



United Nations
Educational, Scientific and
Cultural Organization

2012

FINANCIAL REPORT & AUDITED CONSOLIDATED FINANCIAL STATEMENTS



FINANCIAL REPORT & AUDITED CONSOLIDATED FINANCIAL STATEMENTS



FINANCIAL REPORT
AND AUDITED
CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012

Published in 2013 by the United Nations Educational,
Scientific and Cultural Organization
7, place de Fontenoy, 75352 Paris 07 SP, France

© UNESCO 2013
All rights reserved

Cover photos

From top left to bottom right:

© M. Hofer, UNESCO. Kitchoro, Democratic Republic of the Congo.

© CC_flickr_rRMTip21. Nano science lab at university of central florida.

© 2008 by Central Institute of Buddhist Studies, Ladakh, Jammu and Kashmir.

© Archivo CASV/C. de Juan, 2007. Safeguarding the Underwater Cultural Heritage, Bou Ferrer wreck,
Alicante, Spain.

© 2006 by Acervo PCR. Intangible Cultural Heritage of Humanity, Brazil.

Printed in France

BFM-2013/WS/1 (1860.13)

CONTENTS

REPORT OF THE DIRECTOR-GENERAL ON THE FINANCIAL STATEMENTS OF UNESCO FOR THE YEAR ENDED 31 DECEMBER 2012	5
OPINION OF THE EXTERNAL AUDITOR	19
APPROVAL OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012	23
CONSOLIDATED FINANCIAL STATEMENTS	27
I. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012	29
II. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2012	30
III. STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012	31
IV. CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012	32
V. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2012 – GENERAL FUND	33
VI. NOTES TO THE FINANCIAL STATEMENTS	34
NOTE 1 – REPORTING ENTITY	34
NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES	34
NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS	38
NOTE 4 – SEGMENT INFORMATION	39
NOTE 5 – CASH AND CASH EQUIVALENTS	42
NOTE 6 – INVESTMENTS	42
NOTE 7 – ACCOUNTS RECEIVABLE (NON-EXCHANGE TRANSACTIONS)	43
NOTE 8 – ACCOUNTS RECEIVABLE (EXCHANGE TRANSACTIONS)	43
NOTE 9 – INVENTORIES	44
NOTE 10 – ADVANCE PAYMENTS	44
NOTE 11 – OTHER CURRENT ASSETS	44
NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (PP&E)	45
NOTE 13 – INTANGIBLE ASSETS	46
NOTE 14 – ACCOUNTS PAYABLE	46
NOTE 15 – EMPLOYEE BENEFITS	46
NOTE 16 – TRANSFERS PAYABLE	49
NOTE 17 – CONDITIONS ON VOLUNTARY CONTRIBUTIONS	49
NOTE 18 – ADVANCE RECEIPTS	50
NOTE 19 – BORROWINGS	50
NOTE 20 – OTHER LIABILITIES	51
NOTE 21 – NET ASSETS/EQUITY	51
NOTE 22 – REVENUE	52
NOTE 23 – EXPENSES	53
NOTE 24 – CONTINGENT LIABILITIES, COMMITMENTS AND CONTINGENT ASSETS	55
NOTE 25 – BUDGET	55
NOTE 26 – FINANCIAL RISK MANAGEMENT	57
NOTE 27 – EVENTS AFTER THE REPORTING DATE	58
NOTE 28 – RELATIONSHIPS OF SIGNIFICANT INFLUENCE	58
NOTE 29 – RELATED PARTY DISCLOSURES	58
UNAUDITED ANNEXES	61
ANNEX I – UNESCO <i>EX GRATIA</i> PAYMENTS	63
ANNEX II – WAIVERS GRANTED FOR CONTRACTS SUBMITTED TO THE CONTRACTS COMMITTEE – 2012	64
ANNEX III – STATEMENT OF INTERNAL CONTROL FOR 2012	65

1

REPORT OF THE
DIRECTOR-GENERAL
ON THE FINANCIAL
STATEMENTS OF UNESCO
FOR THE YEAR ENDED
31 DECEMBER 2012

1. 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 United Nations Educational, Scientific and Cultural Organization (UNESCO) for the year ended 31 December 2012.

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 2012.

2. 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 I 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 I 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 were 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.

3. ORGANIZATIONAL BACKGROUND, OBJECTIVES & STRATEGY

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, 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 8 Associate Members as at 31 December 2012.

The current Medium-Term Strategy (34C/4) sets out the strategic vision and programmatic framework for UNESCO's actions over the period 2008-2013 built around the following mission statement: "As a specialized agency of the UN, UNESCO contributes to the building of peace, the eradication of poverty, sustainable development and intercultural dialogue through education, the sciences, culture, communication and information". The strategy defines two global priorities- Africa and gender equality; and five overarching objectives:

- Attaining quality education for all and lifelong learning;
- Mobilizing science knowledge and policy for sustainable development;
- Addressing emerging social and ethical challenges;
- Fostering cultural diversity, intercultural dialogue and a culture of peace;
- Building inclusive knowledge societies through information and communication

The Medium-Term Strategy also specifies fourteen strategic programme objectives. These are then translated into programmatic priorities for three subsequent biennial programme and budget documents (C/5 documents) through main lines of action, for which expected results are defined and adopted by the General Conference.

Throughout the current financial period, the Organization continued to make significant efforts in a very challenging financial environment to ensure programme delivery towards the attainment of objectives as set out in the 36 C/5 (Approved Programme and Budget 2012-2013). The scope of activities under each expected result in the 36 C/5 has been significantly reduced due to cash flow restrictions.

Looking forward, the Organization is in the process of elaborating a new Medium-Term Strategy for the period 2014 to 2021. This Strategy will be adopted by the General Conference at its 37th Session.

4. SIGNIFICANT EVENTS

The Organization's operations for the current financial period were significantly impacted by the decision in 2011 of the largest contributing Member State to suspend its contribution to the regular budget. Consequently, the budgetary appropriation for the budget period 2012-2013 was reduced by \$188 million representing 29% of the total budget of \$653 million.

This sharp budget reduction has affected many areas and prevented the organization from delivering on some of its priorities. Many activities under the Major Programmes (Education, Science, Culture, Social and Human Science, Communication and Information) had to be delayed, postponed or cancelled. Of the 1,852 established staff posts (after abolishing 41) under the regular budget, 311 posts were maintained as vacant as at 31 December 2012.

A total amount of \$68.2 million was raised under The Special Emergency Multi-Donor Fund for UNESCO Priority Programme and Reform Initiatives. This fund was set up to raise voluntary contributions to implement programmes and reform initiatives which can no longer be funded from the core budget.

5. FINANCIAL STATEMENT HIGHLIGHTS

Overall, net assets decreased by \$6.9 million (3%) to \$243.5 million, mainly due to the deficit for the period.

Total current assets of \$716 million decreased by \$10.3 million (1.4%). Short-term investments, cash and cash equivalents of \$646 million represent 90% of the current assets. Cash and cash equivalent decreased by \$25 million (22%) but short-term investments increased by \$23 million (4%). The remaining current assets, which are mainly advance payments under the participation programme, decreased by \$8.7 million (11%).

The increase of \$22.4 million (2.6%) in non-current liabilities is attributable to the increase of the After-Service Health Insurance (ASHI) liability for active and retired staff. The ASHI liability of \$777.2 million is unfunded.

The consolidated deficit for the year ended 31 December 2012 is \$14.0 million compared to a deficit of \$204.4 million in the previous financial year. The regular programme operations generated a deficit of \$53.5 million, whereas the other combined operations generated a surplus of \$39.5 million. The decrease in the consolidated deficit compared to the previous year is due to the substantial decrease of expenditure under the regular programme and the significant amount of contributions received under extrabudgetary funding.

Total revenue amounted to \$792.2 million, an increase of 8% over last year. Expenditure decreased significantly by \$131.7 million (14%) to \$806.2 million.

The growth in revenue from voluntary contributions of \$82.1 million (27%) was mainly due to contributions received to cover the funding gap of the regular programme. The Organization, for the first time in many years, has received more contributions from voluntary sources than Member States' assessed contributions.

6. FINANCIAL PERFORMANCE

BUSINESS SEGMENT ANALYSIS

As shown in Table 1, the regular programme segment (GEF) recorded a deficit of \$53.5 million compared to a deficit of \$123.2 million in the previous financial period. The deficit is due mainly to the post-employment benefits expenses of \$50.2million which are unfunded. A significant amount of the post-employment expenses is attributable to the After-Service Health Insurance (ASHI) scheme. Though an allowance of \$79.3 million was

made against unpaid assessed contributions, the Organization reduced expenditure to match the allowance. The Organization was not fully able to reduce expenditure in 2011 to absorb the budgetary shortfall arising from the suspension of contributions by a Member State. This, together with the budget surplus carried forward from 2010 led to a higher deficit in 2011 compared to the current financial period.

TABLE 1. SUMMARY FINANCIAL PERFORMANCE BY FUND

	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
	\$m	\$m	\$m	\$m	\$m	\$m
Total Revenue	368.7	35.5	399.1	33.3	(44.4)	792.2
Total Expenses	(422.2)	(36.3)	(361.7)	(30.4)	44.4	806.2
(Deficit)/Surplus- 2012	(53.5)	(0.8)	37.4	2.9	–	(14.0)
(Deficit)/Surplus- 2011	(123.2)	3.6	(78.7)	(6.1)	–	(204.4)

The OPF segment has been impacted by the reduced operations of the regular programme. Revenue for services such as translation, document production as well as finance income from investments decreased at a much higher rate than expenses. Consequently, the segment generated a deficit of \$0.8 million compared to a surplus of \$3.6 million in the previous period.

As a result of the funding gap under the GEF segment, the Organization created the Emergency Fund to receive voluntary contributions to finance UNESCO priority programmes and reform initiatives. The positive result, a surplus of \$37.4 million, recorded under the PFF segment is largely attributable to the favourable responses to the appeal in extra funding.

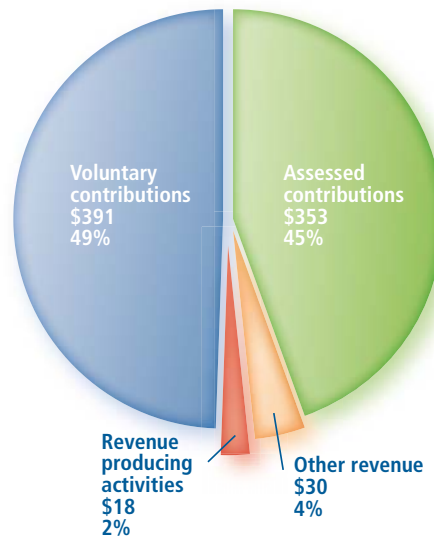
Following approval by the General Conference at its 36th Session, the contribution rates for the Medical Benefit Fund were increased in order to generate enough income to cover benefit payments. As a result, the fund generated a net surplus of \$3.6 million (compared to a deficit of \$6.2 million in 2011). Other operations under the SFF segment generated a combined deficit of \$0.7 million.

REVENUE ANALYSIS

Revenue from voluntary contributions, for the first time in five years, surpassed Member States' assessed contributions. Voluntary contributions increased by \$82.1 million (27%) to \$391 million. The significant increase is mainly due to contributions received under the under The Special Emergency Multi-Donor Fund for UNESCO Priority Programme and Reform Initiatives.

FIGURE 1

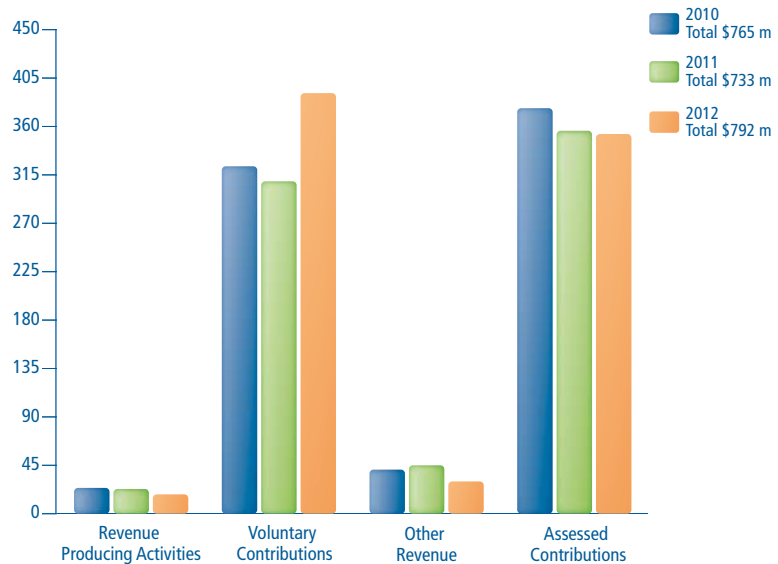
REVENUE BY SOURCE
(AMOUNTS IN USD
MILLIONS)



Gross revenue from Member State’s assessed contributions, representing 45% of the total revenue, slightly decreased to \$353 million due to the fluctuation of the euro against the US dollar. As a result of the decision of two Member States to suspend their regular contributions, an allowance of \$79.3 million (22.5% of the budget) was made thus bringing the net assessed contributions revenue to \$273.6 million. In total, 62% of the net revenue after the allowance came from sources other than the Member States’ regular contributions.

FIGURE 2

REVENUE SOURCES:
3-YEAR COMPARISON
(IN USD MILLIONS)



Revenue from other sources (revenue producing and other) decreased to \$48.2 million compared to \$68 million in 2011. The main decrease under this category was the finance income generated from investing short-term funds. It decreased by \$8.9 million (43%) to \$12 million due to the low interest rates offered in the markets.

EXPENSE ANALYSIS

Employee benefit expenses of \$383.2 million, the main category of expenditure, represent 47% of the total expenses. 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 \$268.4 million (70% of employee benefit). A further \$34.5 million (9%) was spent on temporary personnel to support the delivery of programmes and activities. The remaining \$80.4 million (21%) of employee benefit expenses relate mainly to medical benefit expenses and

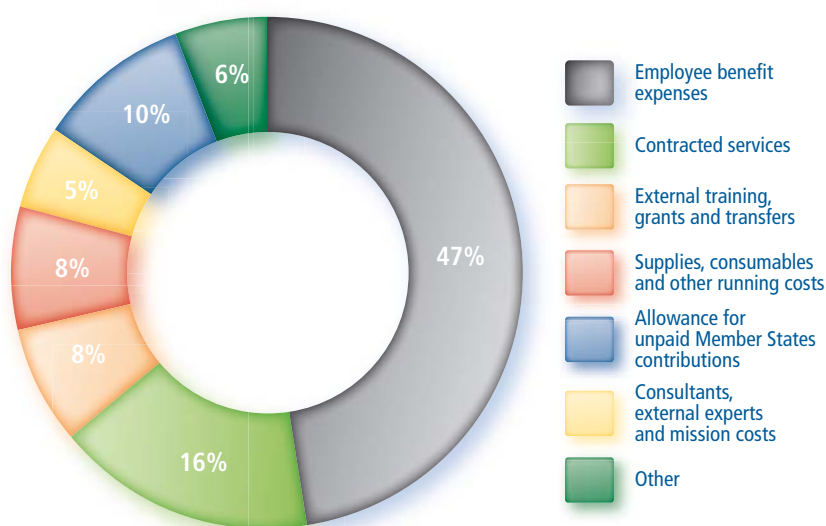
accrual of After-Service Health Insurance costs for current and retired staff. Overall, Employee benefits expenses decreased by \$44.5 million (10%) - Table 2. This decrease is largely due to the abolition and suspension of staff positions under the regular budget.

The significant reduction in staff mission and consultant costs led to a 30% decrease in this category of expenses. Staff mission costs of \$11.2 million decreased by \$7.4 million (40%) compared to the previous year. Consultants cost of \$25.1 million was a 27% decrease over the 2011 figures.

Contracted services 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.

FIGURE 3

COMPOSITION OF 2012 EXPENSES BY NATURE



The allowance for assessed contribution of \$79.3 million represents mainly the unpaid contributions of the current year from the two Member States who have suspended their contributions to the Organization.

TABLE 2. CHANGE IN EXPENSES

Nature of Expense	(expressed in Millions of USD)			
	2012	2011	Net Change (USD)	Net Change (%)
Employee benefit expenses	383.2	427.8	-44.6	-10.4
Contracted services	132.9	165.1	-32.2	-19.5
External training, grants and transfers	61.2	60.0	1.2	2.0
Supplies, consumables and other running costs	62.0	77.2	-15.2	-19.7
Consultants, external experts and mission costs	42.3	60.5	-18.2	-30.1
Allowance for unpaid Member States contributions	79.3	79.2	0.1	0.1
Other expenses				
Depreciation & amortization	19.0	20.3	-1.3	-6.4
Finance costs	7.2	9.1	-1.9	-20.9
Other	19.1	38.6	-19.5	-50.5
Total Expenses	806.2	937.8	-131.6	-14.0

7. BUDGETARY PERFORMANCE

In line with IPSAS, this section analyses only the regular budget (36 C/5) as approved by the General Conference. The core budget of the Organization covering the two-year budget period 2012-2013 was approved by the General Conference at \$653 million. The decision by two Member States to suspend their contributions resulted in a funding gap of \$188 million. Consequently, the expenditure ceiling was adjusted to \$465 million for the 2-year period.

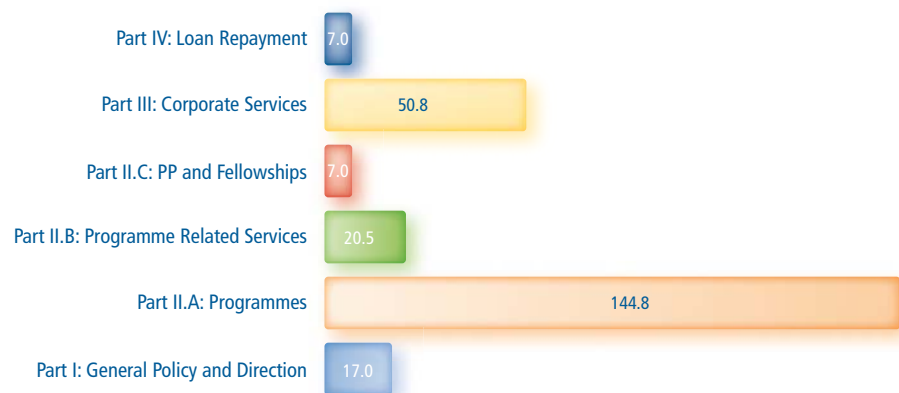
For the year ended 31 December 2012, an amount of \$206.9 million (44.5% of the expenditure ceiling) was originally allotted for programme execution. With authorized transfers of \$53.6 million from the 2013 budget and a further \$6.4 million received as voluntary contributions, the final budget allotment for the year was \$266.9 million.

Total budgetary expenditure for the year amounted to \$247.1 million, an implementation rate of 93% of the first year allotments. The remaining funds of \$19.8 million were carried forward to the 2013 budget.

As figure 4 shows, the total budgetary expenditure on the five Major Programmes was \$144.8 million (59% of total expenditure).

FIGURE 4

BUDGETARY
EXPENDITURE BY
APPROPRIATION LINE
(IN USD MILLIONS)



8. COMPARISON OF FINANCIAL PERFORMANCE TO BUDGET

The key differences between the consolidated financial statements deficit of \$14.0 million and the budget surplus of \$19.8 million are:

The result of operations of the three business segments outside the regular programme (PFF, OPF and SFF): As the budgets of these segments are not approved by the General Conference, they are not taken into account in the budget statement presented in the financial statements. The combined surplus of the three segments is \$39.5 million (Scope differences).

Allowance of unpaid Member States contributions: the allowance of \$79.3 million resulting from the non-payment of contributions is recognized as a charge in the financial statements.

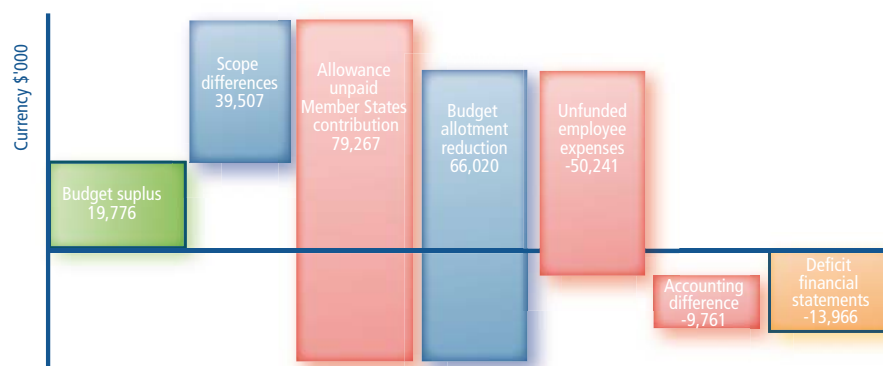
Budgetary allotment reductions: In order to absorb the funding gap, the budget allotments for the year, as shown in figure 5, were \$66 million less than half of the biennium approved budget.

Employee Benefits expenses: The Organization's current policy is 'pay as you go' for long-term employee benefits mainly for medical coverage upon retirement. These expenses are recognized in the budget only when paid. However, the financial statements, on an accrual basis, require that the benefit be recognized when the employee earns the right and not when paid. As a result, an amount of \$50.2 million was recognized under the GEF Segment as expenses relating to post-employment benefits and under long-term benefits.

Other Timing and accounting differences: Due to the use of different exchange rates for the budget and the financial statements, the budget allocation was \$22.8 million less than the revenue recognized in the financial statements. Expenses in the budget were also \$15.4 million less due to exchange differences. Other differences arise from capital expenditures, depreciation and the recognition of unliquidated obligations.

FIGURE 5

MOVING FROM BUDGET SURPLUS TO A FINANCIAL DEFICIT (IN THOUSANDS USD)



9. FINANCIAL POSITION

The net assets/equity of the main segment, GEF, deteriorated from a negative balance of \$218.1 million in 2011 to \$254.1 million as at 31 December 2012. The negative equity is mainly due to the ASHI liability of \$777.2 million and the cumulative allowance of \$165.5 million for unpaid contributions. The PFF overall position remains strong. The level of reserves under the Medical Benefit Fund has improved and it can now cover 10 months of average expenditure.

TABLE 3. SUMMARY FINANCIAL POSITION BY FUND

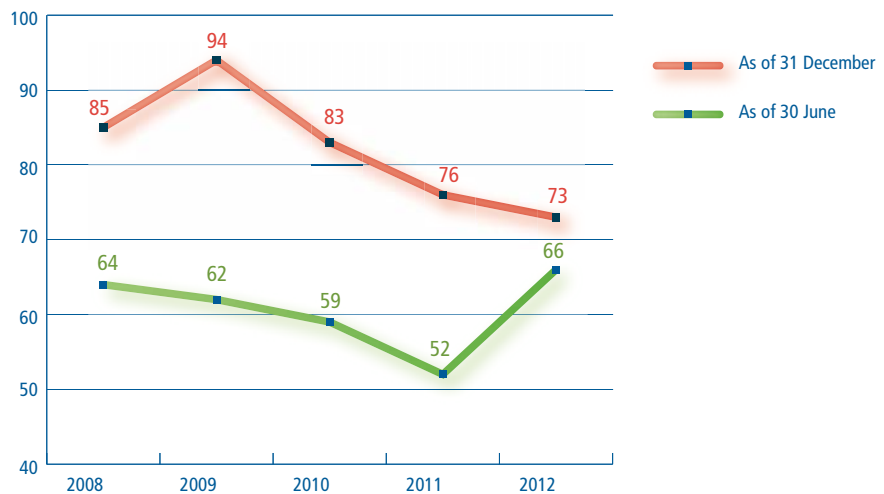
	GEF	OPF	PFF	SFF	Inter-fund balances	TOTAL UNESCO
	\$m	\$m	\$m	\$m	\$m	\$m
Total Assets	642.8	61.4	605.6	28.2	(9.5)	1 328.5
Total Liabilities	(896.9)	(12.6)	(176.7)	(8.3)	(9.5)	(1 085.0)
NET ASSETS/EQUITY	(254.1)	48.8	428.9	19.9	-	243.5

An overall working capital (current assets less current liabilities) of \$510.4 million with 90% of the current assets in cash and short-term investments indicates a strong liquidity position. However, the working capital of \$4 million under the regular programme segment (GEF) represents less than 1% of the overall situation. The Organization’s ability to meet its short term obligations under this segment could be further impacted if additional delays are encountered in the collection of Member States’ contributions.

CONTRIBUTIONS

Gross outstanding assessed contributions amounted to \$187.7 million, an increase of 90% over the previous year’s level. As required under IPSAS, an allowance of \$165.5 million was made against the amount outstanding, bringing the net assessed contributions in the statement of financial position to \$22.1 million. The gross assessed contributions are due and payable to the Organization in accordance with the Constitution and Financial Regulations of the Organization. Using the IPSAS principles allow the Organization to adjust budget spending in line with expected contribution payments. As indicated in the Financial Highlight Section, one Member State owes 84% (\$157.2 million) of the outstanding contributions. The remaining balance is due from 53 Member States and 4 Associate Members.

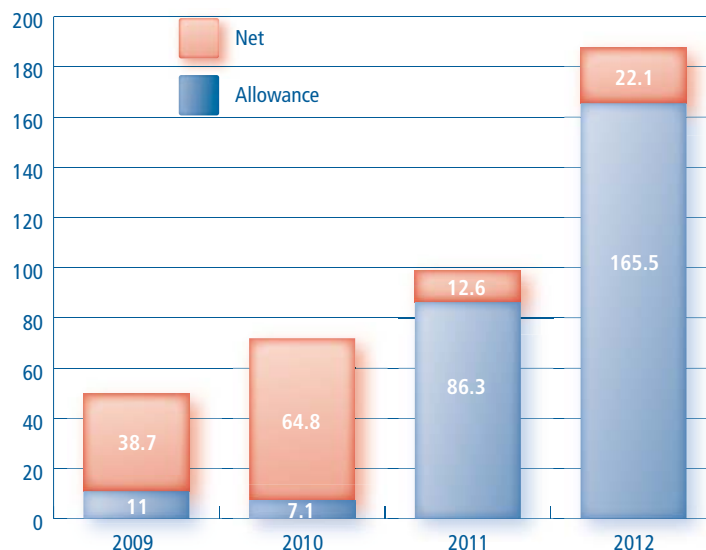
FIGURE 6
ASSESSED CONTRIBUTIONS COLLECTION RATE (IN PERCENTAGES)



Note: collection rate in the year of assessment

Eleven Member States with total contributions of \$4.5 million (2% of the total due) have entered into payment plans to settle their outstanding contributions.

FIGURE 7
GROSS OUTSTANDING CONTRIBUTIONS VS. ALLOWANCE (IN USD MILLIONS)

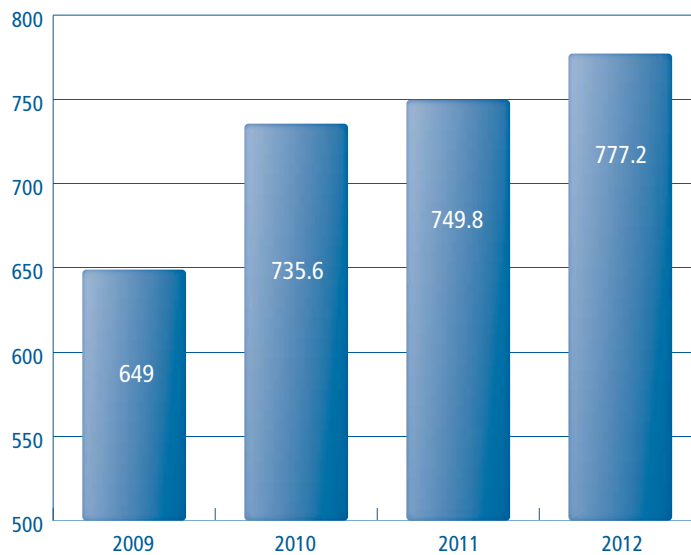


AFTER-SERVICE HEALTH INSURANCE (ASHI) LIABILITY

A staff member who has completed 10 years of participation in the Medical Benefits Fund and has reached the minimum age of 55 at the time of separation can continue to benefit from the Organization’s health insurance scheme. The ASHI liability, calculated by a professional firm of actuaries, reflects the total future costs associated with providing health insurance benefits to existing retirees and current staff upon retirement.

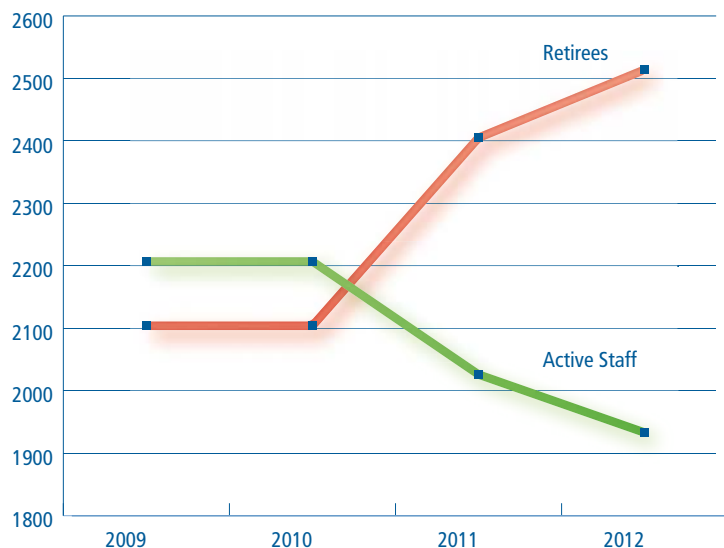
The total liability as at 31 December 2012 amounted to \$777.2 million, an increase of 3.7% over the 2011 level. Overall the liability has increased by 20% over the past four years. The liability is currently unfunded with the Organization continuing the route of ‘pay as you go’. The Secretariat will continue to engage the governing bodies to put in place a funding mechanism that would move the Organization from the currently unsustainable ‘pay as you go’ system.

FIGURE 8
ASHI LIABILITY
(IN USD MILLIONS)



The active population (current staff), which normally supports the scheme for retirees, has decreased over the years – from 2,207 as at 31 December 2009 to 1,933 as at 31 December 2012. On the other hand, the number of retirees has increased by 19% from 2,104 to 2,514.

FIGURE 9
NUMBER OF PARTICIPANTS IN THE ASHI SCHEME



INVESTMENTS

As at the end of 2012, the investment portfolio of UNESCO amounted to \$556.7 million consisting mainly of extra budgetary funds invested in term deposits. The interest rates continued their decline in 2012 and were at historically low level both in USD and EUR resulting in substantially lower investment income in 2012 compared to 2011. The performance of the investment portfolio was in line with the established benchmarks in the investment policy of the Organization.

10. INTERNAL CONTROL AND FINANCIAL RISK MANAGEMENT

The primary objective of UNESCO's internal control framework is to continuously put in place measures to attain programmatic and organizational objectives within an evolving Organization and to meet stakeholders' expectations.

In the Statement of Internal Control (SIC) that I have submitted with the financial statements (see Annex III), I have reported on the financial constraints the Organization is facing and the remedial measures taken during the year to safeguard its capacity to deliver its mandate. In addition to short-term expenditure cuts, these financial constraints have led the Organization to speed up the pace of reform to further simplify processes and implement structural changes which will be fully operational in a longer term.

Besides, the review of effectiveness of internal controls, as informed, inter-alia, by senior managers, the Internal Oversight service and the external auditor, have led me to re-affirm at several occasions during the year the need for the Organization to move from a culture of control to a culture of accountability. The Organization is committed to further enhance transparency and accountability in the years to come, with a more structured approach to accountability. As a step towards this direction, a number of policies were issued or in progress in 2012, such as the introduction of a declaration of interest and financial disclosure programme, and a comprehensive policy on prevention of fraud and corrupt practices.

The Organization, as part of the UN systems-wide Task Force on Accounting Standards, supports other United Nations Agencies in their efforts to implement a SIC through leading the working sessions on the SIC.

The Organization is exposed to a variety of financial risks- credit risks, market risks (foreign currency exchange and interest rates) and liquidity risks. In order to manage the risks, the principle considerations for investment management are, in order of priority- Security of principal; Liquidity; Rate of return. More details on the financial risk management approach are presented in Note 26 of the financial statements.

2

OPINION OF THE EXTERNAL AUDITOR

Paris, **28 JUIN 2013**

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

AUDIT OPINION

We have audited the Financial Statements of the UNESCO for the 12 month period ending 31 December 2012. These Financial Statements include a Statement of Financial Position as at 31 December 2012, a Statement of Financial Performance, a Statement of Changes in Net Assets/Equity, a Statement of Cash Flow, a Statement of Comparison of Budget and Actual Accounts and Notes including a summary of the accounting policies 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.

We believe that the audit evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

Based on our audit, the financial statements give a fair view of the financial position of the UNESCO as at 31 December 2012, as well as the financial performance, the cash flow and the comparison of budget and actual amounts for the 12 month period ending 31 December 2012 in conformity with the IPSAS.


Didier MIGAUD

3

APPROVAL OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

**APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012**

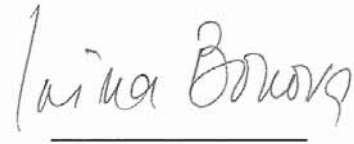
Established by:



Nutan Wozencroft
Chief Financial Officer

28 March 2013

Approved by:



Irina Bokova
Director-General

28 March 2013

4

CONSOLIDATED FINANCIAL STATEMENTS

\$243 453 000
NET ASSETS/EQUITY

\$792 199 000
TOTAL REVENUE

\$806 165 000
TOTAL EXPENDITURE

I. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

Expressed in '000 US dollars	Note	12/31/2012	12/31/2011
ASSETS			
Current Assets			
Cash and cash equivalents	5	89 289	114 289
Short-term investments	6	556 690	533 226
Accounts receivable (non-exchange transactions)	7	29 367	23 925
Receivables from exchange transactions	8	1 921	2 045
Inventories	9	1 482	4 288
Advance payments	10	34 160	43 544
Other current assets	11	3 053	4 940
Total current assets		715 962	726 257
Non-current assets			
Accounts receivable (non-exchange transactions)	7	1 485	2 265
Long-term investments	6	2 269	1 547
Property, plant and equipment	12	608 301	623 654
Intangible assets	13	490	439
Total non-current assets		612 545	627 905
TOTAL ASSETS		1 328 507	1 354 162
LIABILITIES			
Current Liabilities			
Accounts payable (exchange transactions)	14	21 602	29 415
Employee benefits	15	8 930	14 567
Transfers Payable	16	23 792	35 778
Conditions on voluntary contributions	17	35 913	31 892
Advance receipts	18	93 772	117 431
Current portion of borrowings	19	7 924	7 713
Other current liabilities	20	13 671	9 961
Total current liabilities		205 604	246 757
Non-current Liabilities			
Employee benefits	15	825 027	796 055
Conditions on voluntary contributions	17	5 203	6 692
Long-term loans	19	43 559	48 469
Other non-current liabilities	20	5 661	5 868
Total non-current liabilities		879 450	857 084
TOTAL LIABILITIES		1 085 054	1 103 841
NET ASSETS		243 453	250 321
NET ASSETS/EQUITY			
Reserves and fund balances	21	243 453	250 321
NET ASSETS/EQUITY		243 453	250 321

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

II. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2012

Expressed in '000 US dollars	Note	12/31/2012	12/31/2011
REVENUE			
Assessed contributions		352 970	356 474
Voluntary contributions		391 038	308 947
Other revenue producing activities		17 801	22 652
Other/miscellaneous revenue		17 828	12 910
Foreign exchange gains		602	11 584
Finance revenue		11 960	20 857
Total revenue	22	792 199	733 424
EXPENSES			
Employee expenses		383 234	427 782
Consultants, external experts and mission costs		42 282	60 501
External training, grants and other transfers		61 221	59 984
Supplies, consumables and other running costs		61 988	77 208
Contracted services		132 911	165 122
Depreciation and amortization		19 024	20 325
Allowance for assessed contributions		79 267	79 196
Other expenses		19 027	38 627
Foreign exchange losses		—	—
Finance costs		7 211	9 099
Total expenses	23	806 165	937 844
DEFICIT FOR THE PERIOD		-13 966	-204 420

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 2012

Expressed in '000 US dollars	Note	12/31/2012	12/31/2011
NET ASSETS/EQUITY AT THE BEGINNING OF THE PERIOD		250 321	428 072
Exchange differences on certain foreign currency transactions	21	-9 620	-3 147
Increase in Working Capital Fund	21	992	93
Actuarial gain/(loss)	21	23 734	29 989
Incentive Scheme distribution to Member States	21	—	—
Other adjustments	21	-8 008	-266
Total of item recognized directly in Net Assets/Equity		7 098	26 669
Deficit for the period	21	-13 966	-204 420
Total recognized revenue and expense for the period		-6 868	-177 751
NET ASSETS/EQUITY AT THE END OF THE PERIOD		243 453	250 321

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

IV. CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

Expressed in '000 US dollars	Note	12/31/2012	12/31/2011
Cash flows from operating activities			
Deficit for the period		-13 966	-204 420
Depreciation and amortization		19 024	20 325
(Increase) / Decrease in accounts receivable		-5 418	58 957
(Increase) / Decrease in inventories		3 007	161
(Increase) / Decrease in advance payments		9 242	17 174
Decrease in other current assets		1 167	5 759
Increase / (Decrease) in accounts payable		-7 855	5 150
Increase in employee benefits		42 886	49 620
(Decrease) in transfers payable		-14 024	-31 974
(Decrease) in borrowings due to revaluations		1 342	-1 069
(Decrease) in investments due to revaluations		-10	-321
Increase / (Decrease) in Conditions on voluntary contributions		4 216	-2 987
Increase in advance receipts		-24 425	36 549
(Decrease) in other liabilities		5 130	-6 294
Loss on disposal of property, plant and equipment		361	9
Loss on disposal of intangible assets		-	523
Net cash flows from operating activities		20 677	-52 838
Cash flows from investing activities			
Purchase of property, plant and equipment		-3 536	-9 722
Purchase of intangible assets		-378	-
Sale of property, plant and equipment		-	40
Decrease in short-term investments		-34 118	73 131
Decrease in long term investments		-722	302
Net cash flows from investing activities		-38 754	63 751
Cash flows from financing activities			
Repayment of loans		-7 829	-8 511
Increase in working capital contributions		992	93
Net cash flows from financing activities		-6 837	-8 418
Net increase/(decrease) in cash and cash equivalents		-24 914	2 495
Cash and cash equivalents, beginning of period	5	114 289	106 690
Exchange rate effects		-86	5 104
CASH AND CASH EQUIVALENTS, END OF PERIOD	5	89 289	114 289

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 2012 – GENERAL FUND

Main Appropriation Line	Original Budget			Final Budget	Actual Expenditure	Difference: Final Budget and Actual Expenditure
Expressed in '000 US dollars	2012 Original allotment	Authorized Transfers	Additional Appropriation	2012 Allotment as Adjusted	Total	2012 Balance
PART I – General Policy and Direction						
A. Governing Bodies (Including General Conference and Executive Board)	2 666	1 634	–	4 300	3 758	542
B. Direction	9 784	223	39	10 046	9 539	507
C. Participation in the joint machinery of the United Nations	3 187	870	–	4 057	3 729	328
TOTAL PART I	15 637	2 727	39	18 403	17 026	1 377
PART II – Programmes and Programme-Related Services						
A. Programmes						
Major Programme I – Education	30 652	11 763	1 238	43 653	41 226	2 427
Major Programme II – Natural Sciences	19 439	693	1 611	21 743	20 964	779
Major Programme III – Social and Human Sciences	9 848	601	366	10 815	9 884	931
Major Programme IV – Culture	17 817	2 252	1 785	21 854	20 325	1 529
Major Programme V – Communication and Information	9 583	1 951	212	11 746	11 740	6
UNESCO Institute for Statistics	787	2 362	–	3 149	3 149	–
Intersectoral Platforms	–	1 498	25	1 523	328	1 195
Field – Management of decentralized programmes	34 777	3 665	803	39 245	37 167	2 078
Supplementary funding for the Field network Reform	3 697	–1 399	–	2 298	–	2 298
Total Part II.A	126 600	23 386	6 040	156 026	144 783	11 243
B. Programme-Related Services						
1. Coordination and monitoring of action to benefit Africa	2 586	74	–	2 660	2 459	201
2. Coordination and monitoring of action to benefit Gender Equality	735	87	17	839	847	–8
3. Strategic planning, programme monitoring and budget preparation	3 262	653	65	3 980	3 771	209
4. Organization-wide knowledge management	2 790	–84	–	2 706	1 953	753
5. External relations and public information	9 504	1 898	210	11 612	11 506	106
Total Part II.B	18 877	2 628	292	21 797	20 536	1 261
C. Participation Programme and fellowships						
1. Participation programme (PP)	1 170	10 321	–	11 491	6 307	5 184
2. Fellowships programme (FEL)	311	415	–	726	646	80
Total Part II.C	1 481	10 736	–	12 217	6 953	5 264
TOTAL PART II	146 958	36 750	6 332	190 040	172 272	17 768
PART III – Corporate Services						
A. Human resources management	8 048	5 636	–	13 684	13 478	206
B. Financial management	5 947	676	–	6 623	5 812	811
C. Management of support services	27 578	2 982	–	30 560	31 471	–911
TOTAL PART III	41 573	9 294	–	50 867	50 761	106
TOTAL PARTS I-III	204 168	48 771	6 371	259 310	240 060	19 250
Reserve for reclassifications/merit based promotions						
PART IV – LOAN REPAYMENT FOR THE RENOVATION OF THE HEADQUARTERS PREMISES & BUILDING	1 723	5 324		7 047	7 031	16
PART V – ANTICIPATED COST INCREASES	1 020	–510		510	–	510
TOTAL APPROPRIATION	206 911	53 585	6 371	266 867	247 091	19 776

Note: The budget and accounting basis is different. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis. The column "actual expenditure" is decreased by the amount of 2010 allotment relating to the 2010 ULOs. This allotment is not part of the 2011 budget. It is part of 2010 budget committed.

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, 2 centres 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. UNESCO applies IPSAS standards 28, 29, 30 and 31 prior to their required implementation dates.

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) and Buenos Aires (Argentina)	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
Mahatma Gandhi Institute of Education for Peace and Sustainable Development (MGIEP)	New Delhi (India)	USD
UNESCO Institute for Statistics (UIS)	Montreal (Canada)	USD

In October 2009, the General Conference approved the establishment of a new Institute, the Mahatma Gandhi Institute of Education for Peace and Sustainable Development in New Delhi, India. This category 1 institute is created for promoting teaching, research and capacity-building activities in peace education in the Asia and the Pacific region. The institute became operational during 2012 financial year.

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 includes 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:

- 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. They are included in current assets, except for maturities greater than 12 months after the reporting date which are classified as non-current assets. UNESCO's loans and receivables are classified in investments in the Statement of Financial Position (see Note 6 Investments).
- 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 6 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.

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 analyzed 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.

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 employee benefits are composed of the following:

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 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.

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 the Organization 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 latest actuarial valuations for the UNESCO ASHI programme were carried out as at 31 December 2012 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 28 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 12 Property, Plant & Equipment.

■ NOTE 4 – 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 2012

Expressed in '000 US dollars	GEF	OPF	PFF	SFF	Inter-fund balances	TOTAL UNESCO
ASSETS						
Current Assets						
Cash and cash equivalents	4 510	34 084	46 010	4 685	–	89 289
Short-term investments	107	16 502	520 299	19 782	–	556 690
Accounts receivable (non-exchange transactions)	20 529	–	8 838	–	–	29 367
Receivables from exchange transactions	72	68	1 166	691	-76	1 921
Inventories	–	761	74	647	–	1 482
Advance payments	17 256	347	15 657	1 003	-103	34 160
Other current assets	638	8 466	2 095	1 217	-9 363	3 053
Total current assets	43 112	60 228	594 139	28 025	-9 542	715 962
Non-current assets						
Accounts receivable (non-exchange transactions)	1 485	–	–	–	–	1 485
Long-term investments	–	–	2 269	–	–	2 269
Property, plant and equipment	597 888	1 173	9 086	154	–	608 301
Intangible assets	339	–	151	–	–	490
Total non-current assets	599 712	1 173	11 506	154	–	612 545
TOTAL ASSETS	642 824	61 401	605 645	28 179	-9 542	1 328 507
LIABILITIES						
Current Liabilities						
Accounts payable (exchange transactions)	3 857	1 353	15 153	1 315	-76	21 602
Employee benefits	4 380	415	3 177	958	–	8 930
Transfers Payable	4 270	11	19 511	–	–	23 792
Conditions on voluntary contributions	1 668	–	34 245	–	–	35 913
Advance receipts	11 684	262	81 663	163	–	93 772
Current portion of borrowings	7 919	–	–	108	-103	7 924
Other current liabilities	5 444	2 152	9 656	5 782	-9 363	13 671
Total current liabilities	39 222	4 193	163 405	8 326	-9 542	205 604
Non-current Liabilities						
Employee benefits	808 888	2 867	13 272	–	–	825 027
Conditions on voluntary contributions	5 203	–	–	–	–	5 203
Long-term loans	43 559	–	–	–	–	43 559
Other non-current liabilities	–	5 587	74	–	–	5 661
Total non-current liabilities	857 650	8 454	13 346	–	–	879 450
TOTAL LIABILITIES	896 872	12 647	176 751	8 326	-9 542	1 085 054
NET ASSETS	-254 048	48 754	428 894	19 853	–	243 453
NET ASSETS/EQUITY						
Reserves and fund balances	-254 048	48 754	428 894	19 853	–	243 453
NET ASSETS/EQUITY	-254 048	48 754	428 894	19 853	–	243 453

STATEMENT OF FINANCIAL PERFORMANCE BY SEGMENT FOR THE YEAR ENDED 31 DECEMBER 2012

Expressed in '000 US dollars	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
REVENUE						
Assessed contributions	349 362	–	3 608	–	–	352 970
Voluntary contributions	16 029	743	374 939	–	-673	391 038
Other revenue producing activities	135	11 462	2 594	6 881	-3 271	17 801
Other / miscellaneous revenue	2 128	1 191	1 159	25 941	-12 591	17 828
Foreign exchange gains	381	115	–	255	-149	602
Finance revenue	405	4 277	7 091	187	–	11 960
Inter-segment transfers	239	17 754	9 737	–	-27 730	–
Operating revenue	368 679	35 542	399 128	33 264	-44 414	792 199
EXPENSES						
Employee benefit expenses	248 076	22 237	99 348	26 578	-13 005	383 234
Consultants, external experts and mission costs	6 996	2 268	34 636	–	-1 618	42 282
External training, grants and other transfers	32 366	144	38 447	–	-9 736	61 221
Supplies, consumables and other running costs	25 003	5 220	32 037	2 845	-3 117	61 988
Contracted services	11 752	3 169	117 963	27	–	132 911
Depreciation and amortization	15 848	538	2 531	107	–	19 024
Allowance for assessed contributions	79 267	–	–	–	–	79 267
Other expenses	686	2 744	14 885	779	-67	19 027
Foreign exchange losses	–	–	149	–	-149	–
Finance costs	2 158	18	5 029	6	–	7 211
Inter-segment transfers	–	1	16 721	–	-16 722	–
Operating expenses	422 152	36 339	361 746	30 342	-44 414	806 165
SURPLUS (DEFICIT) FOR THE PERIOD	-53 473	-797	37 382	2 922	–	-13 966

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 5 – CASH AND CASH EQUIVALENTS

Expressed in '000 US dollars	31/12/2012	31/12/2011
Cash with banks	89 242	114 272
Cash in hand	47	17
Total cash and cash equivalents	89 289	114 289

Cash is principally held in UNESCO Headquarters interest bearing Euro and US dollar bank accounts. A limited amount of cash balances are also held on the Headquarters interest bearing convertible currency accounts and Field Offices and Institutes US dollar and local currency accounts.

Cash and cash equivalents include K\$38,594 available under proprietary funds. The remaining balance of K\$50,695 is held by UNESCO in a fiduciary capacity (see Note 4 Segment Information).

NOTE 6 – INVESTMENTS

Expressed in '000 US dollars	31/12/2012	31/12/2011
Current portion		
Loans and receivables		
Term deposits (maturing within 12 months)	454 692	414 593
Accrued interest	308	1 018
Fair value through surplus or deficit		
Brazilian Government Treasury Bills (up to 184 days)	101 690	117 615
Total current portion	556 690	533 226
Non-current portion		
Fair value through surplus or deficit		
Other	2 269	1 547
Total non-current portion	2 269	1 547
Total investments	558 959	534 773

The term deposits are held with international banks which are assigned deposit ceilings in accordance with the Investment Policy of UNESCO. Term deposits and accrued interest as at 31 December 2012 include K\$16,609 held by UNESCO in proprietary funds. K\$540,081 is held in a fiduciary capacity, including K\$19,782 in Staff Fiduciary Funds. The average interest rate on term deposits for the twelve months ended 31 December 2012 was 0.52% for Euro deposits and 0.53% for US dollar deposits.

The UNESCO Brasilia Office (UBO) invests in Brazilian Government Treasury Bills, in accordance with the Investment Policy of UNESCO. As at 31 December 2012, the balance of these investments is K\$101,690. These are floating-yield bills issued by the Brazilian Treasury ("Letra Financeiro do Tesouro"). The average interest rate on Brazilian Government Treasury Bill investments was 8.41% for the twelve months ended 31 December 2012.

The non-current investment represents the investment portfolio of the Nessim Habif Trust Fund, which includes bonds and equity 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.

The maturity analysis of investments is as follows:

31/12/2012	Term deposits	Brazilian Government Treasury Bills	Nessim Habif trust fund
Expressed in '000 US dollars			
Term deposits (with maturities 12 months or less)	454 692	–	–
Other investments maturing within 1 year	–	101 690	–
Investments maturing after 1 year but less than five years	–	–	–
More than five years	–	–	2 269
Total	454 692	101 690	2 269

NOTE 7 – ACCOUNTS RECEIVABLE (NON-EXCHANGE TRANSACTIONS)

Expressed in '000 US dollars	31/12/2012	31/12/2011
Assessed contributions (current)	183 762	92 821
Assessed contributions (non-current)	3 895	6 074
Gross assessed contributions	187 657	98 895
Allowance for assessed contributions (current)	-163 131	-82 465
Allowance for assessed contributions (non-current)	-2 410	-3 809
Net assessed contributions	22 116	12 621
Voluntary contributions (current)	8 736	13 569
Voluntary contributions (non-current)	–	–
Total accounts receivable (non-exchange transactions)	30 852	26 190
Current portion	29 367	23 925
Non current portion	1 485	2 265
Net accounts receivable (non -exchange transactions)	30 852	26 190

Assessed contributions receivable represent uncollected revenues committed to UNESCO by Member States and Associated Members for completion of the programme of work. Non-current assessed contributions are those contributions which are expected to be received 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 from the biennium 2008-2009 and before which are not under payment plans. Outstanding assessed contributions from the biennium 2010-2011 and current year 2012 and 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	31/12/2012	31/12/2011
Arrears not under payment plans:		
1988-2003	3 103	3 103
2004-2005	29	29
2006-2007	46	46
2008-2009	57	57
2010-2011	83 488	
	86 723	3 234
Other current assessed contributions	97 039	89 587
Gross assessed contributions (current)	183 762	92 821
Allowance for arrears	-162 977	-82 397
Discount other current assessed contributions	-154	-68
Net assessed contributions (current)	20 631	10 356
Gross assessed contributions (non-current)	3 895	6 074
Discount for non-current assessed contributions	-2 410	-3 809
Net assessed contributions (non-current)	1 485	2 265
Total net assessed contributions	22 116	12 621

Specific allowance for an amount of K\$158,599 has been made against contributions due from two Member States who have suspended their contributions to the Organization.

NOTE 8 – ACCOUNTS RECEIVABLE (EXCHANGE TRANSACTIONS)

Expressed in '000 USD	31/12/2012	31/12/2011
Amounts receivable for goods and services	3 234	3 274
Allowance for doubtful accounts	-1 313	-1 229
Net receivables from exchange transactions	1 921	2 045

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 9 – INVENTORIES

Expressed in '000 USD	31/12/2012	31/12/2011
Publications	823	3 387
Supplies	659	901
Gross inventories	1 482	4 288
Provision for depreciation of inventories	–	–
Net inventories	1 482	4 288

Publications include publications held for sale. Full details of publications held to be distributed at no or nominal charge 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. The provision for depreciation of inventories represents the write down of inventories of publications and supplies to net realizable value.

NOTE 10 – ADVANCE PAYMENTS

Expressed in '000 US dollars	31/12/2012	31/12/2011
Advances to staff	4 365	3 009
Activity financing advance payments	3 029	9 081
Implementing partner advances	6 350	5 195
IHE advances to project partners	5 168	530
Participation Programme advance payments	12 311	22 985
Other advance payments	2 937	2 744
Total advance payments	34 160	43 544

Advance payments on non-exchange contracts (Financing Activity Contracts, Implementation Partnership Agreements, 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 2012.

Under the Participation Programme, transfers of funds are considered to be 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	31/12/2012	31/12/2011
Biennium		
2006-2007	1 397	1 884
2008-2009	2 094	4 344
2010-2011	3 204	16 757
2012-2013	5 616	–
Participation Programme advance payments	12 311	22 985

Outstanding advance payments dating back more than three biennia are written off at the end of the reporting period. As a consequence, the remaining advance payment balance relating to 2006-2007 biennium will be written off at the end of 2013.

NOTE 11 – OTHER CURRENT ASSETS

Expressed in '000 US dollars	31/12/2012	31/12/2011
VAT receivables	1 846	4 166
Other	1 207	774
Total other current assets	3 053	4 940

Other current assets are principally value-added tax (VAT) amounts for K\$1,846 recoverable from fiscal authorities and UNDP accounts balance due for K\$683.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (PP&E)

Expressed in '000 US dollars	Land	Buildings	Comms & IT Equipm't	Vehicles	Furniture and Fixtures	Other Equipm't	Total
01/01/2012							
Cost or fair value	254 713	383 161	28 220	6 880	2 758	14 407	690 139
Accumulated depreciation	–	-27 504	-23 257	-4 854	-2 159	-8 711	-66 485
Carrying amount	254 713	355 657	4 963	2 026	599	5 696	623 654
Movements period to 31/12/2012							
Additions	–	89	2 323	111	124	889	3 536
Disposals	–	–	-2 467	-564	-19	-510	-3 560
Disposals depreciation	–	–	2 342	448	17	392	3 199
Impairment	–	–	–	–	–	–	–
Depreciation	–	-13 762	-2 554	-702	-273	-1 406	-18 697
Exchange adjustments depn	–	-9	-139	-3	-23	-104	-278
Exchange adjustments cost	–	64	166	–	24	193	447
Total movements 12 months to 31 December 2012	–	-13 618	-329	-710	-150	-546	-15 353
31/12/2012							
Cost or fair value	254 713	383 314	28 242	6 427	2 887	14 979	690 562
Accumulated depreciation	–	-41 275	-23 608	-5 111	-2 438	-9 829	-82 261
Carrying amount	254 713	342 039	4 634	1 316	449	5 150	608 301

As at 31 December 2012, UNESCO holds fully depreciated PP&E which is still in use for a gross value of K\$16,738.

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

Description	Opening Carry Value	Depreciation for period	Additions for period	Exchange adjustment	Closing Carry Value
Expressed in '000 US dollars	31/12/2011				31/12/2012
7 Place Fontenoy	194 356	-7 617	–	–	186 739
1 Rue Miollis	144 106	-5 648	–	–	138 458
Apartment, place Vauban	5 592	-116	–	–	5 476
IBE building, Geneva	8 089	-271	–	–	7 818
Ocampo Villa, Buenos Aires	1 440	-30	–	–	1 410
IHE building renovation, Delft	2 074	-80	89	55	2 138
Total	355 657	-13 762	89	55	342 039

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 13 – INTANGIBLE ASSETS

Expressed in '000 US dollars	Software Internally Developed	Software Acquired	Total
01/01/2012			
Cost or fair value	19 532	323	19 855
Accumulated amortization	-19 145	-271	-19 416
Carrying amount	387	52	439
Movements period to 31/12/2012			
Additions	–	378	378
Disposals	–	–	–
Disposals amortization	–	–	–
Impairment	–	–	–
Amortization	-233	-94	-327
Total movements period to 31/12/2012	-233	284	51
31/12/2012			
Cost or fair value	19 532	701	20 233
Accumulated depreciation	-19 378	-365	-19 743
Carrying amount	154	336	490

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 14 – ACCOUNTS PAYABLE

Expressed in '000 US dollars	31/12/2012	31/12/2011
Suppliers payable	8 231	9 464
Accruals	11 501	18 306
Other payables	1 870	1 645
Total accounts payable	21 602	29 415

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 15 – EMPLOYEE BENEFITS

	31/12/2012			31/12/2011
	Actuarial valuation	UNESCO valuation	Total	
Expressed in '000 US dollars				
Payroll and reimbursements	–	8 930	8 930	14 567
Employee benefits (current)	–	8 930	8 930	14 567
After Service Health Insurance	777 205	–	777 205	749 796
Accumulated annual leave	18 364	492	18 856	18 613
Repatriation benefits	20 127	–	20 127	18 556
Italian end of service benefit	8 839	–	8 839	9 090
Employee benefits (non-current)	824 535	492	825 027	796 055
Total employee benefits	824 535	9 422	833 957	810 622

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.

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 consulting 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 separation-related employee liabilities for UNESCO as at 31 December 2012:

Discount rate – ASHI	4.25% – the rate used is based on the Mercer Yield Curve as of 31/12/2012 with a maturity around 23.5 years.
Discount rate – Repatriation benefits and Accumulated annual leave	4.25% - the rate used is based on the Mercer Yield Curve as of 31/12/2012 with a maturity around 23.5 years.
Salary scale (including inflation)	2.00%
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)	23.5 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 31/12/2011	749 796	16 487	17 926	9 090	793 299
Movement for period ended 31/12/2012					
Service cost	26 196	1 180	657	–	28 033
Interest cost	33 414	714	781	–	34 909
(Actual gross benefits payments)	-11 034	-1 837	-279	–	-13 150
Participant contributions	–	–	–	–	–
Actuarial (gain)/loss	-21 167	302	390	–	-20 475
New actuarial valuation	–	1 518	652	-251	1 919
Defined benefit obligation 31/12/2012	777 205	18 364	20 127	8 839	824 535

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, that have terms to maturity approximating to the terms of the related post-employment liability. Prior to 2012, the discount rate was based on the Euro Corporate AA bonds (iboxx index). In 2012, a management judgement was made that the time of value of money for these liabilities are best approximated using the Mercer Yield Curve considering the huge movements in the Euro Corporate AA bonds. If the Mercer Yield Curve was used in the 2011, the discount rate would have been 5% instead of 4.5%.

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 K\$20,475 for the year ended 31 December 2012.

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

Expressed in '000 US dollars	ASHI	AAL	Repa- triation benefits	Total
Service cost	26 196	1 180	657	28 033
Interest cost	33 414	714	781	34 909
Other expenses	–	–	–	–
Total expenses recognized for year ended 31/12/2012	59 610	1 894	1 438	62 942

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 31/12/2012	612 262	777 205	998 591
% Variation	-21.2%		28.0%
Normal cost as of 31/12/2012	18 150	26 281	38 154
% Variation	-30.1%		45.2%

The expected contribution of UNESCO in 2013 to the ASHI plan is K\$19,891 which represents expected gross benefit payments for the year. Expected contributions from participants in 2013 are K\$4,974. The expected contribution of UNESCO in 2013 to the accumulated annual leave and repatriation defined benefit plans is K\$1,818 and K\$1,441 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 latest actuarial valuation was performed as of 31 December 2011. The valuation revealed an actuarial deficit of 1.87% (0.38% in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2011 was 25.57% of pensionable remuneration, compared to the actual contribution rate of 23.7%. The actuarial deficit was

primarily attributable to the lower than expected investment experience in recent years.

At 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130% (140% in the 2009 valuation). The funded ratio was 86% (91% in the 2009 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 2011, 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. The pensionable remuneration will be reviewed at the time of the next actuarial valuation as of 31 December 2013.

In July 2012, the Pension Board noted in its Report of the fifty-ninth session to the General Assembly that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87%. In December 2012, the General Assembly authorized the United Nations Joint Staff Pension Board to increase the normal retirement age to 65 for new participants of the Fund, with effect not later than from 1 January 2014, unless the General Assembly has not decided on a corresponding increase in the mandatory age of separation.

During 2012, UNESCO's contributions paid to UNJSPF amounted to K\$38,955 (2011 K\$41,194). Expected contributions due in 2013 are K\$39,310.

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 at www.unjspf.org.

NOTE 16 – TRANSFERS PAYABLE

Expressed in '000 US dollars	31/12/2012	31/12/2011
Interest payable to donors	19 496	34 752
Budgetary surplus payable to Member States	–	–
Other transfers payable	4 296	1 026
Total transfers payable	23 792	35 778

UNESCO recognizes as a liability transfers which are payable to donors and Member States. This includes accrued interest payable to donors, and the other payables to Member States arising from distributions of surplus. Other transfers

payable relates to various amounts due under non-exchange arrangements.

NOTE 17 – CONDITIONS ON VOLUNTARY CONTRIBUTIONS

Expressed in '000 US dollars	31/12/2012	31/12/2011
Conditions on monetary contributions (current)	34 245	30 059
Conditions on in-kind voluntary contributions (current)	1 668	1 833
Conditions on voluntary contributions (current)	35 913	31 892
Conditions on in-kind voluntary contributions (non-current)	5 203	6 692
Conditions on voluntary contributions (non-current)	5 203	6 692
Total conditions on voluntary contributions	41 116	38 584

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 19 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 18 – ADVANCE RECEIPTS

Expressed in '000 US dollars	31/12/2012	31/12/2011
Framework agreements	40 999	46 484
IHE voluntary contributions received in advance	23 238	16 795
Other voluntary contributions received in advance	18 588	32 857
Assessed contributions received in advance	10 416	19 930
Other advance receipts	531	1 365
Total advance receipts	93 772	117 431

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 19 – BORROWINGS

Expressed in '000 US dollars	31/12/2012	31/12/2011
IBE building loan	142	137
Phase II Belmont plan loan	7 777	7 576
URS loan	5	–
Current portion of borrowings	7 924	7 713
IBE building loan	1 015	1 083
Phase II Belmont plan loan	42 544	47 386
Long-term portion of borrowings	43 559	48 469
Total borrowings	51 483	56 182

Borrowings are recognized in the financial statements at amortized cost with values based on cash flows discounted using a discount rate of 3.45% (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:

Expressed in '000 US dollars	31/12/2012	
	IBE building loan	Phase II Belmont plan loan
Within three months	–	1 969
Later than three months and not later than one year	142	5 808
Later than one year and not later than five years	529	28 598
Later than five years	486	13 946
Total borrowings	1 157	50 321

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 KCHF3,223 (K\$2,270) repayable in equal annual instalments of KCHF133 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 2012 is KCHF1,221 (KCHF1,355 at 31 December 2011).

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 2012 these payments totalled K€1,391 (K\$1,783). 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 2012, the non-amortized balance of the loan is K€42,985 (K€48,974 at 31 December 2011).

NOTE 20 – OTHER LIABILITIES

Expressed in '000 US dollars	31/12/2012	31/12/2011
Unredeemed coupons	1 718	759
Provision for litigation	156	–
Other current liabilities	11 797	9 202
Other current liabilities	13 671	9 961
Unredeemed coupons	5 587	5 795
Provisions	74	73
Other non-current liabilities	5 661	5 868
Total other liabilities	19 332	15 829

Other liabilities are mainly represented by unredeemed coupons for K\$7,305 which have been issued by UNESCO

and by K\$4,693 of unpaid claims relating to MBF. 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.

NOTE 21 – NET ASSETS/EQUITY

21.1 MOVEMENTS IN THE PERIOD TO 31/12/2012

	31/12/2011	Deficit for the period	Other adjustments to reserves	31/12/2012
Expressed in '000 US dollars				
Working capital fund	30 093	–	992	31 085
Currency exchange reserve	-1 708	–	-9 620	-11 328
Other surpluses	-1 508	-54 743	-7 455	-63 706
Balances - projects funded by donors	350 615	40 777	-57	391 335
Actuarial gains/losses through reserves	-15 744	–	23 734	7 990
Operating reserves	12 063	–	-496	11 567
Budgetary surpluses	–	–	–	–
IPSAS opening balance reserves	-123 490	–	–	-123 490
Total reserves and fund balances	250 321	-13 966	7 098	243 453

Other adjustments to the reserves of actuarial gains/losses of K\$23,734 include the actuarial losses and gains recognized in the period K\$20,475 and the prior periods adjustment of K\$ 3,259. Movements in actuarial gains/losses relating to repatriation grant and accumulated annual leave prior to the current financial period were recognized through the statement of financial performance. This policy was changed and thus all actuarial gains/losses are now recognized directly in net assets/equity.

21.2 DETAIL OF RESERVES AND FUND BALANCES

The Working Capital Fund has been established in an amount and for purposes to be determined from time to time by the General Conference. It is financed by advances

from Member States made in accordance with the scale of assessments as determined by the General Conference. By 36 C/Resolution 93 (II) paragraph 1 (a), the authorized level of the fund was maintained to K\$30,000 in 2012-2013 biennium. Furthermore, voluntary working capital fund created in 2011 (36 C/Resolution 93 (ii) paragraph 2), has increased by K\$992 in 2012 due to Member States' voluntary contributions.

Other Surpluses consists of General Fund surpluses, surpluses on other proprietary funds and surpluses on fiduciary funds. These surpluses can be carried forward from one financial period to the next. Other Surpluses are summarized as follows:

Expressed in '000 US dollars	31/12/2012	31/12/2011
Regular programme	-194 459	-135 216
Other Proprietary Funds	45 453	47 607
Proprietary funds	-149 006	-87 609
Fiduciary funds	85 300	86 101
Total other surpluses	-63 706	-1 508

Balances relating to projects funded by donors represent amounts received through voluntary contributions to the Programme Fiduciary Funds. These balances are held for use on specific identified projects, and as such are considered to be restricted.

Operating Reserves have been created within the legislative authority of certain funds as is deemed to be required for the purpose of sound administration or legal obligation and are summarized as follows:

Expressed in '000 US dollars	31/12/2012	31/12/2011
(i) Public Information Liaison and Relations Fund	1 049	1 351
(ii) International Centre for Theoretical Physics (ICTP)	1 161	1 321
(iii) International Institute for Educational Planning (IIEP)	6 843	6 905
(iv) UNESCO Institute of Statistics (UIS)	2 196	2 023
Administrative reserves	11 249	11 600
Public Information Liaison and Relations Fund (PILRF)	–	165
Currency fluctuation reserves	–	165
Headquarters Utilization Fund (HQF)	318	298
Other reserves	318	298
Total operating reserves	11 567	12 063

- Administrative reserves have been established in accordance with the rules pertaining to each fund to cover mainly staff-related costs (separation, after-service entitlements, etc.) and other outlays that may arise in the future;
- The currency fluctuation reserve is established to cover the foreign currency risk element arising from the operation of the coupons programme.

NOTE 22 – REVENUE

Expressed in '000s US dollars	31/12/2012	31/12/2011
Total assessed contributions	352 970	356 474
Voluntary contributions		
Monetary voluntary contributions	350 150	265 173
Inter-organization funds	25 586	28 501
In-kind voluntary contributions	15 302	15 273
Total voluntary contributions	391 038	308 947
Other revenue producing activities		
Revenue producing activities	8 218	12 776
Income from services rendered	9 583	9 876
Total other revenue producing activities	17 801	22 652
Other/miscellaneous revenue		
Other operating gains	4 590	2 034
Contributions to MBF	13 238	10 876
Total other/miscellaneous revenue	17 828	12 910
Foreign exchange gains	602	11 584
Finance revenue	11 960	20 857
Total revenue	792 199	733 424

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 25 Budget).

Voluntary contributions are analyzed 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\$13,519. In-kind voluntary contributions also include K\$1,783 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\$8,218 include principally sales income from the UNESCO Restaurant Service and the UNESCO Commissary Fund. Total *Income from services rendered* of K\$9,583 relates principally to rental services of UNESCO premises and facilities.

NOTE 23 – EXPENSES

Expressed in '000 US dollars	31/12/2012	31/12/2011
Employee benefit expenses		
International & National staff	268 352	291 145
Temporary staff	34 455	53 685
Other personnel costs	80 427	82 952
Total employee benefit expenses	383 234	427 782
Consultants, external experts and mission costs		
Consultants	25 126	34 673
National professionals	1 720	1 102
Staff mission costs	11 193	18 628
Delegates & external individuals missions	2 240	3 097
Other contracts	2 003	3 001
Total consultants, external experts and mission costs	42 282	60 501
Grants and other transfers		
Financial contributions	19 751	9 867
Grants and fellowships	25 916	25 286
External training and seminars	15 554	24 831
Total grants and other transfers	61 221	59 984
Supplies, consumables and other running costs		
Communications	3 472	5 717
Equipment	12 936	16 492
Leases	20 957	21 221
Utilities	7 328	8 173
Maintenance and repairs	8 846	8 437
Other supplies	8 449	17 168
Total supplies, consumables and other running costs	61 988	77 208
Contracted services		
Contracted research	13 987	24 329
Contracted seminars and meetings	9 546	17 876
Contracted document production	7 437	4 077
Other contracted services	101 941	118 840
Total contracted services	132 911	165 122
Depreciation and amortization		
Depreciation	18 697	19 065
Amortization	327	1 260
Total depreciation and amortization	19 024	20 325
Allowance for assessed contribution	79 267	79 195
Total other expenses	19 027	38 628
Total finance costs	7 211	9 099
Total expenses	806 165	937 844

Total expenses compared to the previous financial period decreased by \$131.7M. The significant decrease is attributable to the non-receipt of contributions amounting to 30% of the Organization's regular budget.

23.1 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 MBF 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 \$44,5M in 2012 compared to 2011. Recruitment of many vacant posts under the regular programme have been put on hold and as a result the salary costs of international & national staff decreased by \$22,8M. Short-term contracts have not been renewed, which explains the substantive decline of Temporary staff by \$19,2M.

23.2 CONSULTANTS, EXTERNAL EXPERTS AND MISSION 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. These expenses have decreased by \$18,2M, mainly due to \$9,5M reduction in consultants and \$7,4M in Staff mission costs.

23.3 GRANTS AND OTHER TRANSFERS

Financial contributions include contributions made to UN 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.

23.4 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. The reduction of these expenses by \$15,2M is explained by the \$3,6M decrease in equipment cost and \$8,7M for other supplies.

23.5 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.

23.6 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 12). 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 13).

23.7 ALLOWANCE FOR ASSESSED CONTRIBUTION

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

23.8 OTHER EXPENSES, FOREIGN EXCHANGE AND FINANCE COSTS

Other expenses are largely composed of the return of funds to donors (\$13.8 million) and the net decrease in inventory (\$2.6 million).

Finance costs of K\$7,211 principally include the calculated interest cost of K\$1,783 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 22 Revenue) as well as the investment interest to donors for K\$4,534.

NOTE 24 – CONTINGENT LIABILITIES, COMMITMENTS AND CONTINGENT ASSETS

24.1 LEGAL OR CONTINGENT LIABILITIES

On 31 December 2012, 160 employment cases were pending before the labour courts of Brazil. The total amount claimed in the pending cases is KR\$9,245 (approximately K\$4,388) (UN exchange rate of 1st December 2012). 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.

Staff members have also lodged complaints which are pending before the UNESCO Appeal Board or the International Labour Organization Administrative Tribunal.

24.2 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	31/12/2012	31/12/2011
Within one year	2 995	5 216
Later than one year and not later than five years	3 914	4 858
Later than five years	–	–
Total operating lease commitments	6 909	10 074

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 are generally made under the auspices of the overall long term supply agreements with termination dates of 31 December 2013.

The operating lease for the UNESCO-IHE Institute for Water Education (IHE) Westvest 7 premises runs for an initial period up to 2013 with an option to renew or buy the premises. Part of the annual lease payments are calculated with reference to the 1 year Euro Interbank Offered Rate (Euribor) plus 0.8% credit margin. To cover the interest rate risk of this arrangement, an Interest Rate Swap (IRP) agreement has been contracted for the same term as the lease. Under this agreement, IHE receives the 1 year Euribor and pays 6.47% fixed interest. The notional principal amount of the IRP at 31 December 2012 is K€6,879 (31 December 2011: K€7,707).

24.3 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 2012, there are voluntary contributions with an approximate value of K\$105,744 (31 December 2011: K\$94,718) under existing agreements where it is considered probable that UNESCO will meet the stipulations set out in the agreement.

NOTE 25 – 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 Conference set \$653 million as the level for assessed contributions from the 195 Member States for the 2012-2013 biennium. For the year ended 31 December 2012, the allotment including authorized transfers and additional appropriations amounted to \$266.9 million.

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), and Support for Programme Execution and Administration (Part III). The approved budget covers the financial period from 1 January 2012 to 31 December 2013 and includes regular and participation programme operations. In order to present the biennial budget on an annual basis, in the first year of the biennium the budget represents allotments issued based on work plans. For the second year, the budget represents the remaining un-allotted amounts of the biennium plus the unused funds of the first year.

The original budget of \$206.9 million for the year is adjusted for authorized transfers, additional appropriations to arrive at the final budget of \$266.9 million. The authorized transfers of \$53.6 million represent the transfer of funds between the two years of the budget. The additional appropriations of \$6.4 million are voluntary contributions received to support directly the programmes and activities of the regular programme. The budget situation as at 31 December 2012 showed an unspent balance of \$19.8 million. The total expenditure figure at this date of \$247.1 million contains unliquidated obligations amounting to \$4.9 million. 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 2012 to 31 December 2012 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 2012 are presented in this Note.

25.1 BUDGET RECONCILIATION

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 4 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 2012. 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.

25.2 RECONCILIATION: BUDGETARY RESULT WITH NET DEFICIT

31/12/2012	
Expressed in '000 US dollars	
Deficit per Statement of Financial Performance	-13 966
a) Scope differences	
OPF surplus	797
PFF deficit	-37 382
SFF deficit	-2 922
Sub-total	-39 507
GEF deficit	-53 473
b) Accounting basis adjustments	
Revenue	
Constant Dollar adjustment	-22 843
Budgetary allotment adjustment	-66 020
Foreign exchange gain and other non-budgetary income	-3 223
	-92 087
Expenses	
Employee benefits	50 241
Constant Dollar Adjustment	15 386
Prior budgetary period expenses and accounts adjustment	17 214
Allowance for unpaid Member States' contributions	79 267
Fixed assets addition, depreciation and amortization	15 249
Renovation loan repayment	-7 031
	170 325
c) Budget basis adjustment	
Unliquidated obligations	-4 990
Total adjustments	73 249
Budget result on modified cash basis	19 776

25.3 RECONCILIATION: BUDGETARY RESULT WITH NET CASH FLOW

31/12/2012	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		19 776	–	–	19 776
Basis differences	Unliquidated obligations	4 990	–	–	4 990
	Unreceived contributions for year	-87 448	–	–	-87 448
	Other basis differences	57 212	–	–	57 212
Budgetary result with cash basis		-5 470			-5 470
Timing differences		–	–	–	–
Presentation differences		7 627	-790	-6 837	–
Entity differences		18 520	-37 964	–	-19 444
Actual amount in the Cash Flow Statement		20 677	-38 754	-6 837	-24 914

25.4 UNLIQUIDATED OBLIGATIONS

Expressed in US dollars	31/12/2012	31/12/2011
General Fund		
Commitment portion	3 275	1 729
Accrual portion	2 065	3 270
Unliquidated obligations	5 340	4 999
Other Proprietary Funds		
Commitment portion	1 198	826
Accrual portion	415	1 027
Unliquidated obligations	1 613	1 853
Programme Fiduciary Funds		
Commitment portion	53 118	58 590
Accrual portion	7 137	11 378
Unliquidated obligations	60 255	69 968
Total unliquidated obligations	67 208	76 820

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 2012. 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 26 – FINANCIAL RISK MANAGEMENT

UNESCO has developed risk management policies in accordance with its Financial Rules and Regulations. The Organization is exposed to a variety of financial risks, including credit risk, market risk (foreign currency exchange and interest rate), and liquidity risk. The primary objective of the Investment Policy of UNESCO 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:

1. Security of principal;
2. Liquidity;
3. Rate of return.

26.1 CREDIT RISK

In accordance with Investment Policy of UNESCO, the Treasury Section of the Bureau of Financial Management applies deposit ceilings determined using the following criteria: minimum equity \$2.5 billion and minimum Fitch ratings: sovereign AA-, viability a-, support 1, implied rating minimum AA-.

The UNESCO Brasilia Office (UBO) is authorized to invest in Brazilian Government Treasury Bills. The credit risk associated with these investments is the sovereign risk of Brazil. The long term Fitch rating of the Government of Brazil is BBB as at 31 December 2012.

UNESCO does not have significant credit risk in relation to accounts receivable since contributors are principally Member States. However, 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.

26.2 MARKET RISK

The Organization is exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. The Split Level System, whereby the Organization receives 57% of regular programme assessed contributions in Euros in order to cover expenses which are denominated in that currency, is a means of ensuring that much of the exposure to exchange fluctuations between Euros and US dollars is removed. The Organization has field offices, centres and institutes worldwide. UNESCO maintains a minimum level of assets in local currencies, and whenever possible holds accounts in US dollars.

Extra-budgetary foreign currency exchange risk is managed through individual project budget planning for foreign currency expenditure. UBO's functional currency is the Brazilian Real. As revenue and expense for UBO are in the same currency, there is limited exposure to foreign currency exchange 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. Interest rate risk is limited by the nature of investments which are held until maturity.

A sensitivity analysis of the market risks related to these investments would not disclose significant variations in value given the nature of the counterparty risk and maturity period of the investments.

26.3 LIQUIDITY RISK

Investments are made with due consideration to the Organization's cash requirements for operating purposes. Investments in Brazilian Government Treasury Bills are floating-yield investments with a maximum of 184 days maturity and can be liquidated by UNESCO at any point during this period. As an exceptional measure in order to meet financial commitments the Organization may, within the terms and conditions prescribed by the General Conference, negotiate and contract external short-term loans.

NOTE 27 – EVENTS AFTER THE REPORTING DATE

UNESCO's reporting date is 31 December 2012. The financial statements were authorized for issue on 30 March 2013, 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 28 – 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	31/12/2012	31/12/2011
Revenue	7 144	6 445
Expenses	-1 340	-1 216
Interest apportionment on deposit accounts	-5 804	-5 229
Deficit (apportioned to reserves)	–	–
Assets	475 731	483 914
Liabilities	450 306	458 789
Net assets/equity	25 425	25 125

Note that USLS financial statements are prepared in Euros.

NOTE 29 – RELATED PARTY DISCLOSURES

29.1 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.

29.2 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 allowances, grants and subsidies, and employer pension and health insurance contributions.

31/12/2012							
	Number of individuals	Compensation and post adjustment	Entitlements	Pension and health plans	Total remuneration 2012	Outstanding advances against entitlements	Outstanding loans
Expressed in US dollars							
Key Management Personnel	23	4 582 176	309 017	1 137 006	6 028 198	89 950	–

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.

5

UNAUDITED ANNEXES

ANNEX I

UNESCO *EX GRATIA* PAYMENTS

Financial Regulation 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 2012.

ANNEX II

WAIVERS GRANTED FOR CONTRACTS SUBMITTED TO THE CONTRACTS COMMITTEE – 2012

In accordance with 176 EX/Decision 39.7 (c), information on waivers granted after review by the Contracts Committee during 2012 is as follows:

	Regular programme		Extrabudgetary		TOTAL	
	Contracts Submitted	\$	Contracts Submitted	\$	Contracts Submitted	\$
Total Contracts Approved	9	4 536 489	51	15 745 888	60	20 282 377
Total Waivers Approved	4	2 738 665	7	2 592 548	11	5 331 213

ANNEX III



Statement on Internal Control for 2012

28 March 2013

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, 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 the 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, operated continually 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 2012, and up to the date of the approval of the Organization's 2012 financial statements.

Risk management and control framework

The Organization is implementing a risk management programme which includes the:

- identification of risks classified according to relevance, impact and probability of occurrence;
- establishment of a risk management committee whose mandate is to develop action plans to address major risks, build up an integrated risk-management framework, strengthen risk management capacities and a risk management culture, and regularly re-evaluate risks and the Organization's tolerance levels in light of the evolving environment; and,
- "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 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 and Directors of Bureaux and Offices, as well as by 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 rely mainly on periodic meetings held by the Senior Management Team, the Programme Management Committee and the Corporate Services Committee.

For the year ended 31 December 2012, 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, also are provided to the Oversight Advisory Committee. These 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 behaviour in handling referrals concerning allegations of unethical behaviour, including conflict of interest;
- the Risk Management Committee;
- the Joint Inspection Unit of the United Nations system;
- the external evaluators;
- 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

The suspension of funding from the United States of America in the last quarter of 2011 had a significant impact on the Organization's operations in 2012. The Secretariat had to accelerate the pace of reform and to put into action a number of remedial measures to allow the Organization achieve greater focus on priority programme implementation, obtain major savings on expenditures and maintain a positive cash flow situation throughout the year. The actions taken include short-term and temporary measures to cut on expenditures but also longer term and structural measures to gain efficiency, which include the:

- reduction of the work plan envelope from 653 million US dollars to 465 million US dollars to absorb the non-payment of Member States' contributions;
- establishment of an Emergency Multi-Donor fund with 68 million US dollars of contributions received as of 31 December 2012 to address funding gaps for priority actions and reform initiatives;
- six-monthly allocation of funds based on detailed analysis of work plans to achieve greater focus with regular monitoring and forecasting of expenditures and cash flow;
- freeze of recruitments except for limited mission critical posts;
- decrease in consultancy fees, the number of consultants and temporary assistants, and limitation in travel expenditure with reinforced planning and tools to improve process efficiency; and,
- reorganization of central services' administrative units which are to be fully operational in 2013.

All these measures were taken with the objective of safeguarding UNESCO's capacity to deliver its mandate taking into account the financial constraints while maintaining an effective internal control system. During the year, I have reported regularly and in full transparency to Member States on the achievements and challenges based on a detailed road map, presented at the 189th session of the Executive Board, which sets out key targets for the implementation of the 2012 - 2013 objectives considering the financial constraint.

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 in conditions, the effectiveness of internal control may vary over time.

I am committed to addressing any weaknesses in internal controls noted during the year and 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 2012.



Irina Bokova
Director-General

Bureau of Financial Management
United Nations Educational,
Scientific and Cultural Organization
7, place de Fontenoy,
75352 Paris 07 SP, France