO's staff members, namely through the Medical Benefits Fund (MBF), the UNESCO Commissary Fund (UCF), the UNESCO Restaurant Service (URS) and the UNESCO Day Nursery and Children's Club (UNC). The resources of each fund in this segment can only be used for the purposes for which the respective fund has been established.

STATEMENT OF FINANCIAL POSITION BY SEGMENT AS AT 31 DECEMBER 2014

Expressed in '000 US dollars	GEF	OPF	PFF	SFF	Inter–fund balances	TOTAL UNESCO
ASSETS						
Current Assets						
Cash and cash equivalents	72 275	48 435	55 144	11 538	–	187 392
Short-term investments	4 077	10 038	492 790	19 198	–	526 103
Accounts receivable (non-exchange transactions)	16 890	–	3 724	–	–	20 614
Receivables from exchange transactions	13	961	481	1 008	(110)	2 353
Inventories	–	478	37	431	–	946
Advance payments	16 915	225	27 410	947	(444)	45 053
Other current assets	2 306	5 641	1 846	128	(5 637)	4 284
Total current assets	**112 476**	**65 778**	**581 432**	**33 250**	**(6 191)**	**786 745**
Non-current assets						
Accounts receivable (non-exchange transactions)	1 177	–	–	–	–	1 177
Long-term investments	–	–	2 513	–	–	2 513
Property, plant and equipment	570 039	1 584	8 970	103	–	580 696
Intangible assets	69	–	127	–	–	196
Total non-current assets	**571 285**	**1 584**	**11 610**	**103**	**–**	**584 582**
TOTAL ASSETS	**683 761**	**67 362**	**593 042**	**33 353**	**(6 191)**	**1 371 327**
LIABILITIES						
Current Liabilities						
Accounts payable (exchange transactions)	4 153	1 217	14 088	763	(110)	20 111
Employee benefits	4 427	667	2 965	783	–	8 842
Transfers Payable	500	11	17 194	–	–	17 705
Conditions on voluntary contributions	750	–	44 776	–	–	45 526
Advance receipts	33 879	542	104 121	153	–	138 695
Borrowings current portion	7 336	–	–	–	–	7 336
Other current liabilities	6 533	1 695	6 544	6 954	(6 081)	15 645
Total current liabilities	**57 578**	**4 132**	**189 688**	**8 653**	**(6 191)**	**253 860**
Non-current Liabilities						
Employee expenses	1 280 378	4 633	33 169	–	–	1 318 180
Conditions on voluntary contributions	1 552	–	–	–	–	1 552
Borrowings long-term portion	29 142	–	–	–	–	29 142
Other non-current liabilities	4 003	5 240	835	–	–	10 078
Total non-current liabilities	**1 315 075**	**9 873**	**34 004**	**–**	**–**	**1 358 952**
TOTAL LIABILITIES	**1 372 653**	**14 005**	**223 692**	**8 653**	**(6 191)**	**1 612 812**
NET ASSETS	**(688 892)**	**53 357**	**369 350**	**24 700**	**–**	**(241 485)**
NET ASSETS/EQUITY						
Reserves and fund balances	(688 892)	53 357	369 350	24 700	–	(241 485)
NET ASSETS/EQUITY	**(688 892)**	**53 357**	**369 350**	**24 700**	**–**	**(241 485)**

STATEMENT OF FINANCIAL PERFORMANCE BY SEGMENT FOR THE YEAR ENDED 31 DECEMBER 2014

Expressed in '000 US dollars	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
REVENUE						
Assessed contributions	363 484	–	3 729	–	–	367 213
Voluntary contributions	18 577	885	346 378	–	(745)	365 095
Other revenue producing activities	69	11 931	2 532	7 403	(838)	21 097
Other / miscellaneous revenue	536	1 317	953	25 943	(13 319)	15 430
Finance revenue	647	4 325	8 181	430	–	13 583
Inter-segment transfers	59	23 100	10 811	–	(33 970)	–
Total revenue	**383 372**	**41 558**	**372 584**	**33 776**	**(48 872)**	**782 418**
EXPENSES						
Employee benefit expenses	228 904	22 316	100 985	26 623	(13 431)	365 397
Consultants, external experts and mission costs	11 579	3 246	36 025	–	(1 608)	49 242
External training, grants and other transfers	26 593	209	44 592	–	(10 905)	60 489
Supplies, consumables and other running costs	23 875	6 115	27 524	2 577	(4 025)	56 066
Contracted services	13 712	3 182	122 731	609	(520)	139 714
Depreciation and amortization	15 338	348	2 875	72	–	18 633
Allowance for assessed contributions	86 469	–	–	–	–	86 469
Other expenses	243	109	2 202	211	(6)	2 759
Foreign exchange losses	10 337	132	3 018	2 638	–	16 125
Finance costs	1 204	27	6 034	7	–	7 272
Inter-segment transfers	331	115	17 931	–	(18 377)	–
Total expenses	**418 585**	**35 799**	**363 917**	**32 737**	**(48 872)**	**802 166**
SURPLUS (DEFICIT) FOR THE PERIOD	**(35 213)**	**5 759**	**8 667**	**1 039**	**–**	**(19 748)**

Note that some internal activities lead to accounting transactions that create inter-segment assets, liabilities, revenue and expenses. Inter-segment transactions are reflected in the Statement of Financial Position by Segment and Statement of Financial Performance by Segment to accurately present these financial statements.

NOTE 6 – **CASH AND CASH EQUIVALENTS**

Expressed in '000 US dollars	31/12/2014	31/12/2013 Restated
Cash with banks	**187 322**	**220 556**
Current cash accounts	34 183	34 155
Sight/Saving accounts	119 839	134 315
Short term deposits	33 300	52 086
Cash in hand	**70**	**48**
Total cash and cash equivalents	**187 392**	**220 604**

As at 31 December 2014, cash and cash equivalents amount to K$187 392 out of which cash held in current bank accounts at headquarters, field offices and institutes accounts for 18% of this total.

The other portion of 82% is invested in sight/saving accounts with daily liquidity and short term deposits.

Short term deposits with an initial maturity period of up to three months were previously recorded as short term investments but are now classified as cash and cash equivalents.

NOTE 7 – **INVESTMENTS**

Expressed in '000 US dollars	31/12/2014	31/12/2013 Restated
Current portion		
Loans and receivables		
Term deposits	396 345	374 552
Term accounts	44 154	27 317
Accrued interests	1 704	779
Fair value through surplus or deficit		
Brazilian Government Treasury Bills (up to 365 days)	83 900	99 922
Total current portion	**526 103**	**502 570**
Non-current portion		
Fair value through surplus or deficit		
Other	2 513	2 676
Total non-current portion	**2 513**	**2 676**
Total investments	**528 616**	**505 246**

Investments classified under loans and receivables are mainly term deposits with a maturity of more than three months but less than one year and term accounts which are investments that may be realized within twelve months. These financial instruments are held with international banking groups which are assigned deposit ceilings in accordance with the Investment Policy of UNESCO.

Other investments are classified at fair value through surplus or deficit. The UNESCO Brasilia Office (UBO) invests in floating-yield Brazilian Government Treasury Bills (*Letra Financeiro do Tesouro*) with a maturity up to 365 days through a dedicated fund in accordance with the Investment Policy of UNESCO. This investment vehicle is classified under current assets and amounts to K$83,900 as at 31 December 2014.

The non-current investment represents the investment portfolio of the Nessim Habif Trust Fund which includes bonds, equity and fixed-income mutual funds. In accordance with the Financial Regulation concerning the Nessim Habif Fund (61 EX/38), the capital of the fund is invested in industrial securities either in Switzerland or in the United States of America.

NOTE 8 – **ACCOUNTS RECEIVABLE (NON-EXCHANGE TRANSACTIONS)**

Expressed in '000 US dollars	31/12/2014	31/12/2013
Assessed contributions (current)	349 986	260 933
Assessed contributions (non-current)	3 488	4 137
Gross assessed contributions	**353 474**	**265 070**
Allowance for assessed contributions (current)	(332 758)	(245 826)
Allowance for assessed contributions (non-current)	(2 311)	(2 773)
Net assessed contributions	**18 405**	**16 471**
Voluntary contributions (current)	3 386	4 408
Voluntary contributions (non-current)	–	–
Total accounts receivable (non-exchange transactions)	**21 791**	**20 879**
Current portion	20 614	19 515
Non current portion	1 177	1 364
Net accounts receivable (non-exchange transactions)	**21 791**	**20 879**

Assessed contributions receivable represent uncollected revenues committed to UNESCO by Member States and Associate Members for completion of the programme of work. Non-current assessed contributions are those contributions which are due more than 12 months after the reporting date. This relates to payment plans agreed.

The allowance for assessed contributions is calculated by providing against the entire balance of arrears up to the bienniun 2012-2013 and unpaid instalments due under payment plans. Outstanding assessed contributions from the current year 2014 and deferred amounts under payment plans are discounted to their present value based on the year in which they are expected to be received.

Expressed in '000 US dollars	31/12/2014	31/12/2013
Arrears not under payment plans:		
1988-2003	3 103	3 103
2004-2005	22	22
2006-2007	25	25
2008-2009	32	32
2010-2011	79 199	79 199
2012-2013	173 598	–
	255 979	**82 381**
Other current assessed contributions	94 007	178 552
Gross assessed contributions (current)	**349 986**	**260 933**
Allowance for arrears	(332 758)	(245 826)
Net assessed contributions (current)	**17 228**	**15 107**
Gross assessed contributions (non-current)	3 488	4 137
Discount for non-current assessed contributions	(2 311)	(2 773)
Net assessed contributions (non-current)	**1 177**	**1 364**
Total net assessed contributions	**18 405**	**16 471**

Specific allowance for an amount of K$317,535 has been made against contributions due from two Member States who have suspended their contributions to the Organization.

NOTE 9 – **ACCOUNTS RECEIVABLE (EXCHANGE TRANSACTIONS)**

Expressed in '000 US dollars	31/12/2014	31/12/2013
Amounts receivable for goods and services	3 540	2 993
Allowance for doubtful accounts	(1 187)	(1 269)
Net receivables from exchange transactions	**2 353**	**1 724**

The allowance for receivables from exchange transactions is an estimated irrecoverable amount based on an aged analysis of outstanding amounts at the reporting date.

NOTE 10 – **INVENTORIES**

Expressed in '000 US dollars	31/12/2014	31/12/2013
Publications	3 286	3 829
Supplies	440	568
Gross inventories	**3 726**	**4 397**
Write-down	(2 780)	(3 194)
Net inventories	**946**	**1 203**

Publications include publications held for sale. Full details of publications held to be distributed at no or nominal charges are not currently available, and therefore costs related to these publications are recognized as expenses as they are incurred. Publications for free distribution generally have short useful lives, and therefore the value of any remaining stock at year end would be significantly depreciated. Supplies include principally restaurant supplies and commissary supplies. Inventories are written down to their net realizable value.

NOTE 11 – **ADVANCE PAYMENTS**

Expressed in '000 US dollars	31/12/2014	31/12/2013
Advances to staff	4 071	4 002
Activity financing advance payments	1 413	1 863
Implementing partner advances	13 556	10 354
IHE advances to project partners	11 488	8 289
Participation Programme advance payments	11 885	13 768
Other advance payments	2 640	2 391
Total advance payments	**45 053**	**40 667**

Advance payments on non-exchange contracts (Financing Activity Contracts, Implementation Partnership Agreements/ Intergovernmental Body Allocation contracts, Participation Programme and IHE projects) relate to transfers made to third parties where the conditions on the transferred assets are yet to be accepted by UNESCO as fulfilled as at 31 December 2014.

Under the Participation Programme, transfers of funds to partners are considered as advance payments until a financial report confirming use of the funds in accordance with the agreement is received and accepted by UNESCO. Advance payments under the Participation Programme can be allocated to biennia as follows:

Expressed in '000 US dollars	31/12/2014	31/12/2013
Biennium		
2008-2009	1 179	1 281
2010-2011	1 376	1 935
2012-2013	1 840	10 552
2014	7 490	–
Participation Programme advance payments	**11 885**	**13 768**

NOTE 12 – **OTHER CURRENT ASSETS**

Expressed in '000 US dollars	31/12/2014	31/12/2013
VAT receivables	2 426	2 772
Other	4 750	4 901
Gross other current assets	**7 176**	**7 673**
Allowance for doubtful accounts	(2 892)	(2 946)
Net other current assets	**4 284**	**4 727**

The VAT receivables relate to value-added tax (VAT) recoverable from fiscal authorities. Other is principally reimbursable income taxes from Governments amounting to K$3,312. An allowance for long outstanding taxes amounting to K$2,892 was recorded.

NOTE 13 – PROPERTY, PLANT AND EQUIPMENT (PP&E)

Expressed in '000 US dollars	Land	Buildings	Comms & IT Equipm't	Vehicles	Furniture and Fix-tures	Other Equipm't	Total
As at January 1, 2014							
Cost or fair value	254 713	383 657	30 198	6 803	3 108	14 542	693 021
Accumulated depreciation	–	(55 060)	(24 926)	(5 426)	(2 663)	(9 659)	(97 734)
Carrying amount	**254 713**	**328 597**	**5 272**	**1 377**	**445**	**4 883**	**595 287**
Movements 12 months to 31 December 2014							
Additions	–	855	2 168	829	155	1 020	5 027
Disposals	–	–	(1 328)	(214)	(9)	(252)	(1 803)
Disposals depreciation	–	–	1 289	197	9	246	1 741
Impairment	–	–	–	–	–	–	–
Depreciation	–	(13 776)	(2 572)	(730)	(192)	(1 279)	(18 549)
Adjustments- Additions	–	–	504	322	30	136	992
Adjustments- Depreciation	–	–	(567)	(322)	(30)	(134)	(1 053)
Exchange adjustments depn	–	65	1 297	25	133	721	2 241
Exchange adjustments cost	–	(329)	(1 527)	(34)	(159)	(1 138)	(3 187)
Total movements 12 months to 31 December 2014	**–**	**(13 185)**	**(736)**	**73**	**(63)**	**(680)**	**(14 591)**
As at December 31, 2014							
Cost or fair value	254 713	384 183	30 015	7 706	3 125	14 308	694 050
Accumulated depreciation	–	(68 771)	(25 479)	(6 256)	(2 743)	(10 105)	(113 354)
Carrying amount	**254 713**	**315 412**	**4 536**	**1 450**	**382**	**4 203**	**580 696**

As at 31 December 2014, UNESCO holds fully depreciated PP&E which is still in use for a gross value of K$20,288.

The carrying value of UNESCO buildings is detailed in the following table:

	Opening Carry Value	Depreciation during the period	Additions during the period	Exchange rate adjustment	Closing Carry Value
Expressed in '000 US dollars	01/01/2014				31/12/2014
7 Place Fontenoy	179 123	(7 616)	–	–	171 507
7 Place Fontenoy - WIP	–	–	855	–	855
1 Rue Miollis	132 809	(5 649)	–	–	127 160
Apartment, place Vauban	5 359	(116)	–		5 243
IBE buidling, Geneva	7 547	(270)	–	–	7 277
Ocampo Villa, Buenos Aires	1 382	(30)	–	–	1 352
IHE building renovation, Delft	2 377	(95)	–	(264)	2 018
Total	**328 597**	**(13 776)**	**855**	**(264)**	**315 412**

Heritage assets

UNESCO also has a significant number of 'Works of Art' (also referred to as heritage assets), including paintings, statues and various other objects, which have been mainly donated by governments, artists and other partners. An internal fund has been set-up to cover accidental damage to these works, which have a considerable intrinsic value. The value of these works is not recognized in the financial statements of UNESCO in compliance with IPSAS 17.

NOTE 14 – INTANGIBLE ASSETS

Expressed in '000 US dollars	Software internally devel-opped	Software acquired externally	Total
As at January 1, 2014			
Cost or fair value	19 532	745	20 277
Accumulated depreciation	(19 532)	(465)	(19 997)
Carrying amount	**–**	**280**	**280**
Movements 12 months to 31 December 2014			
Additions	–	–	–
Disposals	–	–	–
Disposals depreciation	–	–	–
Impairment	–	–	–
Depreciation	–	(84)	(84)
Exchange adjustments depn	–	–	–
Exchange adjustments cost	–	–	–
Total movements 12 months	**–**	**(84)**	**(84)**
As at December 31, 2014			
Cost or fair value	19 532	745	20 277
Accumulated depreciation	(19 532)	(549)	(20 081)
Carrying amount	**–**	**196**	**196**

UNESCO currently only recognizes software as intangible assets, as it is not considered probable that significant future economic benefits from copyrights and intellectual property will flow to UNESCO.

NOTE 15 – ACCOUNTS PAYABLE

Expressed in '000 US dollars	31/12/2014	31/12/2013
Suppliers payable	7 627	7 368
Accruals	11 319	10 990
Other payables	1 165	1 342
Total accounts payable	**20 111**	**19 700**

Suppliers payable relate to amounts due for goods and services for which invoices have been received. Accruals are liabilities for goods and services that have been received or provided to UNESCO during the period and which have not been invoiced or formally agreed with the suppliers.

NOTE 16 – EMPLOYEE BENEFITS

	31/12/2014			31/12/2013
	Actuarial valuation	UNESCO valuation	Total	
Expressed in '000 US dollars				
Payroll and reimbursements	–	8 842	8 842	13 696
Provision for restructuring	–	–	–	9 406
Employee benefits (current)	**–**	**8 842**	**8 842**	**23 102**
After Service Health Insurance	1 265 128	–	1 265 128	838 751
Accumulated annual leave	18 495	573	19 068	16 259
Repatriation benefits	23 402	11	23 413	18 376
Italian end of service benefit	10 571	–	10 571	9 132
Employee benefits (non-current)	**1 317 596**	**584**	**1 318 180**	**882 518**
Total employee benefits	**1 317 596**	**9 426**	**1 327 022**	**905 620**

Employee benefit liabilities are determined by professional actuaries or calculated by UNESCO based on personnel data and past payment experience.

Employee benefits – current

Current or short-term employee benefits include payroll and allowances, death grant, education grant and home leave.

The provision for restructuring of $9.4 million was set aside to cover termination indemnities in respect of staff post abolished under the Organization's restructuring plan. The restructuring exercise was completed in 2014 and all related liabilities settled and the balance of the provision reversed.

Employee benefits – non-current

Non-current employee benefits relate to post-employment and other long-term employee benefits. These include After Service Health Insurance, accumulated annual leave, repatriation benefits and the Italian end of service benefit.

After Service Health Insurance (ASHI) – UNESCO operates the ASHI scheme which is a defined employee benefit plan. Under the scheme, staff retiring from UNESCO, who have reached their fifty-fifth birthday and who have completed at least ten years' of participation in the Medical Benefits Fund as at the date of their separation, may opt to remain (indefinitely) in that Fund as an associate participant with UNESCO continuing to participate in the funding of their contributions. UNESCO performs annually both a long term projection and an actuarial valuation of the ASHI scheme to measure its employee benefits obligation.

Accumulated annual leave (AAL) – UNESCO staff can accumulate unused annual leave up to a maximum of 60 working days. On separation from UNESCO, staff members are entitled to receive a sum of money equivalent to their pay for the period of AAL that they hold at the date of separation.

Repatriation benefits – A staff member who has completed one year of continuous service outside the country of his/her recognized home is entitled upon separation from UNESCO to a repatriation grant payable on the basis of completed years and months of qualifying service outside the country of his/her recognized home. Staff members are also entitled to travel and removal costs for repatriation on separation from UNESCO.

Italian end of service benefit – The Italian end of service benefit (known as *liquidazione*) is a separation lump sum payable to local General Service staff working for UNESCO in Italy. The amount of the payment is based on the number of completed years of service at the time of separation from UNESCO.

Actuarial valuations

Liabilities arising from ASHI, accrued annual leave, repatriation benefits and Italian end of service benefit are determined by actuaries. Actuarial assumptions are required to be disclosed in the financial statements in accordance with IPSAS 25. The following assumptions and methods have been used to determine the value of post-employment and other long term benefits for UNESCO as at 31 December 2014:

Discount rate – ASHI	2.30% – the rate used is based on the Mercer Yield Curve as of 31/12/2014 with a maturity around 24.51years.
Discount rate – Repatriation benefits and Accumulated annual leave	2.30% – the rate used is based on the Mercer Yield Curve as of 31/12/2014 with a maturity around 24.51 years.
Salary scale (including inflation)	0% for professional staff in 2015 and 2.00%for other cases
Pension increase rate (including inflation)	2.00%
Medical cost trend rate (including inflation) – Initial	5.00%
Medical cost trend rate (including inflation) – Ultimate	5.00%
Inflation rate	2.00%
ASHI Plan duration (for discount rate justification purposes)	24.51 years
ASHI	It was assumed that 100% of staff eligible to benefit from the ASHI after service actually claim their entitlement
Repatriation benefits	It was assumed that 75% of staff eligible for repatriation benefits on leaving actually claim their entitlement
Accumulated annual leave	As the accumulation of annual leave by employee historically remains stable year on year, it is assumed that the total accumulated balance is a long–term employee benefit taken by staff members on separation from UNESCO

The following tables and text provide additional information and analysis on employee benefit liabilities calculated by actuaries:

Expressed in '000 US dollars	ASHI	AAL	Repatriation benefits	Italian end of service benefit	Total
Defined benefit obligation at 31/12/2013	**838 751**	**15 716**	**18 376**	**9 132**	**881 975**
Movement for period ended 31/12/2014					
Service cost	31 196	972	691	673	**33 532**
Interest cost	33 140	598	717	319	**34 774**
(Actual gross benefits payments)	(11 427)	(1 770)	(2 173)	(489)	**(15 859)**
Participant contributions	–	–	–	–	–
Actuarial (gain)/loss	374 985	2 953	5 821	468	**384 227**
Foreign exchange difference	(1 516)	(134)	(75)	(1 003)	**(2 728)**
New actuarial valuation	–	159	46	1 471	**1 676**
Defined benefit obligation 31/12/2014	**1 265 129**	**18 494**	**23 403**	**10 571**	**1 317 597**

The actuarial valuation of the defined benefits obligation is determined by discounting the probable future payment required to settle the obligation resulting from employee service rendered in the current and prior periods. The discount rate which reflects the estimated timing of benefit payments is based on market yields, at the reporting date, on Mercer Yield Curves.

Actuarial gains or losses arise when the actuarial assessment differs from the long term expectation on the obligations: they result from experience adjustments (differences between the previous actuarial assumptions and what has actually occurred) and the effects of change in actuarial assumptions.

Actuarial gains or losses relating to the ASHI, AAL and repatriation benefits obligation are accounted for using the 'reserve recognition' approach, and are recognized through net assets/equity in the Statement of Financial Position and in the Statement of Changes in Net Assets/Equity in the year in which they occur.

Actuarial losses recognized directly in net assets/equity are $384.2 million for the year ended 31 December 2014. The significant increase in 2014 of the liability is due to the change in the discount rate from 4% to 2.30%.

The annual expense amounts recognized in the Statement of Financial Performance are as follows:

Expressed in '000 US dollars	ASHI	AAL	Repatriation benefits	Italian end of service benefit	Total
Service cost	31 196	972	691	673	33 532
Interest cost	33 140	598	717	319	34 774
Total expenses recognized for year ended 31/12/2014	**64 336**	**1 570**	**1 408**	**992**	**68 306**

Current service cost is the increase in the present value of the defined obligation resulting from employee service in the current period. Interest cost is the increase during the period in the present value of the defined benefit obligation which arises because the benefits are one period closer to settlement. The other expenses relate to the actuarial gains recognized directly in the Statement of Financial Performance.

Assumed healthcare cost trends have a significant effect on the amounts calculated for the ASHI liability and expenses. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

After Service Health Insurance – healthcare cost trends	Medical cost trend rate 4%	Medical cost trend rate 5%	Medical cost trend rate 6%
Expressed in '000 US dollars			
Defined benefit obligation as at 31/12/2014	894 845	1 248 470	1 759 289
% Variation	(28.32%)		40.92%
Normal cost as of 31/12/2014	28 555	45 019	69 795
% Variation	(36.57%)		55.04%

The expected contribution of UNESCO in 2015 to the ASHI plan is K$10,748 which represents expected gross benefit payments for the year. The expected contribution of UNESCO in 2015 to the accumulated annual leave and repatriation defined benefit plans is K$1,026 and K$865 respectively, which represents expected benefit payments for the year.

United Nations Joint Staff Pension Fund (UNJSPF)

The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

UNESCO financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The actuarial valuation performed as of 31 December 2013 revealed an actuarial deficit of 0.72% (1.87% in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2013 was 24.42% of pensionable remuneration, compared to the actual contribution rate of 23.7%. The next actuarial valuation will be conducted as of 31 December 2015. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5% (130.0% in the 2011 valuation). The funded ratio was 91.2% (86.2% in the 2011 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2013, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Fund, with effect not later than from 1 January 2014. The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as of 31 December 2013.

During 2014, UNESCO's contributions paid to UNJSPF amounted to K$36,406 (2013 K$38,303). Expected contributions due in 2015 are K$34,566.

The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF website at www.unjspf.org.

NOTE 17 – TRANSFERS PAYABLE

Expressed in '000 US dollars	31/12/2014	31/12/2013
Interest payable to donors	17 067	19 709
Other transfers payable	638	464
Total transfers payable	**17 705**	**20 173**

Transfers payable relate mainly to accrued interests payable to donors under extra-budgetary projects for K$17,067.

NOTE 18 – CONDITIONS ON VOLUNTARY CONTRIBUTIONS

Expressed in '000 US dollars	31/12/2014	31/12/2013
Conditions on monetray contributions (current)	44 776	38 506
Conditions on in-kind voluntary contributions (current)	750	1 113
Conditions on voluntary contributions (current)	**45 526**	**39 619**
Conditions on in-kind voluntary contributions (non-current)	1 552	2 868
Conditions on voluntary contributions (non-current)	**1 552**	**2 868**
Total conditions on voluntary contributions	**47 078**	**42 487**

UNESCO recognizes as a liability conditions attached to monetary voluntary contributions. Conditions are imposed by donors on the use of contributions, and include both a performance obligation to use the donation in a specified manner, and an enforceable return obligation to return the donation if it is not used in the specified manner. The amount recognized as a liability is the best estimate of the amount that would be required to settle the obligation at the reporting date. As UNESCO satisfies the conditions on voluntary contributions through performance in the specified manner, the carrying amount of the liability is reduced and an amount of revenue equal to that reduction is recognized.

Conditions on in-kind voluntary contributions relate to the two loans on which UNESCO does not pay interest (see Note 20 Borrowings). The amount recognized as a liability is the total present value of the interest which would normally be payable on a similar loan. As interest free repayments are made by UNESCO over the loan period, the carrying amount of the liability is reduced and an amount of in-kind revenue equal to that reduction is recognized. This liability is allocated between current and non-current based on the period in which the in-kind revenue is expected to be recognized.

NOTE 19 – ADVANCE RECEIPTS

Expressed in '000 US dollars	31/12/2014	31/12/2013
Framework agreements	51 503	57 059
IHE voluntary contributions received in advance	32 936	33 296
Other voluntary contributions received in advance	23 049	24 700
Assessed contributions received in advance	29 580	32 236
Other advance receipts	1 627	1 425
Total advance receipts	**138 695**	**148 716**

UNESCO recognizes as a liability amounts received under non-exchange contracts where a binding agreement is not considered to be in place yet. This is especially relevant to Framework Agreements, where amounts can be received before agreement is reached on the allocation of the contribution.

NOTE 20 – BORROWINGS

Expressed in '000 US dollars	31/12/2014	31/12/2013
IBE building loan	131	146
Phase II Belmont plan loan	7 205	8 137
Current portion of borrowings	**7 336**	**8 283**
IBE building loan	727	927
Phase II Belmont plan loan	28 415	39 064
Long-term portion of borrowings	**29 142**	**39 991**
Total borrowings	**36 478**	**48 274**

Borrowings are recognized in the financial statements at amortized cost with values based on cash flows discounted using a discount rate of 2.20% (Phase II Belmont plan loan) and 3.00% (IBE building loan).

The maturity analysis of the IBE building and Phase II Belmont plan loans is as follows:s:

Expressed in '000 US dollars	31/12/2014	
	IBE buidling loan	Phase II Belmont plan loan
Within three months	–	1 816
Later than three months and not later than one year	131	5 389
Later than one year and not later than five years	601	28 059
Later than five years	126	356
Total borrowings	**858**	**35 620**

IBE Building

UNESCO received loans from the Property Foundation for International Organizations (FIPOI) of Switzerland for the balance of KCHF (thousands of Swiss francs) 4,437 to partly finance the purchase of buildings for the UNESCO International Bureau of Education (IBE). Following a renegotiation of the payment schedule in December 1997 it was agreed to fix the amount of the loan outstanding as of 1 January 1998 at KCHF 3,223 (K$2,270) repayable in equal annual instalments of KCHF 133 from 1998 until 2021, with a final payment of KCHF19 in 2022. The renegotiated loan is interest-free, and for the presentation of the financial statements, in-kind revenue is recognized for the benefit to UNESCO of not paying interest. The non-amortized balance of the loan as at 31 December 2014 is KCHF 954 (KCHF 1,088 as at 31 December 2013).

Phase II Belmont Plan

By 32 C/Resolution 74, the General Conference had 'authorized the Director-General to contract an interest-free loan of K€79,875 with a lender chosen by him in cooperation with the Government of France and to take into account the necessity of making provision in future budgets for the funds required for reimbursement of the sums borrowed.' An agreement was signed on 23 March 2004 between UNESCO, the Caisse des Dépôts et Consignations (CDC) and the Government of France for the interest-free loan which would be drawn in five yearly instalments from 2004 to 2008 and repaid over eight biennia starting in 2006. The loan repayments are fully guaranteed by the Government of France. Under the arrangement, interest costs are paid by the Government of France and for the twelve months to 31 December 2014 these payments totalled K$988 (K$1,075 as at 31 December 2013). For the presentation of the financial statements, in-kind revenue is recognized for the benefit to UNESCO of not paying interest. As at 31 December 2014, the non-amortized balance of the loan is K€31,007 (K€36,996 as at 31 December 2013).

NOTE 21 – OTHER LIABILITIES

Expressed in '000 US dollars	31/12/2014	31/12/2013
Unredeemed coupons	1 155	1 403
Provision for litigation	2 440	398
Other current liabilities	12 050	9 486
Unpaid claims from MBF	5 078	4 758
Outstanding invoices due to claim adminsistrator	1 236	2 387
Return of funds to donors	2 018	761
Deferred income	1 062	1 170
UN invoice	2 149	41
Others	507	369
Other current liabilities	**15 645**	**11 287**
Unredeemed coupons	5 240	5 108
Other non current liabilities	4 838	4 776
Other non-current liabilities	**10 078**	**9 884**
Total other liabilities	**25 723**	**21 171**

An amount of K$6,395 of unredeemed coupons have been issued by UNESCO. The UNESCO coupons programme provides private individuals, institutions or Member States with the possibility of buying, with their local non-convertible currencies, coupons denominated in US dollars and guaranteed by UNESCO. Coupons are used for the purchase of books, publications and material for educational, scientific or cultural purposes, and for paying subscriptions to institutions and university registration fees. UNESCO undertakes to reimburse suppliers accepting these coupons in payment of their invoices. If the recipient of the coupons does not use them, they can send them back for a cash reimbursement or for exchange with coupons bearing a new validity date. The current coupon validity period is four years, however if expired unused coupons are sent to UNESCO, replacement coupons will be issued. Unredeemed coupons are classified between current and non-current based on amounts expected to be redeemed within the next twelve months.

The other non-current liabilities relates mainly to the $4 million available under the 2010-2011 incentive scheme which have been considered as a long term liability following the resolution of the General Conference (37C resolution 79, III.2) to postpone the distribution of the amount until 1 January 2016.

Provision for litigation movements:

Expessed in '000 US dollars	31/12/2014
As at January 1, 2014	
Current portion	398
Non current portion	–
Total	**398**
Movements during the year	
Additions	2 133
Reversals	(91)
Utilizations	–
Other (reclassification)	–
Total movements	**2 042**
As at December 31, 2014	
Current portion	2 440
Non current portion	–
Total	**2 440**

NOTE 22 – NET ASSETS/EQUITY

Expressed in '000 US dollars	31/12/2013	Deficit for the period	Other adjust-ments to reserves	31/12/2014
General Fund Reserves	(314 240)	(35 213)	(4 359)	(353 812)
Working Capital Fund	31 223	–	–	31 223
Restricted Reserves	480 452	15 465	(5 945)	489 972
Currency Exchange Reserves	(22 815)	–	(11 466)	(34 281)
Actuarial gains/losses through reserves	9 856	–	(384 443)	(374 587)
Total reserves and fund balances	**184 476**	**(19 748)**	**(406 213)**	**(241 485)**

Reserves under the main operations of the Organization financed from member States assessed contributions are classified as General Fund reserves.

Working capital Fund corresponds to advances from Member States as determined by the General Conference.

Restricted reserves refer to results from operations under Programme Fiduciary Funds, Other Proprietary Funds and Staff Fiduciary Funds. The use of such reserves is either determined by specific financial regulations or agreements signed with donors.

Currency exchange reserves are exchanges differences arising from the presentation into USD of the financial statements of consolidated entities whose functional currencies are different from USD.

Actuarial gains and losses reserves arise from the valuation of long term employee benefits such as after-service health insurance.

NOTE 23 – **REVENUE**

Expressed in '000s US dollars	31/12/2014	31/12/2013
Total assessed contributions	**367 213**	**358 616**
Voluntary contributions		
Monetary voluntary contributions	333 145	339 562
Inter-organization funds	19 083	14 908
In-kind voluntary contributions	12 867	14 726
Total voluntary contributions	**365 095**	**369 196**
Other revenue producing activities		
Revenue producing activities	8 373	9 093
Income from services rendered	12 724	10 377
Total other revenue producing acivities	**21 097**	**19 470**
Other/miscellaneous revenue		
Other operating gains	2 356	4 023
Contributions to MBF	13 074	13 345
Total other/miscellaneous revenue	**15 430**	**17 368**
Foreign exchange gains	**–**	**2 976**
Total finance revenue	**13 583**	**11 502**
Total revenue	**782 418**	**779 128**

Assessed contributions are recognized as revenue at the beginning of the year to which they are apportioned in the relevant two year budget period. Assessed contributions received in Euros are converted at the UNORE as opposed to the Constant Dollar Rate. As a result of this, the financial statements show a different total value for assessed contributions when compared to the Regular Programme and Budget (see Note 26 Budget).

Voluntary contributions are analysed between monetary voluntary contributions, inter-organization funds and in-kind voluntary contributions. Where an in-kind contribution is recognized as revenue, a corresponding expense is also recognized. In-kind contributions include the use of field office and Institute premises for no or nominal rent, and free utilities, maintenance and communications. In the case of the use of premises, the contribution value is based on the commercial rate for renting the building. In-kind contributions for premises are estimated at K$11,850. In-kind voluntary contributions also include K$1,017 which corresponds to the calculated value to UNESCO of not paying loan interest on the Phase II Belmont plan loan and the IBE building loan.

Revenue producing activities for K$8,373 include principally sales income from the UNESCO Restaurant Service and the UNESCO Commissary Fund. Total Income from services rendered of K$12,724 relates principally to rental services of UNESCO and Institutes premises and facilities.

Finance revenue: 71% of the finance revenue was generated by investments classified at fair value through surplus or deficit, the other 29% being generated by cash equivalents and investments classified as loans and receivables.

NOTE 24 – **EXPENSES**

Expressed in '000 US dollars	31/12/2014	31/12/2013
Employee benefit expenses		
International & National staff	258 931	276 273
Provision for restructuring	(7 078)	9 406
Temporary staff	30 413	35 731
Other personnel costs	83 131	80 651
Total employee benefit expenses	**365 397**	**402 061**
Consultants, external experts and mission costs		
Consultants	30 487	31 058
National professionals	1 104	1 217
Staff mission costs	13 004	13 100
Delegates & external individuals missions	2 253	2 245
Other contracts	2 394	2 262
Total consultants, external experts and mission costs	**49 242**	**49 882**
External training, grants and other transfers		
Financial contributions	11 099	7 856
Grants and fellowships	30 491	28 646
External training and seminars	18 899	19 388
Total External training, grants and other transfers	**60 489**	**55 890**
Supplies, consumables and other running costs		
Communications	3 959	3 241
Equipment	11 011	10 695
Leases	17 732	19 657
Utilities	8 140	7 880
Maintenance and repairs	7 510	8 980
Other supplies	7 714	8 243
Total supplies, consumables and other running costs	**56 066**	**58 696**
Contracted services		
Contracted research	2 693	5 637
Contracted seminars and meetings	7 409	7 745
Contracted document production	539	3 890
Other contracted services	129 073	113 572
Total contracted services	**139 714**	**130 844**
Depreciation and amortization		
Depreciation	18 549	18 480
Amortization	84	254
Total depreciation and amortization	**18 633**	**18 734**
Allowance for assessed contribution	**86 469**	**83 058**
Total other expenses	**2 759**	**2 220**
Total foreign exchange losses	**16 125**	**–**
Total finance costs	**7 272**	**9 428**
Total expenses	**802 166**	**810 813**

Total expenses compared to the previous financial period decreased by $8.6 million.

24.1 EMPLOYEE BENEFIT EXPENSES

International & National staff expenses include salaries, post adjustments, entitlements and pensions and health plan contributions for Professional and General Service category staff. This line also includes movements in the actuarial liability for Accumulated Annual Leave and Repatriation Benefits. Temporary staff expenses include all costs relating to the employment of temporaries and supernumeraries. Other personnel costs include reimbursement of medical claims and the movement in the ASHI actuarial liability where this is recognized in the Statement of Financial Performance. This line also includes staff travel expenses which are not related to mission costs (home leave, family visit, education grant, interview, separation).

Employee benefits decreased by $36.7 million in 2014 compared to 2013. This decrease is due several factors: the unused 2013 provision for restructuring amounting to $7.1 million, a decrease of temporary staff cost by $5.3 million as well as a decrease of international and national staff cost by $17.3 million, of which $5.6 million related to separation indemnities.

24.2 CONSULTANTS, EXTERNAL EXPERTS AND MISSION COSTS

These expenses have decreased by $0.6 million, mainly due to the decrease in consultants costs.

Consultants expenses represent the cost of contracting consultants, including insurance and travel expenses. *Staff mission costs* are the mission and training costs for UNESCO staff, temporaries and supernumeraries. These concern principally travel and per diem expenses. Delegates & external individuals missions are expenses for travel and per diem of representatives, delegates, individuals and others (i.e. non-staff). *Other contracts* concern principally interpreter fees.

24.3 EXTERNAL TRAINING, GRANTS AND OTHER TRANSFERS

These expenses increased by $4.6 million in 2014 compared to 2013. Financial contributions include contributions made to United Nations joint activities, publications, conferences and programme activities. Grants and fellowships include study grants, fellowships, subventions, sponsorships and grant-in-aid. Expenses for external training and seminars are mainly travel and per diem costs for participants.

24.4 SUPPLIES, CONSUMABLES AND OTHER RUNNING COSTS

Communications expenses concern mainly telephone and postal/freight costs. Equipment expenses represent equipment purchases and costs during the year which do not meet the criteria for capitalization as PP&E or Intangible Assets. Leases represents primarily premises rental cost. This line includes the expense which corresponds to the in-kind voluntary contribution for premises provided to UNESCO at no or nominal cost. Maintenance and repairs expenses are mainly those incurred in relation to UNESCO premises. Other supplies include office supplies, and also notably supplies for the UNESCO Restaurant Service and the UNESCO Commissary Fund.

24.5 CONTRACTED SERVICES

Contracted services represent expenses where UNESCO has engaged a third party to perform work on behalf of UNESCO. Major categories of these types of arrangements include research, seminars and meetings and document production. Significant amounts fall within the category other contracted services. It should be noted that under certain arrangements, especially non-exchange contracts with not-for-profit organizations and government ministries for the implementation of activities under UNESCO's mission and mandate, contracts are established which cover several types of services and work which cannot be easily allocated to a single category of contracted services.

24.6 DEPRECIATION AND AMORTIZATION

Depreciation is the expense resulting from the systematic allocation of the depreciable amounts of property, plant and equipment (PP&E) over their useful lives (see Note 13). This relates principally to UNESCO buildings. Amortization is the expense resulting from the systematic allocation of the amortizable amount of intangible assets over their useful lives (see Note 14).

24.7 ALLOWANCE FOR ASSESSED CONTRIBUTION

This amount corresponds to the allowance for unpaid Member States contributions.

24.8 OTHER EXPENSES, FOREIGN EXCHANGE AND FINANCE COSTS

Finance costs of K$7,272 principally include the calculated interest cost of K$1,017 which corresponds to the in-kind revenue recognized for the value to UNESCO of not paying loan interest on the Phase II Belmont plan loan and the IBE building loan (see Note 23 Revenue) as well as the investment interest to donors for K$5,732.

NOTE 25 – CONTINGENT LIABILITIES, COMMITMENTS AND CONTINGENT ASSETS

25.1 LEGAL OR CONTINGENT LIABILITIES

On 31 December 2014, 130 employment cases were pending before the Labour Courts in Brazil. Of these 25 are in the phase of execution of an award against UNESCO. The total amount claimed in the pending cases (BRL 8 million, approximately $3 million) has decreased by approximately BRL 1 million since December 2013 (the number of pending cases decreased by 13). The Organization, at this time, cannot provide an estimate as to the outcome of the above lawsuits nor can it determine the likelihood or the amount of loss or legal costs associated with the outcome.

Four cases are pending before the French Labour court. The total claim represents approximately K€86 per case. The Organization, at this time, cannot provide an estimate as to the outcome of the request to the President of the French Civil Court nor can it determine the likelihood of loss or any cost that might be associated with this outcome.

Four service contracts holders have brought up cases against UNESCO with the Instituto Ecuadoriano Seguridad Social (IESS) of Ecuador. These cases concern social security contributions for service contract holders. Discussions between UNESCO, IESS and the Ecuadorian Ministry of Foreign Affairs are ongoing to address these employment issues.

Staff members have also lodged complaints which are pending before the UNESCO Appeal Board or the International Labour Organization Administrative Tribunal. There were 10 outstanding cases corresponding to $1.7 million. It is highly unlikely, following an assessment of the outstanding cases, that UNESCO would incur financial liabilities for these cases.

25.2 OPERATING LEASE COMMITMENTS

UNESCO enters into operating lease arrangements for the use of field office and Institute premises, and for the use of photocopying and printing equipment. Future minimum lease rental payments for the following periods are:

Expressed in '000 US dollars	31/12/2014	31/12/2013
Within one year	1 786	2 358
Later than one year and not later than five years	1 958	3 121
Later than five years	–	–
Total operating lease commitments	**3 744**	**5 479**

Operating lease arrangements for field office premises can generally be cancelled by providing notice of up to 90 days. Individual operating lease agreements for photocopiers at headquarters generally made under the auspices of the overall long term supply agreements.

Due to construction damages at the façade of IHE building caused by construction activities in front of the building, the lease is extended at 1 year Euribor (including credit margin) and for the remaining value of K€ 4,162.

25.3 CONTINGENT ASSETS

Under a number of existing voluntary contribution agreements, UNESCO will gain control of the voluntary contribution asset (contributions receivable) if certain stipulations set out in the agreement are met by UNESCO. Until the stipulations are met, these assets are not recognized in the Statement of Financial Position. As at 31 December 2014, there are voluntary contributions with an approximate value of K$141,848 (31 December 2013: K$106,596) under existing agreements where it is considered probable that UNESCO will meet the stipulations set out in the agreement.

NOTE 26 – BUDGET

The General Fund is established for the purpose of accounting for the expenditure of the regular programme appropriation voted by the General Conference of UNESCO for a biennium of two consecutive calendar years beginning with an even-numbered year. It is financed from assessed contributions from Member States. Appropriations are available for obligation during the financial period to which they relate and for a further twelve months. The General Fund budget is approved on a modified cash basis, whereby receipts are budgeted when it is planned that cash will be received and expenditures are budgeted when it is planned that payments will be made. The expenditures are classified between General Policy and Direction (Part I), Programmes and Programme Related Services (Part II), Corporate Services (Part III), Loan Repayment (Part IV) and Anticipated Cost Increases (Part V).

The General Conference set $653 million as the level for assessed contributions from the 195 Member States for the 2014-2015 biennium. However, as a result of the decision of two Member States to suspend the payment of their contributions, the General Conference approved a budget expenditure plan of $507 million, thus aiming to reduce the approved biennial budget by 22.4% (or $146 million).

For the year ended 31 December 2014, the allotment including authorized transfers and additional appropriations amounted to $263.5 million (see Statement V).

The original budget of $507 million for the year is adjusted for authorized transfers, additional appropriations to arrive at the final budget for the year. The authorized transfers of $0.46 million represent the transfer of funds between the two years of the budget. The additional appropriations of $11.7 million are voluntary contributions received to support directly the programmes and activities of the regular programme.

26.1 BUDGET RECONCILIATION

UNESCO reports bi-annually to the Executive Board on the status of the budget implementation through the Management Chart.

The budget and the accounting bases differ. The financial statements include all controlled entities for the financial period from 1 January 2014 to 31 December 2014 and a classification based on the nature of expenses is used in the Statement of Financial Performance. The financial statements differ from the budget, which deals with receipts and expenditures relating to General Fund assessments only and classifies expenses by programmes. The budget is prepared on the modified cash basis and the financial statements on the accrual basis. Under the budget, assessed contributions to be received in Euros and the corresponding expenditure are translated into US dollars at the Constant Dollar Rate (CDR). In the financial statements assessed contributions received in Euros and their corresponding expenditure are translated into US dollars using the United Nations Operational Rate of Exchange (UNORE) prevailing at the date of the transaction.

A Statement of Comparison of Budget and Actual Amounts for the General Fund is provided in these financial statements (see Statement V). Reconciliations between the actual amounts on a comparable basis as presented in the Statement of Comparison of Budget and Actual Amounts and the actual amounts in the financial statements for the twelve months ended 31 December 2014 are presented in this Note.

In order to reconcile the budget actual amounts to the financial statements (Cash Flow Statement and Statement of Financial Performance), differences between the budget scope and financial statements scope and budget reporting and financial statements presentation have to be taken into account.

a) Reporting scope (entity) differences
The budget concerns receipts and expenditures relating to General Fund assessments only. The Financial Statements include all UNESCO controlled entities, and as such include results for all Funds and the non-budgetary result for the General Fund. Details of the results of the Other Proprietary Funds, Programme Fiduciary Funds and Staff Fiduciary Funds are shown in Note 5 Segment Information.

b) Basis adjustments
The budget is prepared on the modified cash basis. The financial statements are prepared on a full accrual basis in compliance with IPSAS requirements. In order to reconcile the budgetary result to the Cash Flow Statement, the non-cash elements such as unliquidated obligations and non-received assessed contributions are removed as basis differences. The principal adjustments impacting the reconciliation between the budget and the Statement of Financial Performance are as follows:

- Capital expenditures capitalized and depreciated over useful life under accrual accounting (generally recorded as current year expenses in the budget);
- Under IPSAS, the UNORE is applied as opposed to the CDR;
- Under accrual accounting, employee benefit liabilities are reported in the Statement of Financial Position, and movements in liabilities impact the Statement of Financial Performance;
- Unliquidated obligations are included in budget reporting but are not recognized under accrual accounting.

c) Timing differences
The budget and the financial statements both represent the year to 31 December 2014. As such there are no timing differences in the reconciliation.

d) Presentation Differences
Presentation differences concern differences in the format and classification schemes in the Statement of Cash Flow and the Statement of Comparison of Budget and Actual Amounts.

26.2 RECONCILIATION: BUDGETARY RESULT WITH NET DEFICIT

31/12/2014		
Expressed in '000 US dollars		
Deficit per Statement of Financial Performance		(19 748)
a) Scope differences		
OPF surplus	(5 759)	–
PFF surplus	(8 667)	–
SFF surplus	(1 039)	–
Sub-total		**(15 465)**
GEF deficit		**(35 213)**
b) Accounting basis adjustments		
Revenue		
Constant Dollar adjustment	(36 968)	–
Budgetary allotment adjustment	(61 702)	–
Foreign exchange gain and other non-budgetary income	(2 112)	–
	(100 782)	–
Expenses		
Employee benefits	35 261	–
Constant Dollar Adjustment	18 241	–
Prior budgetary period expenses and accounts adjustment	27 540	–
Allowance for unpaid Member States' contributions	86 445	–
Fixed assets addition, depreciation and amortization	15 161	–
Renovation loan repayment	(7 067)	–
	175 581	–
c) Budget basis adjustment		
Unliquidated obligations	(7 608)	–
Total adjustments	–	**67 191**
Budget result on modified cash basis	–	**31 978**

26.3 RECONCILIATION: BUDGETARY RESULT WITH NET CASH FLOW

31/12/2014	Expressed in '000 US dollars	Operating activities	Investing activities	Financing activities	Total
Actual net surplus as per the Statement of Comparison of Budget and Actual Amounts		**31 978**	–	–	**31 978**
	Unliquidated obligations	7 608	–	–	7 608
Basis differences	Unreceived contributions for year	(92 557)	–	–	(92 557)
	Other basis differences	63 996	–	–	63 996
	Budgetary result with cash basis	**11 025**	–	–	**11 025**
Timing differences		–	–	–	–
Presentation differences		8 998	(926)	(8 072)	–
Entity differences		353	(38 282)	–	(37 929)
Actual amount in the Cash Flow Statement		**20 376**	**(39 208)**	**(8 072)**	**(26 904)**

26.4 UNLIQUIDATED OBLIGATIONS

Expressed in US dollars	31/12/2014	31/12/2013
General Fund		
Commitment portion	4 343	3 550
Accrual portion	3 265	11 460
Unliquidated obligations	**7 608**	**15 010**
Other Proprietary Funds		
Commitment portion	1 486	692
Accrual portion	583	254
Unliquidated obligations	**2 069**	**946**
Programme Fiduciary Funds		
Commitment portion	60 405	46 645
Accrual portion	5 595	4 251
Unliquidated obligations	**66 000**	**50 896**
Total unliquidated obligations	**75 677**	**66 852**

For budgetary purposes UNESCO records ‘unliquidated obligations’. Unliquidated obligations include both budget commitments which have not yet given rise to the delivery of a service at the reporting date, and real accruals for goods and services received but not yet invoiced and for travel which has taken place during the year. Budget commitments are not recorded in the financial statements whereas real accruals are recognized in accordance with IPSAS. GEF unliquidated obligations, except those related to renovation costs, are included in the actual amounts of the General Fund budget expenditure as at 31 December 2014. The table above provides the split of unliquidated obligations between commitments and accruals for goods and services received not yet invoiced and travel costs.

NOTE 27 – **FINANCIAL RISK MANAGEMENT**

Classification

The following tables show the value of UNESCO’s financial assets and financial liabilities outstanding at year end. No financial assets are classified as held to maturity or available for sale as at 31 December 2014.

Expressed in ‘000 US dollars	FV through S&D		Loans & Receivables		Book value	
	2014	2013	2014	2013	2014	2013
Cash and cash equivalents	–	–	187 392	220 604	187 392	220 604
Investments	86 413	102 598	442 203	402 648	528 616	505 246
Receivables: non-exchange transactions	–	–	21 791	20 879	21 791	20 879
Receivables: exchange transactions, net	–	–	2 353	1 724	2 353	1 724
Advances issued	–	–	45 053	40 666	45 053	40 666
Total financial assets	**86 413**	**102 598**	**698 792**	**686 521**	**785 205**	**789 119**

As at 31 December 2014, UNESCO has no outstanding financial liabilities recorded at fair value through surplus or deficit.

Expressed in ‘000 US dollars	FV through S&D	Other financial liabilities		Book value	
		2014	2013	2014	2013
Payables	–	20 111	19 700	20 111	19 700
Transfers payable	–	17 705	20 173	17 705	20 173
Borrowings	–	36 478	48 274	36 478	48 274
Other liabilities	–	9 947	9 138	9 947	9 138
Total financial liabilities	**–**	**84 241**	**97 285**	**84 241**	**97 285**

Fair values

The following table compares the carrying amount and fair value of UNESCO's financial instruments.

Financial assets	2014		2013	
Expressed in '000 US dollars	Carrying amount 2014	Fair value	Carrying amount	Fair value
Investments at fair value through surplus/deficit	86 413	86 413	102 598	102 598
Investments classified as Loans and Receivables	442 203	442 158	402 648	402 416
Cash and cash equivalents	187 392	187 392	220 604	220 604
Receivables	24 144	24 144	22 603	22 603
Total	**740 152**	**740 107**	**748 453**	**748 221**

The carrying value of other financial liabilities is a reasonable approximation of their fair value.

The fair value of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The following methods and assumptions were used to estimate the fair values:

- Cash and cash equivalents, term deposits, receivables, payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments
- The fair value of term accounts for which there is a liquidity option and a penalty in case of early exit, takes into account such penalty when it is not already integrated in the carrying value.
- Fair value of quoted fixed income securities is based on price quotations at the reporting date. The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Fair value of financial assets is derived from quoted market prices in active markets, if available.

Fair value hierarchy

Three fair value hierarchies are defined by IPSAS based on the significance of the inputs used in the valuation as:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as price) or indirectly (derived from prices)
- Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2014, the Organization held the following financial instruments measured at fair value through surplus and deficit:

Expressed in '000 US dollars	Level 1		Level 2	Level 3
	2014	2013		
Investments	86 413	102 598		
Total	**86 413**	**102 598**		

UNESCO's risk management policies along with its Investment Policy and Financial Rules and Regulations aim to minimize potential adverse effects on the resources available to UNESCO to fund its activities. In particular, the primary objective of UNESCO's Investment Policy is the preservation of the value of resources of the Organization in US dollar terms. Within this general objective the principal considerations for investment management are, in order of priority: security of principal; liquidity; and rate of return. UNESCO has an Investment Committee comprising senior management which meets at least twice a year to review its investment portfolio performance and to ensure that investment decisions are in compliance with the established investment guidelines.

27.1 CREDIT RISK

Credit risk is the risk of financial loss to the Organization if customers or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from UNESCO's cash and cash equivalents, investments, and receivables.

Investments, cash and cash equivalent

UNESCO utilizes credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's and Fitch, to evaluate credit risk on its financial instruments. The investment management function is centralized at UNESCO headquarters, and field offices and institutes are not permitted in normal circumstances to engage in investing.

In accordance with its Investment Policy, UNESCO applies limits on bank exposures based on the following criteria: a minimum short term rating of A-1/P-1/F1, a minimum long term rating of A-/A3/A-, a minimum Tier One capital of $1.5 Billion and all banks should be established in a country with a long term rating of AA-/Aa3/AA-.

However, funds in Brazilian Real can be invested in Brazilian Government Treasury Bills up to one year. The credit risk associated with these investments is the sovereign risk of Brazil which is rated BBB+/Baa2/BBB by major rating agencies as 31 December 2014.

Cash and cash equivalent are principally held with reputable financial institutions that have a sound credit rating and, therefore, UNESCO has only reasonable exposure to credit risk. The table below summarizes the credit quality of UNESCO's investments, cash and cash equivalents.

Credit rating	2014				2013	Variation
Expressed in '000 US dollars	Cash & cash equivalent	Money market instruments classified as Loans & receivables	Bonds at Fair Value through surplus & deficit	TOTAL		
AA/A2/AA	14 801	198 231	413	213 445	264 175	(50 730)
A/A2/A	165 428	243 972	93	409 493	350 900	58 593
BBB/baa2/BBB	2 693		83 995	86 688	107 116	(20 428)
N/A	4 470		381	4 851	2 201	2 650
Total	**187 392**	**442 203**	**84 882**	**714 477**	**724 392**	**(9 915)**

Receivables

Receivable are mainly from sovereign Member States. An allowance is established when there is objective evidence, based on a review of outstanding amounts at the reporting date that a state will not comply with the original terms of the receivables.

27.2 LIQUIDITY RISK

Liquidity risk is the risk of the Organization not being able to meet its obligations as they fall due. As shown in the tables below, UNESCO's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due. The Organization ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts.

Expressed in '000 US dollars	2014	Percentage	2013	Percentage
Current investments, cash and cash equivalents	**713 495**	**99,6%**	**723 174**	**99.6%**
Cash and cash equivalents	187 392	26.2%	220 604	30.4%
Current investments	526 103	73.5%	502 570	69.2%
Non-current investments	**2 513**	**0.4%**	**2 676**	**0.4%**
Total investments, cash and cash equivalents	**716 008**	**100.0%**	**725 850**	**100.0%**

The breakdown of liabilities by maturity is shown below:

	2014		2013	
Expressed in '000 US dollars	≤ 12 months	>12 months	≤ 12 months	>12 months
Payables	20 111	–	19 700	–
Transfers payable	17 705	–	20 173	–
Borrowings	7 336	29 142	8 283	39 991
Other liabilities	4 707	5 240	4 030	5 108
Total liabilities	**49 859**	**34 382**	**52 186**	**45 099**

27.3 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value of a financial instrument fluctuates due to changes in foreign exchange rates. UNESCO is exposed to foreign exchange risk on revenues and expenses denominated in foreign currencies, predominately Euros along with minor exposure to other currencies.

The Split Assessment system, whereby the Organization receives a portion of regular programme assessed contributions in Euros in order to cover expenses which are denominated in that currency, is a means of ensuring that most of the exposure to exchange fluctuations between Euros and US dollars is mitigated. In addition, the Organization has field offices, centres and institutes worldwide and, consequently, UNESCO maintains a minimum level of assets in local currencies to minimize foreign exchange risk.

Extrabudgetary foreign currency exchange risk is managed through individual project budget planning for foreign currency expenditure. UNESCO Brasilia's functional currency is the Brazilian Real. As revenue and expenses for UBO are in the same currency, there is limited exposure to foreign currency exchange risk.

27.4 INTEREST RATE RISK

The Organization is exposed to interest rate risk on its financial interest bearing assets. For cash and cash equivalents, term deposits and other investments, the Investment Committee regularly follows up that the rate of return is in line with the benchmarks set up in the Investment Policy. In addition, the interest rate risk is very limited by the nature of investments as most of the investments are held until maturity.

Interest rate sensitivity analysis

	Increase (+) / decrease (-) in basis point	Effect on surplus/deficit before tax in '000 US dollars	
		2014	2013
Financial assets			
Investments	50	2 626	2 505
	(50)	(2 626)	(2 505)
Cash & cash equivalents	50	766	932
	(50)	(766)	(932)

27.5 MARKET RISK

Market risk is the risk of losses arising from movements in market prices other than those detailed above. This risk is not significant to UNESCO as the exposure is limited to an equity investment that amounted to K$1,531 at the end of 2014 (K$1,459 at the end of 2013).

NOTE 28 – EVENTS AFTER THE REPORTING DATE

UNESCO's reporting date is 31 December 2014. The financial statements were authorized for issue on 31 March 2015, the date at which they were submitted to the External Auditor by the Director-General. On the date of signing these accounts, there have been no material events, favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issue that would have impacted these statements.

NOTE 29 – RELATIONSHIPS OF SIGNIFICANT INFLUENCE

The UNESCO Staff Savings and Loan Service (USLS) was created in 1954 as the UNESCO credit union. The object of USLS is to provide the possibility to its members on a mutualist basis of investing their savings and of borrowing money for suitable purposes. The UNESCO Staff Savings and Loan Service Fund, is established as a trust fund, under Financial Regulation 6.5.

USLS is operated for the benefit of its members. The net profit remaining after providing for the reserve is allotted to the payment of interest to the depositors. A statutory reserve is established for the purpose of compensating for any loss sustained in the operations of USLS. UNESCO is considered to exercise significant influence in relation to USLS, notably through its representation on the Board of Management, and its right of veto over decisions of the Board of Management. UNESCO does not control USLS, and therefore USLS is not included in the UNESCO consolidated financial statements. No interest in USLS is recorded in the UNESCO consolidated financial statements. Summary aggregate financial information of USLS is provided below:

Expressed in '000 US dollars	31/12/2014	31/12/2013
Revenue	7 494	5 295
Expenses	(1 476)	(1 399)
Interest apportionment on deposit accounts	(6 018)	(3 896)
Deficit (apportioned to reserves)	–	–
Assets	556 283	614 781
Liabilities	526 795	583 477
Net assets/equity	**29 488**	**31 304**

Note that USLS financial statements are prepared in Euros.

NOTE 30 – RELATED PARTY DISCLOSURES

30.1 GOVERNING BODIES

UNESCO is governed by a General Conference, consisting of the representatives of the Member States of the Organization. They do not receive any remuneration from the Organization.

The General Conference elects the 58 Member States which form the Executive Board. The Executive Board assures the overall management of UNESCO and meets twice a year. The Organization pays for travel costs, subsistence allowance and office expenses to cover costs incurred by the representatives of the Member States in the execution of their duties as Members. The Chairman of the Executive Board receives a representation allowance during his term of office as Chairman.

Representatives of Member States are appointed separately by the Government of each Member State, and are not considered as key management personnel of UNESCO as defined under IPSAS.

30.2 KEY MANAGEMENT PERSONNEL

Key management personnel of UNESCO are the Director-General, the Deputy Director-General, the Assistant Directors-General and the Directors of the Central Services as they have the authority and responsibility for planning, directing and controlling the activities of UNESCO.

The aggregate remuneration paid to key management personnel includes: net salaries, post adjustment, entitlements such as representation allowances and other allowance, grants and subsidies, and employer pension and health insurance contributions.

Key management personnel qualify also for post-employment benefits, such as after-service health insurance, repatriation benefits and payment of unused annual leave. The actuarial assumptions applied to measure such employee benefits are disclosed in Note 16.

Key management personnel are ordinary members of UNJSPF with the exception of one staff member who does not participate in to the Fund. Amounts paid by UNESCO in lieu of contributions to the plan, which represents 15.8 per cent of the pensionable remuneration, are included in total remuneration.

	31/12/2014						
Number of individuals	Compen-sation and post adjustment	Entitlements (Allowances, Grants and subsidies)	Pension and Health Plans	Total Re-muneration 2014	Outstanding advances against en-titlements	Outstanding loans	Reimburse-ment of US Income Tax
	Expressed in US dollars						
Key Management Personnel							
20	4 025 049	529 582	960 515	5 515 146	126 183	–	–

The Director-General is also provided with rent-free accommodation in the UNESCO owned apartment at Place Vauban.

Advances are those made against entitlements in accordance with staff rules and regulations. Loans granted to key management personnel are those granted under staff rules and regulations. Advances against entitlements and loans are widely available to all UNESCO staff.

30.3 CATEGORY 2 INSTITUTES

Institutes and centres under the auspices of UNESCO (category II) are entities which are not legally part of the Organization, but which are associated with it through formal arrangements approved by the General Conference (171 EX/18 page 17).

During the year-ended 31 December 2014, UNESCO entered into contracted arrangements with some of these Institutes. The total amount invoiced to UNESCO for the year is K$525.

6 | UNAUDITED ANNEXES

ANNEX I

UNESCO *EX GRATIA* PAYMENTS

Financial Regulations 10.3 states that ex gratia payments shall be notified to the General Conference with the final accounts. No ex gratia payments were recorded during the financial year ended 31 December 2014.

ANNEX II

WAIVERS GRANTED FOR CONTRACTS SUBMITTED TO THE CONTRACTS COMMITTEE – 2014

In accordance with 176 EX/Decision 39.7 (c), information on waivers granted after review by the Contracts Committee during 2014 is as follows:

	2014							
	Regular Programme		Extrabudgetary		Both RP/ EXB		TOTAL	
	Contracts Approved	$	Contracts Approved	$	Contracts Approved	$	Contracts Approved	$
Total Contracts Approved	17	7 832 071	56	48 306 938	12	5 819 304	85	61 958 313
Total Waivers Approved	3	671 500	1	271 029	2	998 073	6	1 940 602

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