United Nations
Educational, Scientific and
Cultural Organization

FINANCIAL STATEMENTS
2017

Contents

1 FINANCIAL REPORT OF THE DIRECTOR-GENERAL

INTRODUCTION

In accordance with Article 11.1 of the Financial Regulations, I have the honour to submit the financial statements and financial report of the Organization for the year ended 31 December 2017.

The External Auditor has expressed an unqualified (clean) opinion on the financial statements. His report is submitted to the Executive Board 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 2017.

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 nine category 1 institutes. The financial statements cover all four business segments, namely;

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

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

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

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

The financial statements consist of:

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

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

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

A Cash Flow Statement

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

A Comparison of Budget and Actual Amounts

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

Notes to the Financial Statements

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

ORGANIZATIONAL BACKGROUND, OBJECTIVES, STRATEGY AND PROGRAMMES

UNESCO was created in 1945 with an aim at contributing 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 10 Associate Members as at 31 December 2017.

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

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

The following section provides a summary of key achievements of the implementation of UNESCO's Major Programmes during the 2014-2017 quadrennium.

MAJOR PROGRAMME I – EDUCATION

A key achievement of Major Programme I during the quadrennium was to successfully reposition UNESCO as the lead global agency in education. UNESCO led consultations on and shaped the Education 2030 Agenda, encapsulated in Sustainable Development Goal 4 (SDG 4), and has been entrusted by the international community to coordinate its monitoring and implementation. Significant resources have been invested in order to help Member States deliver on their SDG 4 commitments. A global coordination mechanism (SDG-Education 2030 Steering Committee) has been put in place, consultations across all regions/subregions have been organized, many of which have resulted in roadmaps, and country-level support is being provided through targeted interventions.

Major Programme I continued to place strategic focus on its four priority areas – sector-wide policy and planning, literacy, technical and vocational education and training (TVET) and teachers – and became the lead agency on Global Citizenship Education (GCED), including the prevention of violent extremism through education (PVE-E). The preparation of a future Global Convention on the Recognition of Higher Education Qualifications represented a major undertaking. Major Programme I also strengthened its response to education in emergencies through targeted interventions, notably on the Syria crisis. Progress was made on mainstreaming gender equality and a new Section was created to support Member States to advance gender equality in education. Africa was consistently prioritized, which came to have the largest share of regular programme funds and staff in the field.

Overall, extrabudgetary resources rose on average by 6% per year since 2012. Some 75% of Major Programme's expenditures were funded from extrabudgetary resources and directly benefited more than 65 countries, the majority of which are least developed countries and in Africa. The increase in voluntary contributions came primarily from government donors, particularly Sweden (Swedish International Development Cooperation Agency), the Republic of Korea, Norway, Peru, Japan and China. Major Programme I also diversified its partnerships during the quadrennium to include the private sector, philanthropic organizations and foundations as well as global funding mechanisms.

MAJOR PROGRAMME II – NATURAL SCIENCES

During the 2014-2017 quadrennium, important milestones included the recognition, for the first time, of the pivotal role of science in the 2030 Agenda (2015), to which UNESCO contributed through its strong advocacy role. UNESCO's programmes in science have since been closely aligned to contribute to the SDGs and their Targets to serve better Member States' needs, focusing on the two global priorities Gender Equality and Africa.

UNESCO's normative science policy work has been strengthened with tools such as the UNESCO Science Report, the GO-SPIN platform, and the SAGA project on gender indicators and policy. UNESCO led the United Nations Secretary-General's Scientific Advisory Board (2014-2016). Capacity building in the basic and engineering sciences was efficiently implemented through Abdus Salam International Centre for Theoretical Physics (ICTP), The World Academy of Sciences for the advancement of science in developing countries (TWAS), and affiliated networks of Chairs and centres but suffered heavily from loss of resources as did the programme on energy. Key achievements include the opening of the Synchrotron-light for Experimental Science and Applications in the Middle East (SESAME) in 2017, and the successful implementation of the International Years of Crystallography (2014) and Light (2015).

Other key achievements include: the adoption of the Man and the Biosphere (MAB) Programme Strategy (2015-2025) and the Lima Action Plan (2016-2025); the first MAB Youth Forum (2017); the successful implementation of the exit strategy for the World Network of Biosphere Reserves; the ratification of the new International Geoscience and Geoparks Programme (IGGP) and the label "UNESCO Global Geopark" (2015); adoption of a SIDS Action Plan that frames UNESCO's contributions to implementing the SAMOA Pathway (2015); the incorporation of the role of indigenous knowledge into international processes for climate change (UNFCCC, IPCC) and biodiversity (IPBES); the adoption of the UNESCO Policy on Engaging with Indigenous Peoples (2017); the strong role for the International Hydrological Programme (IHP) and World Water Assessment Programme (WWAP) in the implementation of SDG 6 on Water; four World Water Assessment Reports; and the update of the UNESCO Strategy for Action on Climate Change (2017), which for the first time, exploits the potential of climate change action as a truly intersectoral programme.

Evaluations, strategies and action plans for all the main science programmes have been updated, or will be updated in the new quadrennium (MAB, IHP, IGGP, IBSP, LINKS, SIDS, climate change) aligning them with the 2030 Agenda. Resource mobilization strategies, in line with the Integrated Budget Framework and Structured Financing Dialogues, in coordination between Headquarters and the field offices have been initiated or developed, fully integrating communication aspects. Implementation units have been aligned to Expected Results. Networks of SC-related category 2 centres and Chairs have been strengthened. All programmes were implemented in spite of an important reduction in Regular Programme resources.

For the Intergovernmental Oceanographic Commission (IOC), the 2014-2017 quadrennium was marked by unprecedented achievements in terms of recognition of the ocean and its resources as being indispensable for addressing the multiple challenges that the humankind faces. The adoption of the 2030 Agenda, and in particular of the stand-alone Goal 14 on Oceans, the recognition of the role of the Ocean in the UNFCCC Paris Climate Agreement 2015, the Sendai Disaster Risk Reduction Framework and the SAMOA Pathway are the positive outcome of the unrelenting efforts by the IOC and its partners. The recognition of IOC's role as a custodian agency for targets 14.3 and 14.a of SDG 14, respectively dealing with ocean acidification and ocean science capacity, makes the IOC of UNESCO one of only four (along with WTO, ILO and UNFCCC) United Nations entities that are explicitly referenced in the SDG targets. The SDG 14 specific reference to IOC Guidelines and Criteria on the transfer of marine technology is a culmination of a multi-year effort of IOC aimed at operationalizing the transfer of marine technology under the United Convention on the Law of the Sea (UNCLOS). Transfer of marine technology is now an integral element of the IOC Capacity Development Strategy.

IOC's main entry points into the climate change regime have been through systematic ocean observations and scientific input to the Intergovernmental Panel on Climate Change (IPCC) assessments and raising awareness on the role of the ocean at UNFCCC COP meetings. Systematic ocean observation contributions to the Global Climate Observing System (GCOS) were coordinated through the Global Ocean Observing System (GOOS), working with Member States in their annual $1-2 billion investment, in delivering shared ocean observations related data available to all; addressing global climate, operational ocean services, and questions of increasing threats to ocean health with growing human pressures, including climate change. The IOC-coordinated regional tsunami warning systems in all tsunami-prone areas of the ocean constitute a very strong contribution to the implementation of the Sendai Disaster Risk Reduction Framework. This is a real-time 24/7 operational service to protect human lives. The IOC's first *Global Ocean Science Report* (GOSR) identifies and quantifies the key elements of ocean science, including workforce, research expenditure, infrastructure and publications globally.

All these and many other achievements convincingly show that IOC has been on the right path to contributing ocean-related solutions to major challenges of our time. This "*active role, sometimes well in advance*" has been highlighted by the External Auditor in his report 200 EX/20.INF.2. IOC efforts gained the ultimate recognition in December 2017 with the proclamation by the United Nations General Assembly of the IOC-coordinated United Nations Decade of Ocean Science for Sustainable Development. This is a tremendous success but also a heavy responsibility.

MAJOR PROGRAMME III – SOCIAL AND HUMAN SCIENCES

The 2014-2017 quadrennium was a period of transition and consolidation for Major Programme III (MP III). Globally, the 2030 Agenda for Sustainable Development has enshrined sustainability in a set of ambitious and transformative goals anchored in human rights, targeting universality of application and committing to "leaving no one behind", all of which are the values upheld and objectives pursued by MP III. Institutionally, the Social and Human Sciences Sector undertook a reassessment of its core programmes, reorganizing its work around a common thread: "Mobilizing knowledge and values in dialogue with our stakeholders to equip societies to better understand the challenges they face and transform themselves in response".

Key achievements of MP III include: provision of upstream policy advice on youth in 38 countries; advancement of the research-policy nexus in social policies at regional level, in particular in Latin America and Africa, as well as at national level; wide mobilization of stakeholders in support of the Action Plan of the International Decade for the Rapprochement of Cultures; reactivation of the UNESCO International Coalition of Inclusive and Sustainable Cities (ICCAR) and its regional chapters providing a platform for local authorities to address discrimination and exclusion; capacity-building and institutional development in the area of bioethics, anti-doping and sport. A major breakthrough was the adoption by the General Conference at its 39th session of the first-ever Declaration of Ethical Principles in relation to Climate Change, after over 10 years of work by COMEST. Furthermore, the Conference adopted the Recommendation on Science and Scientific Researchers, replacing the Recommendation on the Status of Scientific Researchers. Building on the revised "International Charter of Physical Education, Physical Activity and Sport", MINEPS VI (Kazan, July 2017) adopted the Kazan Action Plan highlighting a global consensus on five major policy commitments that will optimize the contributions of sport to Agenda 2030.

MAJOR PROGRAMME IV – CULTURE

Important headway was made during the 2014-2017 quadrennium in Culture. The first most noticeable achievement is the adoption of the 2030 Agenda and the inclusion of culture in several SDGs. The Culture Sector has taken steps to support Member States in achieving relevant SDGs at the policy and operational levels through its conventions and associated programmes. Three of the culture conventions – 1972 World Heritage, 2003 Intangible Cultural Heritage and 2005 Diversity of Cultural Expressions – have already integrated sustainable development in their operations and policy frameworks. Efforts are under way to improve monitoring mechanisms to better capture the contribution of culture to the SDGs. The Sector continued stepping up its cooperation with other programme sectors and its engagement with external partners to consolidate the place of culture in sustainable development policies and programmes.

The second area of significant progress concerns emergencies. The United Nations Security Council adopted several resolutions that recognized the links between the protection of culture, peace and security. The International Criminal Court's first sentencing for war crime for the destruction of heritage in northern Mali is a major step in the fight against impunity. The Organization is now equipped with a comprehensive framework that strengthened its policy environment and operational response capacity to emergencies, comprising a Strategy capturing the work undertaken by all cultural conventions and an Action Plan to operationalize it. It also has a Heritage Emergency Fund to fast-track funding for activities carried out through field offices in support of affected countries. At the operational level, technical assistance was provided to conflict-stricken countries in the Middle East, and to other countries affected by natural disasters in Latin America and Asia.

Despite persisting financial constraints faced during the reporting period, the Organization's normative action in culture suffered no interruption. All statutory meetings were held as planned. The ratification of the conventions was systematically encouraged, although adhesions to the 1954, 1970 and 2001 Conventions are still far from the universality necessary for impact. Field offices focused their efforts on building national institutional and human capacities for the implementation of the conventions and providing policy support at the national level, in particular in Africa, Arab States and SIDS. Finally, a new Recommendation on Museums and Collections was adopted in 2015.

The advances made during the past quadrennium are considerable for the Organization's leadership in culture. However, significant additional financial resources would be required to meet growing expectations that the above successes generate. The costs associated to the statutory mechanisms continue to weigh heavily on the Sector's operational capacity, and the mismatch between resources available and the increasing demands from the conventions' governing bodies, which were documented in several IOS audit and evaluation reports, has persisted. The Culture Sector is fully engaged in resource mobilization to address these challenges, which require the support of Member States and of the conventions' governing bodies.

MAJOR PROGRAMME V – COMMUNICATION AND INFORMATION

The communication and information landscape continues to undergo tremendous change. In the past four years, opportunities for accessing information and knowledge blossomed, as seen through the adoption of freedom of information laws and growth in internet access. At the same time, digital and knowledge divides continue between developing and developed countries, women and men, rural and urban, and people with disabilities and those without. Misinformation, disinformation, hate speech and content that aims to radicalize towards violent extremism increasingly distorts the media environment, and journalists continue to face physical, psychological and digital threats to their safety. New technological applications related to, *inter alia*, artificial intelligence, big data and the Internet of Things are spreading and posing new threats and opportunities for humankind.

In the face of the growing challenges cited above, the work of UNESCO's Communication and Information Sector (CI) to foster freedom of expression, develop media and build inclusive knowledge societies took on increased urgency and relevance in the past four years, resulting in clear impact at the global, regional and national levels. Through partnerships with Member States, civil society, media, academia, the technical community and the private sector, CI strengthened intellectual cooperation, knowledge sharing and operational partnerships to reinforce an enabling environment for communication and information. Momentum in strengthening international norms and standards on the safety of journalists and the issue of impunity continued, and CI continued to share knowledge, serve as a policy advisor and laboratory of ideas on human rights in the digital age. Efforts to build inclusive knowledge societies through universal access to and preservation of information advanced in 2015 when UNESCO's General Conference declared 28 September as the International Day for Universal Access to Information. The impact of UNESCO's activities, resolutions and approaches on key ICT and Internet-related issues dramatically increased through multi-stakeholder activities and partnerships, as well as the endorsement of the concept of Internet Universality for a human Rights-based, Open, Accessible and Multi-stakeholder shaped Internet as a key enabler of sustainable development.

A lack of adequate human and financial resources presented significant challenges for programme implementation, which were further exacerbated the freeze of Regular Programme funds in June 2017. CI largely made up for the budgetary gap through mobilizing some US $52.6 million in voluntary contributions from Member States, multilateral institutions, private sector companies and foundations and the United Nations system. Staffing shortages were mitigated through the secondments of experts and volunteers, as well as the use of temporary staff, including consultants, service contractors and interns. During this period, the Sector was able to demonstrate that by harnessing its “soft power” – through generating innovative proposals, facilitating international and regional cooperation and fostering strategic alliances – UNESCO can effectively promote the essential role of freedom of expression, access to information and ICTs in building peaceful and inclusive knowledge societies and achieving sustainable development.

SIGNIFICANT EVENTS

The Organization faced cash flow difficulties during the financial period arising from the delayed payment of Member States contributions. Three Member States with contributions of $76 million were delayed in the payment of their contributions. Consequently, a Contingency Plan, introduced in June 2017, was put in place to ensure that the Organization operates within its expected cash flow. The Contingency Plan led to the freezing of recruitment, the suspension and cancellation of activities which affected the implementation of the Programme budget.

In December 2017, two of the Member States mentioned above paid their contributions in full and the other made a partial payment towards the settlement of its arrears. Following the receipt of these contributions, the Contingency Plan was lifted but the Organization was not able to spend $27 million of the Programme funds allocated for the year. I will be making a proposal on the use of these funds to the Executive Board.

Israel and the United States of America have notified the Organization of their decisions to withdraw as Member States of UNESCO. The effective date of withdrawal for both is 31 December 2018. These two Member States have suspended their contributions to the Organization since 2011 and the programme budget was adjusted since then accordingly. Though their withdrawal would not have an immediate financial impact, it is regrettable that UNESCO will no longer have two of its current 195 Member States on 1 January 2019.

FINANCIAL STATEMENT HIGHLIGHTS

The consolidated deficit for the year is $39.7 million compared to a deficit of $48.7 million in the previous year. The regular programme operations generated a deficit of $36.2 million, whereas the other combined operations generated a deficit of $3.5 million.

Total revenue of $648.4 million increased by 5.4% ($33.4 million) compared to the previous period mainly attributable to a significant foreign exchange gain of $23.6 million due to a strong euro against the US dollar. A significant portion (47%) of Member States’ contributions are assessed in euros. Voluntary contributions increased by 6% ($14.9 million). Expenditure, on the other hand, also increased by $24.5 million (3.7%) to $668.2 million.

Overall, the net assets position increased by $2.2 million to $257.6 million as at 31 December 2017.

Total current assets of $771.1 million increased by $25.1 million (3.40%) compared to the previous year. Short-term investments, cash and cash equivalents of $ 687.8 million represent 89.2% of the total current assets.

The increase of $22.4 million (10.9%) in current liabilities is mainly attributable to the increase of $5.4 million of accounts payable and $14.6 million of condition on voluntary contributions.

Gross outstanding assessed contribution from Member States has increased significantly over the last three years to $595.4 million due to the suspension of payments by a Member State in 2011. The cumulative allowance made due to non-payment of contributions amounted to $559.7 million (94% of the total due).

FINANCIAL PERFORMANCE

BUSINESS SEGMENT ANALYSIS

As shown in Table 1, the deficit of $36.2 million recorded under the regular programme segment (GEF) remained relatively stable compared to the deficit of the previous financial period ($35.5 million). Under the Proprietary Fiduciary Fund (PFF) the deficit in 2016 decreased in 2017 by $2.9 million to $25.2 million. The Other Proprietary Fund (OPF) segment had a surplus of $14.3 million ($14.1 million in 2016) and the Staff Fiduciary Fund (SFF) recorded in 2017 a surplus of $7.4 million, a significant increase of $6.6 million compared to the prior year.

TABLE 1. SUMMARY FINANCIAL PERFORMANCE BY FUND

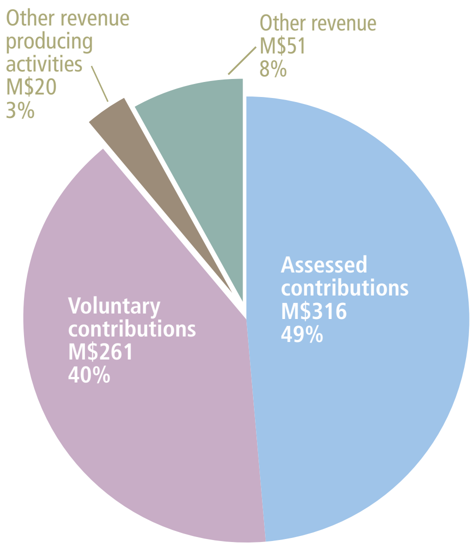
Expressed in million US dollars	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
Total Revenue	350.3	52.4	267.8	32.2	(54.3)	648.4
Total Expenses	(386.5)	(38.1)	(293.0)	(24.8)	54.3	(688.1)
(Deficit)/Surplus – 2017	**(36.2)**	**14.3**	**(25.2)**	**7.4**	**–**	**(39.7)**
(Deficit)/Surplus – 2016	(35.5)	**14.1**	(28.1)	0.8	–	(48.7)

REVENUE ANALYSIS

Gross assessed contributions amounting to $316.3 million represent 48.8% of the total revenue (2016: 52.5%) with voluntary contributions accounting for 40.3% (2016: 40.1%).

FIGURE 1

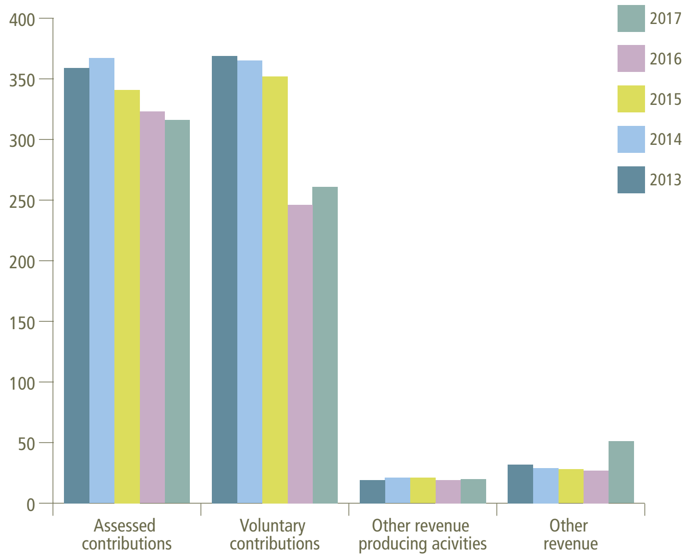
REVENUE BY SOURCE (AMOUNTS IN USD MILLIONS): TOTAL $648.4 MILLION



An allowance for the year of unpaid contributions of $77.4 million was made and this mainly reflects the decision of two Member States to suspend their regular contributions, thus bringing the net assessed contributions revenue to $238.9million.

FIGURE 2

REVENUE SOURCES: 5-YEAR COMPARISON (IN USD MILLIONS)



As shown under Figure 2 above, assessed contributions over the past five years have remained relatively stable reflecting the zero nominal growth budget in place. The variations are due to currency exchange movements between the US dollar and the Euro as part of Member States contributions are assessed in euros.

Voluntary contributions have been stable at $350 million and above per year from 2013 to 2015. However, there was a steep decrease in 2016 mainly attributable to two factors: less revenue received from donors (-$62 million) and the discontinuation of the IHE Delft Institute as a UNESCO category I Institute (-$43 million). Revenue slightly increased in 2017 by 6% to $261.3 million.

EXPENSE ANALYSIS

TABLE 2. CHANGE IN EXPENSES

Nature of expenses	(Expressed in millions of USD)			
	2017	2016	Net Change (USD)	Net Change (%)
Employee benefits expenses	318.5	312.5	6.0	1.9%
Consultants, external experts and mission costs	52.8	47.4	5.4	11.4%
External training, grants and other transfers	40.7	45.7	(5.0)	(10.9%)
Supplies, consumables and other running costs	54.7	52.5	2.2	4.2%
Contracted services	120.2	109.3	10.9	10.0%
Allowance for unpaid Member States contributions	77.4	71.5	5.9	8.3%
Other expenses	23.9	24.8	(0.9)	(3.6%)
Total expenses	**688.2**	**663.7**	**24.5**	**3.7%**

Employee benefits expenses increased by $6.0 million to $318.5 million. Salaries of international and national staff based at Headquarters, in more than 50 field and liaison offices worldwide, and in the nine category 1 institutes amounting to $223.7 million, represent 70.2% of employee benefit. A further $33.1 million (10.4% of employee benefits) was spent on temporary personnel to support the delivery of programmes and activities. Medical benefit expenses and accrual of After-Service Health Insurance costs for current and retired staff amounted to $61.6 million.

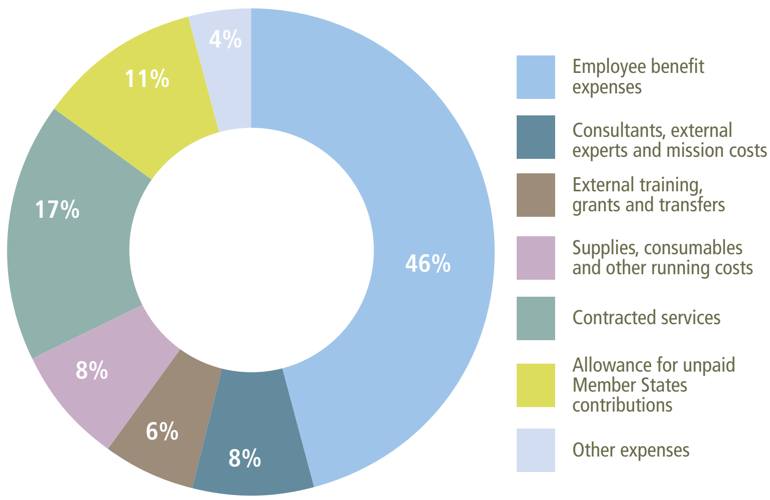
Consultants, external experts and mission costs increased by $5.4 million (11.4%) to $52.8 million.

Contracted services of $120.2 million have increased by $10.9 million (10.0%). These represent expenses where a third party entity is engaged to perform work on behalf of the Organization. This could be a contract with a commercial organization, not-for-profit organizations and government ministries for the implementation of activities/programmes under UNESCO's mission and mandate.

The allowance for assessed contribution of $77.4 million represents mainly the unpaid contributions of the current year from the two Member States who have suspended the payment of their contributions to the Organization.

FIGURE 3

COMPOSITION OF 2017 EXPENSES BY NATURE



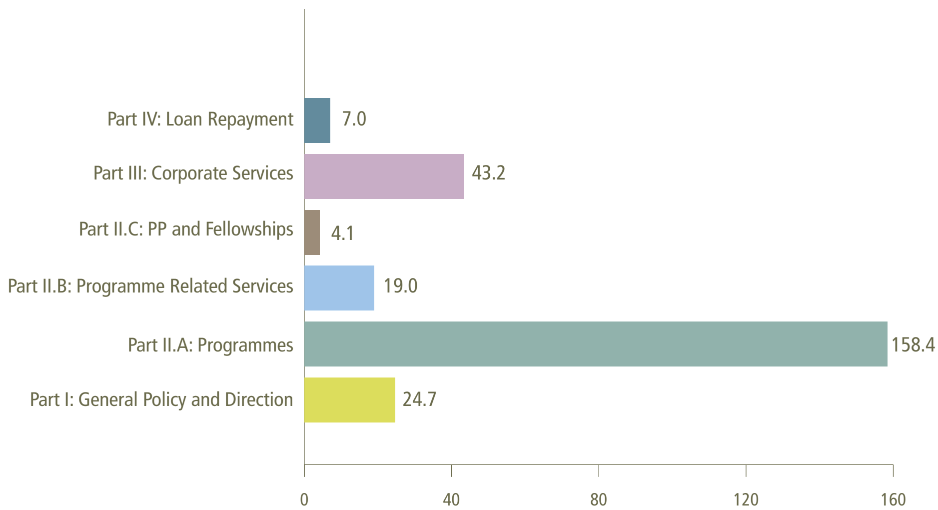
BUDGETARY PERFORMANCE

The Organization continues to be faced with the suspension of contributions from two Member States amounting to 22.4% of the approved budget of $653 million. The General Conference accordingly approved an expenditure plan of $518 million for the 2016-2017 budgetary period in order to ensure that Organization operates within the expected cash flow.

The budget expenditure for the second year amounted to $256.4 million ($253.6 million in 2016). As figure 4 shows, the expenditure on Programmes was $158.4 million representing 61.8% of the total budget expenditure.

FIGURE 4

2017 BUDGETARY EXPENDITURE BY APPROPRIATION LINE (IN USD MILLIONS)



FINANCIAL POSITION

The net assets/equity of the main segment GEF is still negative at -$180.4 million in 2017 (2016: -$187.6 million). Even though the PFF net assets/equity decreased by $26.9 million in 2017, its overall position remained strong with net assets of $303.9 million.

TABLE 3. SUMMARY FINANCIAL POSITION BY FUND

Expressed in '000s US dollars	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
Total Assets	665.8	113.1	500.1	43.6	*(9.9)*	1 312.7
Total Liabilities	(846.2)	(15.3)	(196.2)	(8.2)	*(10.8)*	(1 055.1)
Net assets/Equity – 2017	**(180.4)**	**97.8**	**303.9**	**35.4**	*0.9*	**257.6**
Net assets/Equity – 2016	**(187.6)**	**83.0**	**330.8**	**29.2**	**–**	**255.4**

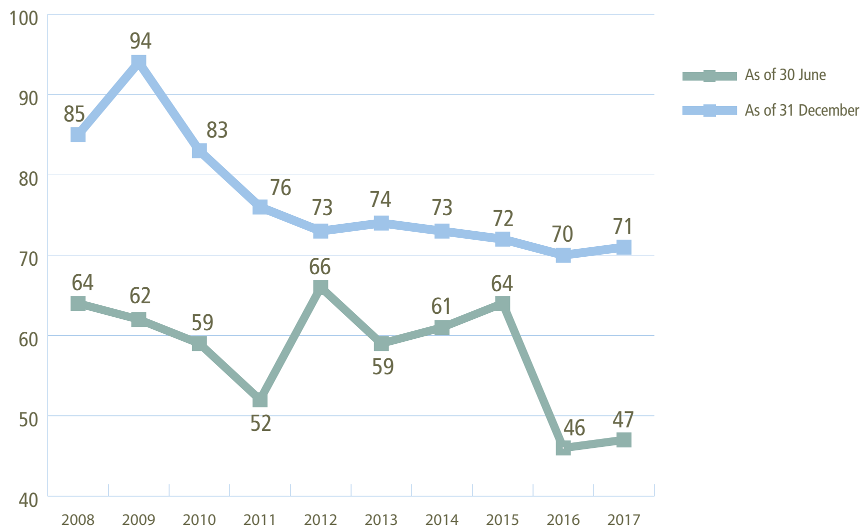
The net working capital (current assets less current liabilities) amounted to $544.0 million (2016: $541.4 million). This high level of working capital is attributable to the significant amount of cash and short-term investments held for the execution of extrabudgetary projects. The regular programme segment (GEF) working capital of $72.1 million (2016: $63.7 million) represents 13.2 % of the overall situation (2016: 11.8%).

CONTRIBUTIONS

As compared to 30 June 2015, the collection rate as at 30 June 2017 decreased sharply due to delayed payments from some of the top contributors. Overall, the rate of collection of assessed contributions in the year of assessment remained stable since 2012.

FIGURE 5

ASSESSED CONTRIBUTIONS TO THE REGULAR BUDGET: COLLECTION RATE (IN % IN THE YEAR OF ASSESSMENT)



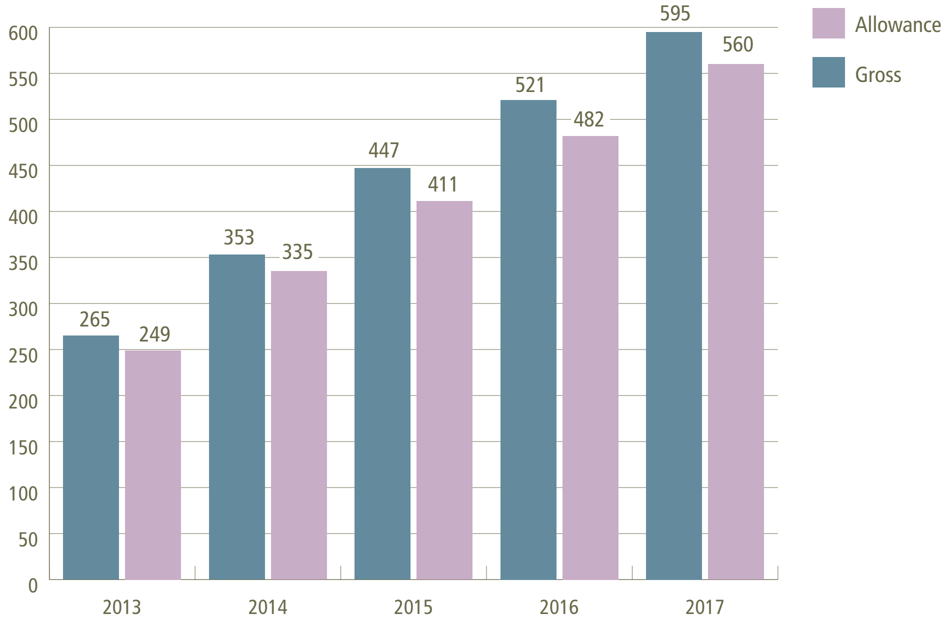
Gross outstanding assessed contributions amounted to $595.4 million, an increase of 14.2% over the previous year's level. Outstanding contributions to the Regular Budget are due from 48 Member States and five Associate Members. One Member State owes 91.6% ($545.3 million) of the outstanding balance.

The gross assessed contributions are due and payable to the Organization in accordance with the Constitution and Financial Regulations of the Organization and none of the balance is written-off. However, as required under

IPSAS, an allowance is made for the non-payment of contributions and the cumulative amount is $559.7 million thus bringing the net assessed contributions in the statement of financial position to $35.7 million.

FIGURE 6

GROSS OUTSTANDING CONTRIBUTIONS VS. ALLOWANCE (IN USD MILLIONS)



AFTER-SERVICE HEALTH INSURANCE (ASHI) LIABILITY

After a significant increase of the ASHI liability in 2014 mainly due to a change in the discount rate, the total liability has, since 2015, decreased from $780 million to $759 million in 2017.

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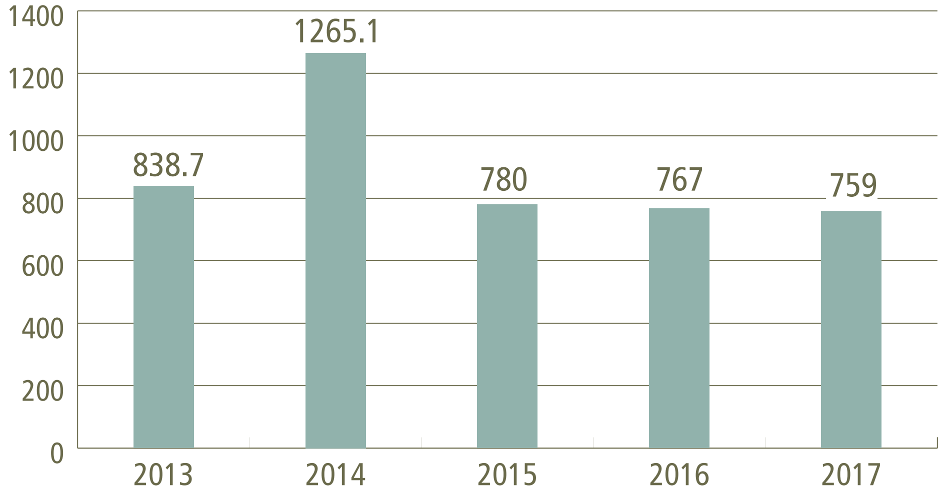
FIGURE 7

ASHI LIABILITY (IN USD MILLIONS)



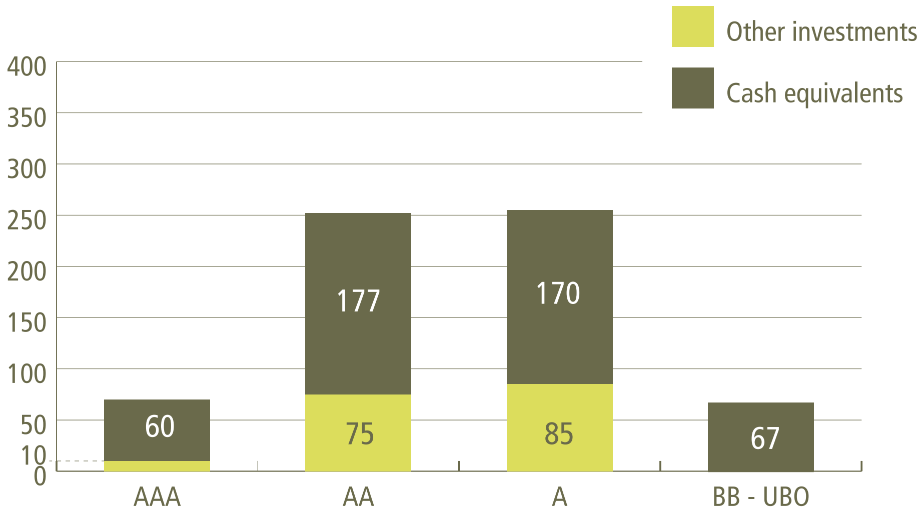
INVESTMENT PORTFOLIO

The investment portfolio of UNESCO amounted to $644 million as at 31 December 2017. The portfolio is mainly composed of investments in saving accounts, money market deposits and other short-term investments with major banking institutions with strong credit ratings (minimum single "A").

The functional currency of UNESCO Brasilia (UBO) is the Brazilian Real (BRL) and consequently its investments were made in short-term Brazilian Government Treasury Bills in BRL that were rated BB as at the year-end.

FIGURE 8

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



The primary objective of UNESCO's Investment Policy is the preservation of the value of resources of the Organization. Within this general objective, the principal considerations for investment management are in order of priority: security of principal, liquidity and rate of return. UNESCO's investments outperformed their benchmarks both in US dollar and euro in 2017. The performance of the BRL investment portfolio was in line with that of its respective benchmark.

Audrey Azoulay

Audrey Azoulay
Director-General

2 STATEMENT ON INTERNAL CONTROL

United Nations
Educational, Scientific and
Cultural Organization

Organisation
des Nations Unies
pour l'éducation,
la science et la culture

Statement on Internal Control for 2017

22 March 2018

Scope of responsibility

1. 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

2. Internal control is designed to reduce and manage rather than eliminate the risk of failure to achieve the Organization's aims and objectives. 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.

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

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

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

5. My current statement on UNESCO's internal control processes, as described above, applies for the year ended 31 December 2017, and up to the date of the approval of the Organization's 2017 financial statements.

Risk management and control framework

6. The Organization has a risk management programme which includes:

   - A UNESCO Risk Management Policy,
   - The identification of risks classified according to relevance, impact and probability of occurrence,

- The establishment of a risk management committee whose mandate is to develop action plans to address major risks, to build up an integrated risk management framework, to strengthen risk management capacities and a risk management culture, and to regularly re-evaluate risks and the Organization's tolerance levels in light of the evolving environment, and
- The "Risk Management handbook" setting out the basic concepts and mechanisms underlying risk management and enabling UNESCO staff to set up risk profile as well as a risk management plan as applicable to their Sections, Divisions or Offices.

7. In addition to the above, the Organization is committed to enhance risk management by implementing a full Enterprise Risk Management (ERM) system.

8. 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

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

   - My senior managers, in particular Assistant Directors-General, Directors of Bureaux and Offices, Directors and Heads of Established Offices and Category 1 Institutes away from Headquarters who play important roles and are accountable for expected results, performance, controlling their Sector/Bureaux/Office/Institute's activities and the resources entrusted to them. The information channels mainly rely on periodic meetings held by the Senior Management Team and the Programme Management Committee, as well as regular reporting.
   - For the year ended 31 December 2017, 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 self-assessment questionnaires are regularly updated to take account of areas of risk as identified internally and arising from audit recommendations. This year, my senior managers' were reminded of the importance of providing objective feedback to address their operational risks ;
   - The Internal Oversight Service, on whose reports of internal audits, evaluations and advisory services I rely. These reports, which are also provided to the Oversight Advisory Committee and summarized in the Internal Oversight Service's annual report, include independent and objective information on the adequacy and effectiveness of the Organization's system of internal controls and programme effectiveness together with recommendations for improvement;

- The Oversight Advisory Committee whose purpose is to advise me on risk management, financial and internal controls and the related functions of oversight;
- The Ethics Advisor who provides confidential advice and counsel to the Organization and its staff on ethics and standards of conduct and promotes ethical awareness and responsible behavior;
- The Senior Corporate Oversight Officer who *inter alia* coordinates and ensures coherent organizational responses to internal and external oversight reports and their recommendations, and identifies cross-cutting issues and trends that require strategic input and decisions at the senior management level;
- The Risk Management Committee;
- The Joint Inspection Unit of the United Nations system which undertakes independent reviews aimed at improving management and economy and achieving greater co-ordination between the UN organizations;
- The external auditor, whose comments are submitted to the Executive Board and the General Conference; and
- The Governing Bodies' observations.

Significant matter(s) arising during the year

10. The financial situation of the Organization was placed under significant pressure in 2017 due to the delayed payment of assessed contributions to the Organization. While measures were taken to manage cash flow risks and advance on critical projects, activities and initiatives suffered delays and some called for a phased approach towards full implementation.

11. The end of the year was also marked with my election at the post of Director-General of the Organization. I took stock of the challenges and opportunities ahead of the Organization in view of elaborating rapidly a road map towards the strategic reform of the Organization to reinforce its capacity to deliver its ambitious mandate and to improve its financial stability.

Financial situation

12. Delayed payments of contributions represented a significant financial pressure in the last quarter of 2017, which, despite specific management measures in place, affected the cash flow situation of the Organization. The Executive Board endorsed the contingency plan proposed by the Secretariat to achieve cost reductions in the event that uncertainty regarding cash flow shortages persisted after May 2017. This event materialized and a phased approach to the contingency plan was chosen after an in depth review of the savings opportunities. The Secretariat regularly updated the Executive Board of the contingency plan impacts on the programme implementation. At the end of 2017, some of the delayed contributions, including the largest ones, were paid by Member states thus relieving the contingency plan for 2018.

13. The General Conference has requested that the Director-General present, to the Executive Board in 2018, possible measures to improve the collection of assessed contributions due from Member States.

Resource mobilization

14. In a context of uncertainty on the timely payment of core contributions and increased reliance on extrabudgetary funding, securing voluntary contributions in a more focused and rational manner has become vital to the Organization. Resource mobilization targets have been defined within the Integrated Budget Framework. In addition, the Structured Financing Dialogues will contribute as a tool for resource mobilization to improve the quality and sustainability of resources for UNESCO's Programme and Budget.

15. At an operational level, Senior Managers have reported their commitment to further working on reaching resource mobilization targets. Managers' performance are also evaluated on targets met. An action plan will be elaborated taking account of internal audit, external audit and evaluation recommendations.

Enterpriser risk management (ERM)

16. Risk management is a key component of a robust internal control system. Further work is needed in this area to increase the Organization's risk maturity level and equip Staff with adequate risk management capacity. The implementation of the action plan towards ERM has continued in 2017. The road map for ERM implementation will be closely monitored for completion during 2018:
    (i) A UNESCO full-fledged Risk Management Policy was finalized and will be largely communicated in 2018
    (ii) The formulation of a comprehensive risk register: 10 corporate risks have been identified and will be monitored as part of the Risk Management Committee's remit
    (iii) The establishment of a ERM manual and procedures and
    (iv) A comprehensive training and communication plan are in progress; UNESCO's senior management team and heads of office were trained during 2017.

Core system redesign project

17. The redesign of core UNESCO information systems is aimed at improving programme management and delivery through enhanced planning and reporting and efficiency gained from the simplification and the automation of processes and integration of systems. While progress has been achieved during 2017 with the selection of a contractor for the blueprint and implementation phase, as well as the merge of the financial (FABS) and human resources (STEPS) systems, the blueprint phase period was extended. Consequently, the project initial implementation roadmap was adjusted to target full implementation in January 2019.

Internal policies, accountability and compliance

18. Key internal policies were updated to support UNESCO's capacity to implement programmes and activities, of which:
    (i) the recruitment policy to improve the recruitment process efficiency and rapidity

(ii) the internal control framework policy to align Staff accountability with regards to internal control activities along the lines of the three line of defense model and

(iii) the information systems related policies.

19. Other updates were initiated in 2017 for finalization in 2018, of which the implementation partnership policy to facilitate project implementation, implement a risk-based approach to partnership management and setting value for money as a core principle for partnerships. The second notable policy is the mission travel policy; the Joint Inspection Unit in their benchmarking with other UN agencies recognized the implementation of major travel saving measures.

20. The first level of control is undertaken by both programme specialists and certifying officers. To this end, the Organization has continued with its regional workshops in various areas financial management including contracting/procurement, ethics and fraud awareness. During the period 2014-2017, 326 programme specialists and 140 administrative/certifying officers were trained.

21. In 2017, several internal and external audit reports highlighted the need for further reinforcement of compliance with administrative rules and procedures. In response to these observations and taking into account the decentralized context in which the Organization operates, the first line of defense will continue to be provided with support and monitoring activities by the second line of defense. The latter will be reinforced in 2018 to ensure that adequate responses are made to such cases of non-compliance. Finally, the non-compliance escalation process will be formalized during 2018 and embedded into applicable policies.

Follow up on audit recommendations

22. Due to resource constraints, the focus has been on monitoring activities and compliance reviews essentially on high-risk areas. As a result, there has been an increased reliance on internal and external audit recommendations to highlight gaps in controls and requirement for policy changes. The implementation of recommendations arising from audits, both internal and external, investigations and evaluations contribute to improving the management and effectiveness of programme delivery and internal operations. The importance of effective and timely follow up of audits and related recommendations is regularly reminded to Senior Managers who are at the forefront for their implementation. The action plan implemented in 2017 to improve the Secretariat's responsiveness to audits resulted in a significant improvement of implementation of outstanding recommendations. Efforts will continue in 2018.

Conclusion

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

24. I am committed to addressing any weaknesses in internal controls noted during the year brought to my attention.

25. 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 2017 and up to the date of approval of the financial statements.

Audrey Azoulay

Audrey Azoulay
Director-General

3 OPINION OF THE EXTERNAL AUDITOR

The First President

Paris, 25 JUIL. 2018

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

AUDIT OPINION

Opinion

We have audited the Financial Statements of the UNESCO, for the 12 months period ended 31 December 2017. These Financial Statements include a Statement of Financial Position as at 31 December 2017, a Statement of Financial Performance, a Statement of Changes in Net Assets, a Statement of Cash Flow, a Statement of Comparison of Budget and Actual Amounts and Notes including a summary of the accounting principles and other information.

Based on our audit, the Financial Statements give a fair view of the Financial Position of the UNESCO as at 31 December 2017, as well as the Financial Performance, the Cash Flow and the Comparison of Budget and Actual Amounts for the 12 months period ending 31 December 2017 in conformity with the International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA) and in accordance with the additional terms of reference defined in Article 12 of the Financial Regulations of the Organisation. 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. As required by the Charter of ethics of the *Cour des comptes*, we guarantee the independence, the fairness, the neutrality, the integrity and the professional discretion of the auditors. Furthermore, we also fulfilled our other ethical obligations in compliance with the Code of Ethics of the International Organisation of Supreme Audit Institutions (INTOSAI). The responsibilities of the auditor are more extensively described in the section "Auditor's Responsibilities for the Audit of the Financial Statements".

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

.../

Management's Responsibilities for the Financial Statements

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. 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.

Auditor's Responsibilities for the Audit of the Financial Statements

The goal of the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

An audit therefore consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the financial statements. The External auditor takes into account the internal control in effect in the entity, relative to the establishment and preparation of financial statements, so as to define appropriate audit procedures in the circumstances, and not with the aim of expressing an opinion on the effectiveness of this control. The choice of the audit procedures is based on the External auditor's professional judgment, as is the case for the risk evaluation of the financial statements, for the assessment of the appropriateness of the accounting policies and of the accounting estimates, and for the overall presentation of the financial statements.

Didier MIGAUD

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4 APPROVAL OF THE FINANCIAL STATEMENTS

APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Established by:

Nutan Wozencroft

Chief Financial Officer

12 June 2018

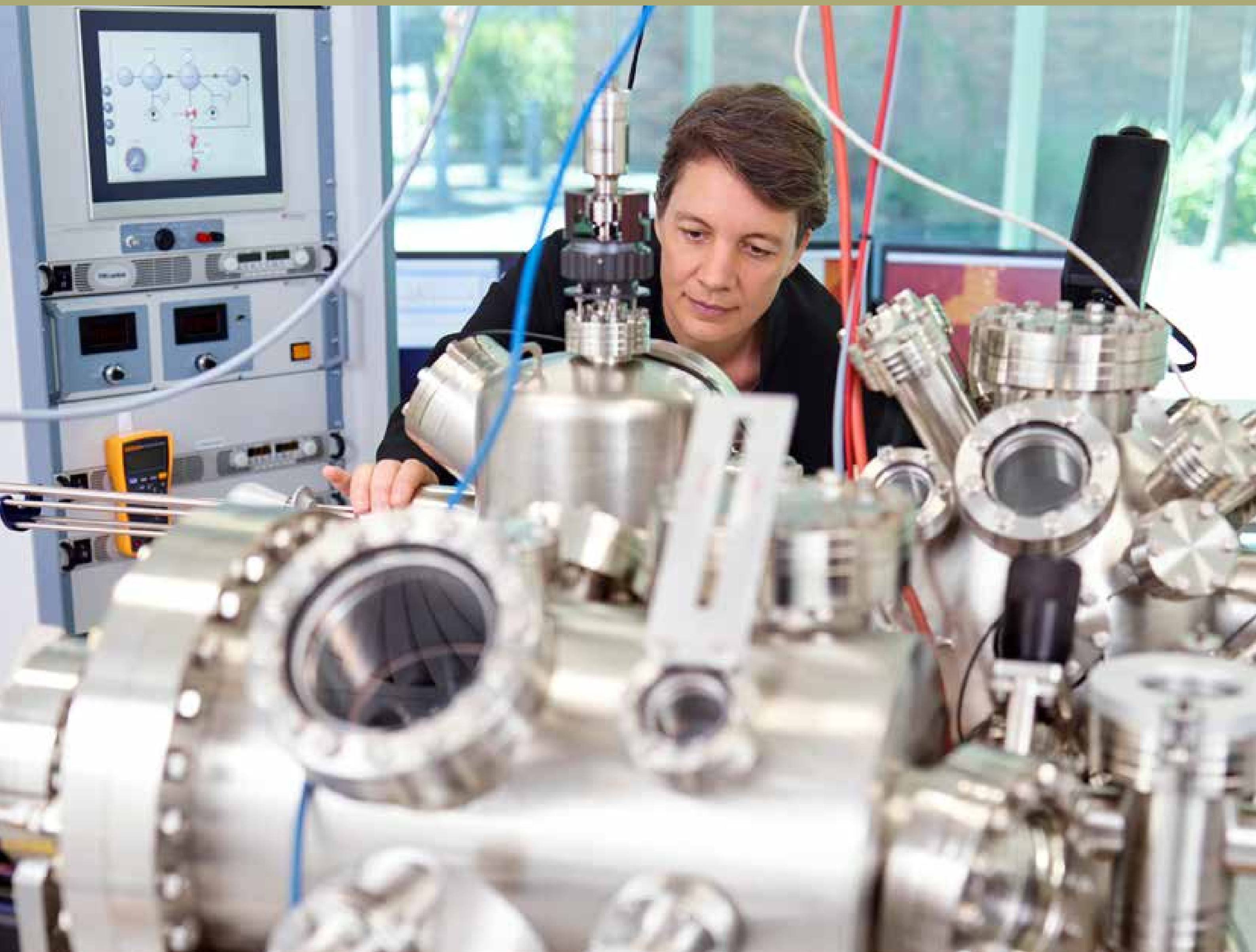
Approved by:

Audrey Azoulay

Director-General

12 June 2018

5 CONSOLIDATED FINANCIAL STATEMENTS



I. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

Expressed in '000 US dollars	Note	31/12/2017	31/12/2016
ASSETS			
Current Assets			
Cash and cash equivalents	5	214 604	154 508
Short-term investments	6	473 195	512 246
Accounts receivable (non-exchange transactions)	7	35 394	39 245
Receivables from exchange transactions	8	1 553	1 667
Inventories	9	371	357
Advance payments	10	34 843	31 424
Other current assets	11	11 133	6 569
Total current assets		**771 093**	**746 016**
Non-current assets			
Accounts receivable (non-exchange transactions)	7	1 989	2 207
Long-term investments	6	1 607	1 612
Property, plant and equipment	12	537 711	549 884
Intangible assets	13	271	63
Total non-current assets		**541 578**	**553 766**
TOTAL ASSETS		**1 312 671**	**1 299 782**
LIABILITIES			
Current Liabilities			
Accounts payable (exchange transactions)	14	23 149	17 791
Employee benefits	15	7 191	6 927
Transfers payable	16	16 765	15 043
Conditions on voluntary contributions	17	72 275	57 661
Advance receipts	18	87 859	88 478
Borrowings current portion	19	7 202	6 316
Other current liabilities	20	12 601	12 432
Total current liabilities		**227 042**	**204 648**
Non-current Liabilities			
Employee benefits	15	813 549	820 890
Conditions on voluntary contributions	17	182	390
Borrowings long-term portion	19	8 502	13 521
Other non-current liabilities	20	5 841	4 974
Total non-current liabilities		**828 074**	**839 775**
TOTAL LIABILITIES		**1 055 116**	**1 044 423**
NET ASSETS		**257 555**	**255 359**
NET ASSETS/EQUITY			
Reserves and fund balances	21	257 555	255 359
NET ASSETS/EQUITY		**257 555**	**255 359**

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

II. STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2017

Expressed in '000 US dollars	Note	31/12/2017	31/12/2016
REVENUE			
Assessed contributions		316 327	322 727
Voluntary contributions		261 278	246 329
Other revenue producing activities		19 776	18 611
Other/miscellaneous revenue		13 651	14 410
Foreign exchange gains		23 579	–
Finance revenue		13 811	12 948
Total revenue	**22**	**648 422**	**615 025**
EXPENSES			
Employee benefit expenses		318 467	312 527
Consultants, external experts and mission costs		52 782	47 411
External training, grants and other transfers		40 757	45 727
Supplies, consumables and other running costs		54 684	52 505
Contracted services		120 170	109 354
Depreciation and amortization		17 645	17 416
Allowance for assessed contributions		77 393	71 542
Other expenses		1 479	928
Foreign exchange losses		–	1 778
Finance costs		4 793	4 499
Total expenses	**23**	**688 170**	**663 687**
DEFICIT FOR THE PERIOD		**(39 748)**	**(48 662)**

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 2017

Expressed in '000 US dollars	Note	31/12/2017	31/12/2016
Net Assets/Equity at the beginning of the period		**255 359**	**249 311**
Exchange differences on certain foreign currency transactions	21	(284)	9 845
Actuarial gain	21	48 216	47 763
Other adjustments	21	(701)	191
Return of funds to donors	21	(5 287)	(3 089)
Total of item recognized directly in Net Assets/Equity		**41 944**	**54 710**
Deficit for the period	21	(39 748)	(48 662)
Total recognized revenue and expense for the period		**2 196**	**6 048**
Net Assets/Equity at the end of the period		**257 555**	**255 359**

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

IV. CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

Expressed in '000 US dollars	Note	31/12/2017	31/12/2016
Cash flows from operating activities			
(Deficit) for the period		(39 748)	(48 662)
Depreciation and amortization		17 645	17 416
Decrease/(Increase) in accounts receivable		4 402	(3 486)
(Increase)/Decrease in inventories		(6)	279
(Increase)/Decrease in advance payments		(3 918)	6 656
(Increase) in other current assets		(10 383)	(3 981)
Increase/(Decrease) in accounts payable		5 131	(6 973)
Increase in employee benefits (including actuarial gains/losses)		37 358	36 245
Increase/(Decrease) in transfers payable		1 789	(1 515)
Increase/(Decrease) in borrowings due to revaluations		2 458	(883)
Increase in Conditions on voluntary contributions		14 192	5 682
(Decrease)/Increase in advance receipts		(684)	40 640
Increase in other liabilities		1 863	1 104
Loss on disposal of property, plant and equipment		339	98
Net cash flows from operating activities		**30 438**	**42 620**
Cash flows from investing activities			
Purchase of property, plant and equipment		(5 486)	(3 081)
Decrease / (Increase) in short-term investments		38 760	(29 126)
Decrease in long term investments		5	1 185
Net cash flows from investing activities		**33 279**	**(31 022)**
Cash flows from financing activities			
Repayment of loans		(6 971)	(6 707)
Net cash flows from financing activities		**(6 971)**	**(6 707)**
Net increase in cash and cash equivalents		**56 746**	**4 891**
Cash and cash equivalents, beginning of period	**5**	**154 508**	**149 968**
Exchange rate effects		3 350	(351)
Cash and cash equivalents, end of period	**5**	**214 604**	**154 508**

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 2017 – GENERAL FUND

Main appropriation line	2017 Original allotment	2016 surplus	Authorized transfers[1,2]	Additional appro-priations[3]	2017 Allotment as adjusted	Actual expen-diture	Final budget less actual ex-penditture
Expressed in '000 US dollars							
PART I – GENERAL POLICY AND DIRECTION							
A. Governing bodies							
(Including General Conference and Executive Board)	5 956	332	(194)	–	6 094	6 138	(44)
B. Direction	9 291	1 071	218	18	10 598	8 798	1 800
C. Participation in the Joint Machinery of the United Nations System	6 689	2 004	1 407	–	10 100	9 804	296
TOTAL, PART I	**21 936**	**3 407**	**1 431**	**18**	**26 792**	**24 740**	**2 052**
PART II – PROGRAMMES AND PROGRAMME-RELATED SERVICES							
A. Programmes							
Major Programme I – Education	40 815	3 549	185	2 886	47 435	42 710	4 725
Major Programme II – Natural sciences	23 951	2 809	110	1 041	27 911	23 631	4 280
Major Programme III – Social and human sciences	12 539	1 700	213	980	15 432	14 237	1 195
Major Programme IV – Culture	21 453	2 654	8	1 751	25 866	23 209	2 657
Major Programme V – Communication and information	11 619	1 169	(29)	825	13 584	12 176	1 408
UNESCO Institute for Statistics	3 847	–	–	–	3 847	3 847	–
Management of Field Offices	39 950	3 938	526	846	45 260	38 562	6 698
Total, Part II.A	**154 174**	**15 819**	**1 013**	**8 329**	**179 335**	**158 372**	**20 963**
B. Programme Related Services							
1. Coordination and monitoring of action to benefit Africa	2 071	340	31	18	2 460	1 841	619
2. Coordination and monitoring of action to benefit Gender Equality	800	37	7	163	1 007	931	76
3. UNESCO's response to post-conflict and post-disaster situation	467	(198)	3	–	272	(3)	275
4. Strategic planning, programme monitoring and budget preparation	2 559	157	53	–	2 769	2 442	327
5. Organization-wide knowledge management	2 359	(237)	68	–	2 190	2 437	(247)
6. External relations and public information	9 820	593	21	385	10 819	10 323	496
7. Field Support and Coordination	562	355	9	–	926	983	(57)
Total, Part II.B	**18 638**	**1 047**	**192**	**566**	**20 443**	**18 954**	**1 489**
C. Participation Programme and Fellowships	**6 775**	**614**	**(3 215)**	**–**	**4 174**	**4 067**	**107**
Total, Part II.C	**6 775**	**614**	**(3 215)**	**–**	**4 174**	**4 067**	**107**
TOTAL PART II	**179 587**	**17 480**	**(2 010)**	**8 895**	**203 952**	**181 393**	**22 559**
PART III – CORPORATE SERVICES							
A. Human resources management	14 577	2 866	(1 151)	–	16 292	13 600	2 692
B. Financial management	6 171	23	265	–	6 459	6 259	200
C. Management of support services	17 696	1 005	(365)	–	18 336	17 879	457
D. Management of information systems and communications	4 842	(5)	89	–	4 926	5 458	(532)
TOTAL, PART III	**43 286**	**3 889**	**(1 162)**	**–**	**46 013**	**43 196**	**2 817**
TOTAL, PARTS I-III	**244 809**	**24 776**	**(1 741)**	**8 913**	**276 757**	**249 329**	**27 428**
PART IV – LOAN REPAYMENTS FOR THE RENOVATION OF THE HEADQUARTERS PREMISES & THE IBE BUILDING	7 041	12	–	–	7 053	7 025	28
PART V – ANTICIPATED COST INCREASES	2 409	889	(3 298)	–	–	–	–
TOTAL APPROPRIATION	**254 259**	**25 677**	**(5 039)**	**8 913**	**283 810**	**256 354**	**27 456**

Note: the budget and accounting basis is different. This Statement of Comparison of Budget and Actual amounts is prepared on the budget basis.

1. Information concerning "between lines" can be found in documents 202 EX/4 Part II (referring 202/Decision.4) and 204 EX/4 Part II (referring 204 EX/Decision 4.).
2. Between year transfers do not require approval from the Governing Bodies as they do not modify the biennial appropriation lines.
3. Information concerning "additional appropriations" presented to the Executive Board can be found in documents 202 EX/4 Part II and INF and 204 EX/4 Part II and INF.

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 49 field offices located around the world, four liaison offices in Geneva, New York, Addis Ababa and Brussels, and nine category 1 institutes, one centre and one Maison de la paix (Bujumbura) spread worldwide which specialize in the fields of competency of UNESCO.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

2.2 CONSOLIDATION

Included within the scope of consolidation for the preparation of the UNESCO financial statements are UNESCO Headquarters, field offices, liaison offices, a centre, one Maison de la paix and category 1 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 1 institutes are considered to constitute controlled entities. They are listed in the following table along with their locations and functional currencies:

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

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

The Intergovernmental Oceanographic Commission (IOC), though not a separate entity, was established by the General Conference of the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 1960. In accordance with Article 1 of its Statutes, IOC has functional autonomy with governing bodies separate from those of UNESCO. The purpose of the Commission is to promote international cooperation and to coordinate programmes in research about the nature and resources of the ocean and coastal areas. IOC thus has general competences in the fight against global warming relating to oceans and tsunami risk prevention.

2.3 FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

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

2.4 SEGMENT REPORTING

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

2.5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and short-term, highly liquid investments that are readily convertible to known amounts of 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. Financial instruments classified as cash equivalents include saving accounts and short-term deposits with a maturity of three months or less from the date of investment.

2.6 INVESTMENTS

UNESCO classifies its investments into the following three categories: loans and receivables, fair value through surplus or deficit and held-to-maturity (see Note 6 Investments). The classification depends on the purpose for which the financial assets are acquired, and is determined at initial recognition and re-evaluated at each reporting date.

Financial assets with maturities in excess of 12 months or not expected to be realized within 12 months at the reporting date are categorized as non-current assets. Other financial assets are classified as current assets.

(a) Investments classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including term deposits with an initial maturity of more than three months from the date of acquisition, and term accounts. They are initially measured at fair value plus transaction costs and subsequently recorded at amortized cost using the effective interest rate method.

(b) Fair value through surplus or deficit investments are so designated on initial recognition by management or are held for trading. At initial recognition, they are measured at fair value and any transaction costs are expensed. Subsequently, they are measured at their fair values at each reporting date and the resulting gains or losses on re-measurement are recognized in the Statement of Financial Performance.

(c) Held-to-maturity investments consist of financial assets with fixed or determinable payments and fixed maturity that UNESCO has the intention and ability to hold to maturity. After their initial recognition at fair value plus transaction costs, they are measured at amortized cost using the effective interest rate method.

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

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

2.8 INVENTORIES

Inventories held for sale are valued at the lower of cost and net realizable value. Inventories held for distribution at no or nominal charge or consumption in the production of goods or the provision of services at no or nominal charge are valued at the lower of cost and current replacement cost. Write downs from cost to current replacement cost or net realizable value are recognized in the Statement of Financial Performance. The cost of inventories is assigned in line with the weighted average cost formula.

2.9 PROPERTY, PLANT AND EQUIPMENT

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

Additions

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

Disposals

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

Subsequent costs

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

Depreciation

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

DEPRECIATION PERIOD – PROPERTY, PLANT & EQUIPMENT

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

Impairment

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

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

2.10 INTANGIBLE ASSETS

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

Software acquisition and development

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

Amortization

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

AMORTIZATION PERIOD – CLASS OF INTANGIBLE ASSET

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

2.11 EMPLOYEE BENEFITS

UNESCO recognizes the following categories of employee benefits:

- short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

Short-term employee benefits

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

Post-employment benefits

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

United Nations Joint Staff Pension Fund (UNJSPF)

UNESCO is a member organization participating in the United Nations Joint Staff Pension Fund (the UNJSPF or the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The 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 Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UNESCO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify UNESCO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNESCO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39. UNESCO's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

After Service Health Insurance (ASHI)

The After-Service Health Insurance programme extends subsidized health insurance coverage to retirees and their dependants under the same health insurance schemes as for active staff based on certain eligibility requirements. The ASHI programme at UNESCO is a defined benefit plan. Accordingly a liability is recognized to reflect the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The valuation as at 31 December 2017 was based on full valuation using the Projected Unit Credit Service Prorate.

Other long-term employee benefits

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

Termination benefits

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

2.12 BORROWINGS

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are currently stated at amortised cost; any difference between the proceeds and the redemption value is recognized in the Statement of Financial Performance over the period of the borrowings using the effective interest rate 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 extrabudgetary 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 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 2017

Expressed in '000 US dollars	GEF	OPF	PFF	SFF	Inter-fund balances	TOTAL UNESCO
ASSETS						
Current Assets						
Cash and cash equivalents	80 989	72 975	44 524	16 116	–	214 604
Short-term investments	251	25 914	422 344	24 686	–	473 195
Accounts receivable (non-exchange transactions)	32 945	–	2 449	–	–	35 394
Receivables from exchange transactions	32	747	303	568	(97)	1 553
Inventories	–	306	21	44	–	371
Advance payments	13 067	232	20 497	1 231	(184)	34 843
Other current assets	4 035	10 118	5 799	799	(9 618)	11 133
Total current assets	**131 319**	**110 292**	**495 937**	**43 444**	**(9 899)**	**771 093**
Non-current assets						
Accounts receivable (non-exchange transactions)	1 989	–	–	–	–	1 989
Long-term investments	–	–	1 607	–	–	1 607
Property, plant and equipment	532 235	2 780	2 535	161	–	537 711
Intangible assets	231	–	40	–	–	271
Total non-current assets	**534 455**	**2 780**	**4 182**	**161**	**–**	**541 578**
TOTAL ASSETS	**665 774**	**113 072**	**500 119**	**43 605**	**(9 899)**	**1 312 671**
LIABILITIES						
Current Liabilities						
Accounts payable (exchange transactions)	5 153	1 832	15 191	1 070	(97)	23 149
Employee benefits	3 535	783	2 044	829	–	7 191
Transfers Payable	2 212	19	14 534	–	–	16 765
Conditions on voluntary contributions	260	–	72 015	–	–	72 275
Advance receipts	37 366	341	50 039	113	–	87 859
Borrowings current portion	7 202	–	–	–	–	7 202
Other current liabilities	3 498	1 237	12 354	6 220	(10 708)	12 601
Total current liabilities	**59 226**	**4 212**	**166 177**	**8 232**	**(10 805)**	**227 042**
Non-current Liabilities						
Employee benefits	778 322	5 214	30 013	–	–	813 549
Conditions on voluntary contributions	182	–	–	–	–	182
Borrowings long-term portion	8 502	–	–	–	–	8 502
Other non-current liabilities	–	5 841	–	–	–	5 841
Total non-current liabilities	**787 006**	**11 055**	**30 013**	**–**	**–**	**828 074**
TOTAL LIABILITIES	**846 232**	**15 267**	**196 190**	**8 232**	**(10 805)**	**1 055 116**
NET ASSETS	**(180 458)**	**97 805**	**303 929**	**35 373**	**906**	**257 555**
NET ASSETS/EQUITY						
Reserves and fund balances	(180 458)	97 805	303 929	35 373	906	257 555
NET ASSETS/EQUITY	**(180 458)**	**97 805**	**303 929**	**35 373**	**906**	**257 555**

STATEMENT OF FINANCIAL PERFORMANCE BY SEGMENT FOR THE YEAR ENDED 31 DECEMBER 2017

Expressed in '000 US dollars	GEF	OPF	PFF	SFF	Inter-fund transactions	TOTAL UNESCO
REVENUE						
Assessed contributions	312 554	–	3 773	–	–	316 327
Voluntary contributions	17 479	3 813	240 595	–	(609)	261 278
Other revenue producing activities	26	12 408	1 801	5 721	(180)	19 776
Other / miscellaneous revenue	845	3 009	698	22 977	(13 878)	13 651
Foreign exchange gains	18 911	613	948	3 186	(79)	23 579
Finance revenue	397	4 729	8 325	360	–	13 811
Inter-segment transfers	132	27 824	11 644	–	(39 600)	–
Total revenue	**350 344**	**52 396**	**267 784**	**32 244**	**(54 346)**	**648 422**
EXPENSES						
Employee benefit expenses	204 466	21 058	84 297	22 024	(13 378)	318 467
Consultants, external experts and mission costs	16 018	3 775	35 611	–	(2 622)	52 782
External training, grants and other transfers	24 852	675	27 068	–	(11 838)	40 757
Supplies, consumables and other running costs	26 428	8 430	23 244	1 828	(5 246)	54 684
Contracted services	19 825	2 959	96 715	689	(18)	120 170
Depreciation and amortization	15 285	910	1 386	64	–	17 645
Allowance for assessed contributions	77 393	–	–	–	–	77 393
Other expenses	748	243	248	240	–	1 479
Finance costs	729	14	4 040	10	–	4 793
Inter-segment transfers	814	36	20 394	–	(21 244)	–
Total expenses	**386 558**	**38 100**	**293 003**	**24 855**	**(54 346)**	**688 170**
SURPLUS (DEFICIT) FOR THE PERIOD	**(36 214)**	**14 296**	**(25 219)**	**7 389**	**–**	**(39 748)**

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

NOTE 5 – CASH AND CASH EQUIVALENTS

Expressed in '000 US dollars	31/12/2017	31/12/2016
Cash with banks	214 592	154 479
Current cash accounts	44 987	38 513
Sight/Saving accounts	119 605	77 966
Short term deposits	50 000	38 000
Cash in hand	12	29
Total cash and cash equivalents	**214 604**	**154 508**

As at 31 December 2017, cash and cash equivalents amounted to K$214,604 out of which 79% was invested in saving accounts and short-term deposits. Cash held in current bank accounts at headquarters, field offices and institutes represented 21% of the total.

NOTE 6 – INVESTMENTS

Expressed in '000 US dollars	31/12/2017	31/12/2016
Current portion		
Loans and receivables		
Term deposits	331 419	341 303
Term accounts	75 185	101 763
Fair value through surplus or deficit		
Brazilian Government Treasury Bills (up to 365 days)	66 591	68 041
Held to maturity		
Bonds	–	1 139
Total current portion	**473 195**	**512 246**
Non-current portion		
Held to maturity		
Bonds	1 607	1 612
Total non-current portion	**1 607**	**1 612**
Total investments	**474 802**	**513 858**

Investments classified under loans and receivables are mainly term deposits with an initial maturity of more than three months but less than one year. Investments also include term deposits and term accounts with an initial maturity of more than one year that can all be realized within 12 months. These financial instruments are held with international banking groups which are assigned deposit ceilings in accordance with the Investment Policy of UNESCO.

The UNESCO Brasilia Office (UBO) invests in floating-yield Brazilian Government Treasury Bills ("Letra Financeiro do Tesouro") with a maturity up to 365 days through a dedicated fund in accordance with the Investment Policy of UNESCO. This investment vehicle is classified at fair value through surplus or deficit and amounts to K$66,591 as at 31 December 2017.

The investment portfolio of the Nessim Habif Trust Fund consists of held-to-maturity bonds that are categorized under the current and non-current portions depending on the residual maturity of each bond. In accordance with the Financial Regulation concerning the Nessim Habif Fund (61 EX/38), the capital of the fund should be invested in industrial securities either in Switzerland or in the United States of America.

NOTE 7 – ACCOUNTS RECEIVABLE (NON–EXCHANGE TRANSACTIONS)

Expressed in '000 US dollars	31/12/2017	31/12/2016
Assessed contributions (current)	592 857	518 752
Assessed contributions (non-current)	2 554	2 757
Gross assessed contributions	**595 411**	**521 509**
Allowance for assessed contributions (current)	(559 138)	(481 760)
Allowance for assessed contributions (non-current)	(565)	(550)
Net assessed contributions	**35 708**	**39 199**
Voluntary contributions (current)	1 675	2 253
Voluntary contributions (non-current)	–	–
Total accounts receivable (non-exchange transactions)	**37 383**	**41 452**
Current portion	35 394	39 245
Non-current portion	1 989	2 207
Net accounts receivable (non-exchange transactions)	**37 383**	**41 452**

Assessed contributions receivable represent uncollected revenues committed to UNESCO by Member States and Associate Members for completion of the programme of work. Non-current assessed contributions are those contributions which are due more than 12 months after the reporting date. This relates to payment plans agreed. The allowance for assessed contributions is calculated by providing against the entire balance of unpaid instalments due under payment plans.

Outstanding assessed contributions from current and past years as well as deferred amounts under payment plans are discounted to their present value based on the year in which they are expected to be received. The allowance is the difference between the outstanding assessed contributions amount and its corresponding discounted present value.

Expressed in '000 US dollars	31/12/2017	31/12/2016
Arrears not under payment plans:		
1988-2009	3 180	3 180
2010-2011	79 192	79 195
2012-2013	163 496	163 495
2014-2015	163 926	178 338
	409 794	**424 208**
Other current assessed contributions	183 063	94 544
Gross assessed contributions (current)	**592 857**	**518 752**
Allowance for arrears	(559 138)	(481 760)
Net assessed contributions (current)	**33 719**	**36 992**
Gross assessed contributions (non-current)	2 554	2 757
Discount for non-current assessed contributions	(565)	(550)
Net assessed contributions (non-current)	**1 989**	**2 207**
Total net assessed contributions	**35 708**	**39 199**

Specific allowance for an amount of $553.8 million 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 US dollars	31/12/2017	31/12/2016
Amounts receivable for goods and services	3 026	2 857
Allowance for doubtful accounts	(1 473)	(1 190)
Net receivables from exchange transactions	**1 553**	**1 667**

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 US dollars	31/12/2017	31/12/2016
Publications	1 215	2 459
Supplies	48	42
Gross inventories	1 263	**2 501**
Write-down	(892)	(2 144)
Net inventories	**371**	**357**

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

NOTE 10 – ADVANCE PAYMENTS

Expressed in '000 US dollars	31/12/2017	31/12/2016
Advances to staff	3 857	4 093
Activity financing advance payments	591	1 177
Implementing partner advances	14 716	12 746
Participation Programme advance payments	9 465	10 484
Other advance payments	6 214	2 924
Total advance payments	**34 843**	**31 424**

Advance payments on non-exchange contracts (Financing Activity Contracts, Implementation Partnership Agreements/ Intergovernmental Body Allocation contracts and Participation Programme) 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 2017.

The purpose of financing activity contracts is to support financially a not-for-profit organization to carry out a specific activity which is within one of the fields of competence of UNESCO but not directly part of its own activities.

Implementation partners are not-for-profit institutional entities to which funds are transferred for the implementation of a UNESCO's programme or project. An implementation partner is expected to add value beyond the delivery of a product or service, and to participate in planning and review activities.

Intergovernmental Body Allocation contracts are concluded by UNESCO to assist entities as decided by the competent body of the Convention or the Programme, where UNESCO's full or partial funding of the activity comes from a Fund established under an International Convention or Funding Programme.

The Participation Programme is one of the means employed by the Organization to achieve its objectives, through participation in activities carried out by Member States or Associate Members, or by territories, organizations or institutions, in its fields of competence. Under the Participation Programme, transfers of funds to partners are considered as advance payments until a financial report confirming use of the funds in accordance with the agreement is received and accepted by UNESCO. Advance payments under the Participation Programme can be allocated to biennia as follows:

Expressed in '000 US dollars	31/12/2017	31/12/2016
Biennium		
2010–2011	–	1 081
2012–2013	474	615
2014–2015	535	983
2016–2017	8 456	7 805
Participation Programme advance payments	**9 465**	**10 484**

NOTE 11 – OTHER CURRENT ASSETS

Expressed in '000 US dollars	31/12/2017	31/12/2016
VAT receivables	3 151	2 276
Accrued interests	3 682	2 383
Other	7 192	4 802
Gross other current assets	14 025	**9 461**
Allowance for doubtful accounts	(2 892)	(2 892)
Net other current assets	**11 133**	**6 569**

The VAT receivables relate to value-added tax (VAT) recoverable from fiscal authorities. Other is principally reimbursable income taxes from Governments amounting to $4.3 million and UNDP accounts balance of $2.4 million. An allowance for long outstanding taxes amounting to $2.9 million was recorded.

Accrued interests are earnings from investments and cash equivalents that have been recognized but not yet received by UNESCO at the reporting date and are expected to be realized within 12 months. The amount earned in 2017 was $3.7 million compared to $2.4 million in 2016.

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

Expressed in '000 US dollars	Land	Buildings	Comms & IT equipment	Vehicles	Furniture and fixtures	Other equipment	Total
1 January 2017							
Cost or fair value	254 713	383 156	24 710	8 422	3 657	8 067	682 725
Accumulated depreciation	–	(96 025)	(20 321)	(6 696)	(2 975)	(6 824)	(132 841)
Carrying amount	**254 713**	**287 131**	**4 389**	**1 726**	**682**	**1 243**	**549 884**
Movements 12 months to 31st December 2017							
Additions	–	–	3 417	476	782	523	5 198
Disposals	–	–	(1 985)	(861)	(575)	(897)	(4 318)
Disposals depreciation	–	–	1 861	820	432	866	3 979
Depreciation	–	(13 723)	(2 339)	(656)	(336)	(511)	(17 565)
Exchange adjustments cost	–	–	416	23	53	287	779
Exchange adjustments depn	–	–	(336)	(20)	(28)	(255)	(639)
Adjustments cost	–	–	465	117	11	14	607
Adjustments depn	–	–	(132)	(60)	(11)	(11)	(214)
Movements 12 months to 31st December 2017	**–**	**(13 723)**	**1 367**	**(161)**	**328**	**16**	**(12 173)**
31 December 2017							
Cost or fair value	254 713	383 156	27 023	8 177	3 928	7 994	684 991
Accumulated depreciation	–	(109 748)	(21 267)	(6 612)	(2 918)	(6 735)	(147 280)
Carrying amount	**254 713**	**273 408**	**5 756**	**1 565**	**1 010**	**1 259**	**537 711**

As at 31 December 2017, UNESCO holds fully depreciated PP&E which is still in use for a gross value of $46.7 million.

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

Description	Opening carry value	Depreciation for period	Additions for period	Adjustment	Closing carry value
Expressed in '000 US dollars	01/01/2017				31/12/2017
7 Place Fontenoy	159 476	(7 656)	–	–	151 820
1 Rue Miollis	114 618	(5 649)	–	–	108 969
Apartment place Vauban	5 010	(118)	–	–	4 892
IBE buidling Geneva	6 737	(270)	–	–	6 467
Ocampo Villa Buenos Aires	1 290	(30)	–	–	1 260
Total	**287 131**	**(13 723)**	**–**	**–**	**273 408**

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 Externally developed	Software Work in Progress	Total
As at 1 January 2017				
Cost or fair value	19 532	745	–	20 277
Accumulated depreciation	(19 532)	(682)	–	(20 214)
Carrying amount	**–**	**63**	**–**	**63**
Movements 12 months to 31 December 2017				
Additions	100	158	30	288
Disposals	–	–	–	–
Disposals depreciation	–	–	–	–
Impairment	–	–	–	–
Depreciation	(7)	(73)	–	(80)
Total movements 12 months	**93**	**85**	**30**	**208**
As at 31 December 2017				
Cost or fair value	19 632	903	30	20 565
Accumulated depreciation	(19 539)	(755)	–	(20 294)
Carrying amount	**93**	**148**	**30**	**271**

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	31/12/2017	31/12/2016
Suppliers payable	5 424	3 820
Accruals	17 725	13 952
Other payables	–	19
Total accounts payable	**23 149**	**17 791**

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

Expressed in '000 US dollars	31/12/2017			31/12/2016
	Actuarial valuation	UNESCO valuation	Total	
Payroll and reimbursements	–	7 191	7 191	6 927
Employee benefits (current)	**–**	**7 191**	**7 191**	**6 927**
After Service Health Insurance	758 928	–	758 928	767 046
Accumulated annual leave	19 421	3	19 424	18 850
Repatriation benefits	26 455	18	26 473	26 254
Italian end of service benefit	8 724	–	8 724	8 740
Employee benefits (non-current)	**813 528**	**21**	**813 549**	**820 890**
Total employee benefits	**813 528**	**7 212**	**820 740**	**827 817**

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, 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. For eligible staff members hired after 1 July 2016 the grant is payable starting on five years of expatriate service according to the current scale. Staff members are also entitled to travel and removal costs for repatriation on separation from UNESCO.

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

Actuarial valuations

Liabilities arising from ASHI, accrued annual leave, repatriation benefits and Italian end-of-service benefit are determined by actuaries. Actuarial assumptions are required to be disclosed in the financial statements in accordance with IPSAS 39. The following assumptions and methods have been used to determine the value of post-employment and other long-term benefits for UNESCO as at 31 December 2017:

Assumptions Used for ASHI Plans:

Discount rate	2.90% – for the ASHI under the Medical Benefits Fund - the rate used is based on the Mercer Yield Curve as of 31/12/2017 (3.10% at 31/12/2016) 2.10% – for the ASHI under the ICTP Plan – the rate used is based on the Mercer Yield Curve as of 31/12/17 (2 % at 31/12/2016).
Medical Healthcare trend	4.35% – for the ASHI under the Medical Benefits Fund – the rate is a weighted average based on claim costs (4.25% at 31/12/2016). 2.65% – for the ASHI under the ICTP Plan (2.98% at 31/12/2016).
Inflation rate	1.75% (1.75% at 31/12/2016).
Expected Return on Assets	Not applicable as plans are treated as unfunded.
Mortality Tables	2017 UN Generational and in-service mortality tables (tables TGH2005 and TGF2005 at 31/12/2016).
Pension and salary increase	2% (2% at 31/12/2016).
Retirement Age	Employee hired prior to 1 January 1990: age 60; employee hired on or after 1 January 1990 to 31 December 2013: age 62; employee hired on or after 1 January 2014: age 65.
Percentage of eligible staff who benefit from the ASHI after service	It is assumed that 100% of staff eligible to benefit from the ASHI after service actually claim their entitlement (100% at 31/12/2016).
Turnover	Based on a study of UNESCO's turnover rates from 2015 to 2017.
ASHI Plan duration (for discount rate justification purposes)	26 years – for the ASHI under the Medical Benefits Fund – (30 years at 31/12/2016) 20 years – for the ASHI under the ICTP Plan – (20 years at 31/12/2016).

Assumptions Used for Annual Leave, Repatriation Grant and Italian end of service benefit:

Discount rate	1.60% – the rate used is based on the Mercer Yield Curve as of 31/12/2017 with a maturity around 10 years (1.40% at 31/12/2016).
Inflation rate	1.75% (1.75% at 31/12/2016).
Pre-retirement Mortality Tables	2017 UN in-service mortality table for Annual leave and Repatriation grant; and A62D ISTAT table for Italian end-of-service benefit (tables TH TF 2012-2014 at 31/12/2016).
Salary increase rate	2% for Annual leave and Italian end-of-service benefit; and for Repatriation Grant a linear increase from 1% to 1.75% from 2017 to 2027 and 1.75% per year in 2028 and beyond (2% at 31/12/2016).
Retirement Age	Employee hired prior to 1 January 1990: age 60; employee hired on or after 1 January 1990 to 31 December 2013: age 62; employee hired on or after 1 January 2014: age 65.
Turnover	Based on a study of UNESCO's turnover rates from 2015 to 2017.
Repatriation benefits	It is assumed that 80% of staff eligible for repatriation benefits on leaving actually claim their entitlement (75% at 31/12/2016). Repatriation Travel and Removal are estimated at $6,605 for staff members without dependent and $8,014 for staff members with at least one dependent ($5,941 and 7,208 respectively at 31/12/2016).
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 31/12/2016	**767 046**	**18 845**	**26 235**	**8 740**	**820 866**
Movement for period ended 31/12/2017					
Service cost	24 045	960	1 233	672	26 910
Interest cost	23 452	261	369	119	24 201
(Actual gross benefits payments)	(9 852)	(1 668)	(1 535)	(1 084)	(14 139)
Actuarial (gain)/loss	(47 880)	585	43	(964)	(48 216)
Foreign exchange difference	2 117	438	110	1 241	3 906
Defined benefit obligation 31/12/2017	**758 928**	**19 421**	**26 455**	**8 724**	**813 528**

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 for is determined by reference to market yields at the reporting date on Mercer Yield Curves. Based on the plan duration and benefit currencies, the discount rate for ASHI has been determined for each major currency in which UNESCO incurs liabilities (USD, euros). The final rate was then determined by averaging the different discount rates, weighted by the benefit payments in the different currencies.

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 gains recognized directly in net assets/equity are $48.2 million for the year ended 31 December 2017.

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

Expressed in '000 US dollars	ASHI	AAL	Repatriation benefits	Italian end of service benefit	Total
Service cost	24 045	960	1 233	672	26 910
Interest cost	23 452	261	369	119	24 201
Total expenses recognized for year ended 31/12/2017	**47 497**	**1 221**	**1 602**	**791**	**51 111**

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.

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 3.35%	Medical cost trend rate 4.35%	Medical cost trend rate 5.35%
Expressed in '000 US dollars			
Defined benefit obligation as at 31/12/2017	568 228	744 575	986 472
% Variation	(23.7%)		32.5%
Normal cost as of 31/12/2018	19 505	29 397	44 093
% Variation	(33.6%)		50.0%

The expected contribution of UNESCO in 2018 to the ASHI plan is $11.9 million which represents expected gross benefit payments for the year. The expected contribution of UNESCO in 2018 to the accumulated annual leave, repatriation defined benefit and SPS plans is respectively $0.8 million; $1.4 million and $0.6 million, which represents expected benefit payments for the year.

United Nations Joint Staff Pension Fund (UNJSPF)

The 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's 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 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 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.

During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biannual cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for their 2016 financial statements. An actuarial valuation as of 31 December 2017 is currently being performed.

The roll forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1% (127.5% in the 2013 valuation). The funded ratio was 101.4% (91.2% in the 2013 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 2016, 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 plan. 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.

Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2014, 2015 and 2016) amounted to $6,750.98 million, of which 2.41% was contributed by UNESCO. During 2017 UNESCO's contributions paid to UNJSPF amounted to $35.4 million (2016 $34.4 million). Expected contributions due in 2018 are approximately $37 million.

Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

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	31/12/2017	31/12/2016
Interest payable to donors	14 497	13 379
Other transfers payable	2 268	1 664
Total transfers payable	**16 765**	**15 043**

Transfers payable relate mainly to accrued interests payable to donors under extrabudgetary projects for $14.5 million.

NOTE 17 – CONDITIONS ON VOLUNTARY CONTRIBUTIONS

Expressed in '000 US dollars	31/12/2017	31/12/2016
Conditions on monetary contributions (current)	72 015	57 313
Conditions on in-kind voluntary contributions (current)	260	348
Conditions on voluntary contributions (current)	**72 275**	**57 661**
Conditions on in-kind voluntary contributions (non-current)	182	390
Conditions on voluntary contributions (non-current)	**182**	**390**
Total conditions on voluntary contributions	**72 457**	**58 051**

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	31/12/2017	31/12/2016
Framework agreements	26 973	33 325
Other voluntary contributions received in advance	25 870	24 070
Assessed contributions received in advance	33 635	29 630
Other advance receipts	1 381	1 453
Total advance receipts	**87 859**	**88 478**

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 relevant to Framework Agreements, where funds can be received before agreement is reached on the allocation of the contribution, and on voluntary contributions received with restrictions. By the end of 2017, the Organization received in advance $33.6 million of assessed contributions from Member states compared to $29.6 million in 2016.

NOTE 19 – BORROWINGS

Expressed in '000 US dollars	31/12/2017	31/12/2016
IBE building loan	132	126
Phase II Belmont plan loan	7 070	6 190
Current portion of borrowings	**7 202**	**6 316**
IBE building loan	393	486
Phase II Belmont plan loan	8 109	13 035
Long-term portion of borrowings	**8 502**	**13 521**
Total borrowings	**15 704**	**19 837**

Borrowings are recognized in the financial statements at amortized cost with values based on cash flows discounted using a discount rate of 1.95% (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:

31/12/2017	IBE building loan	Phase II Belmont plan loan
Expressed in '000 US dollars		
Within three months	–	1 781
Later than three months and not later than one year	132	5 289
Later than one year and not later than five years	393	8 109
Later than five years	–	–
Total borrowings	**525**	**15 179**

IBE Building

UNESCO received loans from the Property Foundation for International Organizations (FIPOI) of Switzerland for the balance of CHF (Swiss francs) 4.4 million 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 CHF3.2 million ($2.3 million) repayable in equal annual instalments of CHF0.1 million from 1998 until 2021, with a final payment of CHF0.02 million 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 2017 is CHF0.6 million (CHF0.7 million as at 31 December 2016).

Phase II Belmont Plan

By 32 C/Resolution 74, the General Conference had "authorized the Director-General to contract an interest-free loan of €79.9 million 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 12 months to 31 December 2017 these payments totalled $0.3 million ($0.4 million as at 31 December 2016). 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 2017, the non-amortized balance of the loan is €13.0 million (€19.0 million as at 31 December 2016).

NOTE 20 – OTHER LIABILITIES

Expressed in '000 US dollars	31/12/2017	31/12/2016
Unredeemed coupons	78	930
Provision for litigation	1 252	1 713
Other current liabilities	**11 271**	**9 789**
Unpaid claims from MBF	4 006	3 836
Outstanding invoices due to claim administrator	1 907	514
Return of funds to donors	3 285	3 345
Deferred income	708	742
UN invoice	297	754
Others	1 068	598
Other current liabilities	**12 601**	**12 432**
Unredeemed coupons	5 841	4 974
Other non-current liabilities	**5 841**	**4 974**
Total other liabilities	**18 442**	**17 406**

An amount of $5.9 million of unredeemed coupons have been issued by UNESCO. The UNESCO coupons programme provides private individuals, institutions or Member States with the possibility of buying, with their local non-convertible currencies, coupons denominated in US dollars and guaranteed by UNESCO. Coupons are used for the purchase of books, publications and material for educational, scientific or cultural purposes, and for paying subscriptions to institutions and university registration fees. UNESCO undertakes to reimburse suppliers accepting these coupons in payment of their invoices. If the recipient of the coupons does not use them, they can send them back for a cash reimbursement or for exchange with coupons bearing a new validity date. The current coupon validity period is 15 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 12 months.

A provision for unpaid medical claims, based on recent trends, is calculated at each reporting date. The amount covers medical reimbursements relating to the period but have not yet been submitted by the participants at the reporting date. The amount at year-end is $4.0 million.

Provision for litigation movements

Expressed in '000 US dollars	31/12/2017
As at 1 January 2017	
Current portion	1 713
Non-current portion	
Total	**1 713**
Movements during the year	
Additions	397
Reversals	(496)
Utilizations	(362)
Other (reclassification)	
Total movements	**(461)**
As at 31 December 2017	
Current portion	1 252
Non-current portion	–
Total	**1 252**

The $0.4 million utilization of provision is mainly due to settlement of judgements made by the International Labour Organization (ILO) Administrative Tribunal against the Organization regarding the governance structure of the Medical Benefits Fund and staff members' complaints pending before the UNESCO Appeal Board or the ILO Administrative Tribunal.

NOTE 21 – NET ASSETS/EQUITY

Expressed in '000 US dollars	01/01/2017 Opening balance	Surplus/ (Deficit) for the period	Other adjustments to reserves	Distribution of exchange difference	Distribution of actuarial gains/losses through reserves	31/12/2017
General Fund Reserves	(450 203)	(36 214)	(225)	–	274 961	(211 681)
Working Capital Fund	31 223	–	–	–		31 223
Restricted Reserves	498 976	(3 534)	(5 763)	(47 634)	(4 032)	438 013
Currency Exchange Reserves	(47 350)	–	(284)	47 634	–	–
Actuarial gains/losses through reserves	222 713	–	48 216	–	(270 929)	–
Total reserves and fund balances	**255 359**	**(39 748)**	**41 944**	**–**	**–**	**257 555**

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

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

Restricted reserves refer to results from operations under Programme Fiduciary Funds, Other Proprietary Funds and Staff Fiduciary Funds. The use of such reserves is either determined by specific financial regulations or agreements signed with donors. Amongst these reserves, a specific one was established in 1 January 2015 to cover the future costs associated with providing health insurance benefits to existing retirees and current staff members after retirement (ASHI scheme). At 31/12/2017 the ASHI reserve stands at $10.2 million.

Currency exchange reserves are exchange differences arising from the presentation into USD of the financial statements of consolidated entities whose functional currencies are different from USD. Actuarial gains and losses reserves arise from the valuation of long term employee benefits such as after-service health insurance. In 2017, these two reserves have been distributed between the Restricted and General Fund reserve, which constitute the Organization's main reserves.

NOTE 22 – **REVENUE**

Expressed in '000s US dollars	31/12/2017	31/12/2016
Total assessed contributions	**316 327**	**322 727**
Voluntary contributions		
Monetary voluntary contributions	235 570	222 108
Inter-organization funds	12 640	12 205
In-kind voluntary contributions	13 068	12 016
Total voluntary contributions	**261 278**	**246 329**
Other revenue producing activities		
Revenue producing activities	6 667	6 358
Income from services rendered	13 109	12 253
Total other revenue-producing activities	**19 776**	**18 611**
Other/miscellaneous revenue		
Other operating gains	1 959	2 953
Contributions to MBF	11 692	11 457
Total other/miscellaneous revenue	**13 651**	**14 410**
Foreign exchange gains	23 579	–
Total finance revenue	**13 811**	**12 948**
Total revenue	**648 422**	**615 025**

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 analysed between *monetary voluntary contributions, inter-organization funds* and *in-kind voluntary contributions*. Where an in–kind contribution is recognized as revenue, a corresponding expense is also recognized. In-kind contributions include the use of field office and institute premises for no or nominal rent, and free utilities, maintenance and communications. In the case of the use of premises, the contribution value is based on the commercial rate for renting the building. In-kind contributions for premises are estimated at $12.7 million. In-kind voluntary contributions also include $0.4 million 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. Monetary voluntary contributions increased by $13.5 million. This is attributable to the fact that funding towards programme/projects increased due to an increase in actual cash received, in the amounts approved for allocation of contributions under framework agreements or amount being recognized under conditions on voluntary contributions.

In-kind contributions of services are not recognised in the financial statements. However, an indicative list of in–kind contributions towards programme implementation is published on a yearly basis and submitted to the Executive Board (Annex IIIB – 204 EX/4 INF + COR).

Revenue producing activities for $6.7 million include principally sales income from the UNESCO Restaurant Service ($5.2 million). They remained stable compared to prior 2016. Total Income from services rendered of $13.1 million relates principally to rental services of UNESCO's and Institutes' premises and facilities for $12.8 million.

Finance revenue generated during 2017 amounts to K$13,811 out of which 43% was generated by investments classified at fair value through surplus or deficit and 56% by cash equivalents and investments classified as loans and receivables.

Foreign exchange gains increased by $23.6 million. This is due to the strengthening of the euros against the dollar. A significant part of Member States (47%) are received in euros.

NOTE 23 – **EXPENSES**

Expressed in '000 US dollars	31/12/2017	31/12/2016
Employee benefit expenses		
International & National staff	223 699	215 189
Temporary staff	33 136	33 120
Other personnel costs	61 632	64 218
Total employee benefit expenses	**318 467**	**312 527**
Consultants, external experts and mission costs		
Consultants	35 750	31 199
Staff mission costs	12 690	12 983
Delegates & external individuals missions	1 017	920
Other contracts	3 325	2 309
Total consultants, external experts and mission costs	**52 782**	**47 411**
External training, grants and other transfers		
Financial contributions	9 135	13 520
Grants and fellowships	10 339	11 013
External training and seminars	21 283	21 194
Total external training, grants and other transfers	**40 757**	**45 727**
Supplies, consumables and other running costs		
Communications	3 628	3 118
Equipment	11 719	11 626
Leases	17 937	16 736
Utilities	5 538	5 445
Maintenance and repairs	8 526	8 693
Other supplies	7 336	6 887
Total supplies, consumables and other running costs	**54 684**	**52 505**
Contracted services		
Contracted research	2 859	4 403
Contracted seminars and meetings	4 603	4 149
Contracted document production	469	403
Other contracted services	112 239	100 399
Total contracted services	**120 170**	**109 354**
Depreciation and amortization		
Depreciation	17 565	17 350
Amortization	80	66
Total depreciation and amortization	**17 645**	**17 416**
Allowance for assessed contribution	**77 393**	**71 542**
Total other expenses	**1 479**	**928**
Total foreign exchange losses	**–**	**1 778**
Total finance costs	**4 793**	**4 499**
Total expenses	**688 170**	**663 687**

Total expenses compared to the previous financial period increased by $24.5 million.

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 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 increased by $5.9 million in 2017 compared to 2016: international and national staff cost increased by $8.5 million. Other personnel costs decrease of $2.6 million is mainly due to the decrease of medical claim by $1.4 million. Temporary staff costs remained stable.

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. The total cost has increased by $5.4 million principally under consultants.

23.3 EXTERNAL TRAINING, GRANTS AND OTHER TRANSFERS

Financial contributions include contributions made to United Nations joint activities, publications, conferences and programme activities. *Grants and fellowships* include study grants, fellowships, subventions, sponsorships and grant–in–aid. Expenses for *external training and seminars* are mainly travel and per diem costs for participants. Financial contributions decreased by $4.4 million. This is due to the impact of Participation Programme cycle that recognises a lower volume of expenses on the second year of the biennium. The first year of the biennium, a higher volume of reports is received from Implementing partners leading to higher expenses recognition. Financial reports for 38 C/5 can be submitted until 30 March 2018.

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 notably supplies for the UNESCO Restaurant Service.

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.

Contracted services increased by $10.9 million in 2017 compared to 2016: $5.2 million increase under extrabudgetary funds and $5.4 million under regular funds due to more projects implementation.

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 CONTRIBUTIONS

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

23.8 OTHER EXPENSES, FOREIGN EXCHANGE AND FINANCE COSTS

Finance costs of $4.8 million principally include the calculated interest cost of $0.4 million 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 payment of investment interest to donors for $3.8 million.

NOTE 24 – CONTINGENT LIABILITIES, COMMITMENTS AND CONTINGENT ASSETS

24.1 LEGAL OR CONTINGENT LIABILITIES

24.1.1 As at 31 December 2017, 58 employment cases were pending before the Labour Courts in Brazil. Of these, 24 are in the phase of execution of an award against UNESCO. The total amount claimed in the pending cases is approximately $0.9 million. 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.

24.1.2 Discussions between UNESCO, IESS and the Ecuadorian Ministry of Foreign Affairs are ongoing to address two service contract holders who brought up case against UNESCO with the Institutto Ecuadoriano Seguridad Social (IESS) of Ecuador. This case concerns social security contributions for service contract holders.

24.1.3 Staff members have also lodged complaints which are pending before the UNESCO Appeal Board or the International Labour Organization Administrative Tribunal. It is highly unlikely that UNESCO would incur financial liabilities for these outstanding cases (estimated at $2.3 million).

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	31/12/2017	31/12/2016
Within one year	1 449	1 745
Later than one year and not later than five years	2 129	820
Later than five years	–	–
Total operating lease commitments	**3 578**	**2 565**

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

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 2017, there are voluntary contributions with an approximate value of $127.8 million (31 December 2016: $135.4 million) 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 Fund budget is approved on a modified cash basis, whereby receipts are budgeted when it is planned that cash will be received and expenditures are budgeted when it is planned that payments will be made. The expenditures are classified between General Policy and Direction (Part I), Programmes and Programme Related Services (Part II), Corporate Services (Part III), Loan Repayment (Part IV) and Anticipated Cost Increases (Part V).

The General Conference set $653 million as the level for assessed contributions from the 195 Member States for the 2016–2017 biennium. However, as a result of the decision of two Member States to suspend the payment of their contributions, the General Conference approved a budget expenditure plan of $518 million, thus aiming to reduce the approved biennial budget by 20.7% (or $135 million).

For the year ended 31 December 2017, the allotment including authorized transfers and additional appropriations amounted to $283.8 million (see Statement V).

The original budget of $254.3 million for the year is adjusted for authorized transfers, additional appropriations and carry over funds from the previous year, to arrive at the final budget for the year. The authorized transfers of $5.0 million represent the transfer of funds between the two years of the budget. The additional appropriations of $8.9 million are voluntary contributions received to support directly the programmes and activities of the regular programme. $25.7 million were left–over funds transferred from 2016.

25.1 BUDGET RECONCILIATION

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

The budget and the accounting bases differ. The financial statements include all controlled entities for the financial period from 1 January 2017 to 31 December 2017 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. 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 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 2017 are presented in this Note.

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

(a) Reporting scope (entity) differences

The budget concerns receipts and expenditures relating to General Fund assessments only. The Financial Statements include all UNESCO controlled entities, and as such include results for all Funds and the non–budgetary result for the General Fund. Details of the results of the Other Proprietary Funds, Programme Fiduciary Funds and Staff Fiduciary Funds are shown in Note 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 2017. 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

31/12/2017		
Expressed in '000 US dollars		
Deficit per Statement of Financial Performance		(39 748)
a) Scope differences		
OPF surplus	(14 296)	
PFF deficit	25 219	
SFF surplus	(7 389)	
Subtotal		**3 534**
GEF deficit		**(36 214)**
b) Accounting basis adjustments		
Revenue		
Constant Dollar adjustment	(2 986)	
Budgetary allotment adjustment	(77 316)	
Foreign exchange gain and other non-budgetary income	(20 851)	
	(101 153)	
Expenses		
Employee benefits	36 105	
Constant Dollar Adjustment	13 966	
Prior budgetary period expenses and accounts adjustment	10 028	
Allowance for unpaid Member States' contributions	77 393	
Fixed assets addition, depreciation and amortization	14 412	
Renovation loan repayment	(7 035)	
	144 869	
c) Budget basis adjustment		
Unliquidated obligations	(5 723)	
Budget surplus 2016	25 677	
Total adjustments		**63 670**
Budget result on modified cash basis		**27 456**

25.3 RECONCILIATION: BUDGETARY RESULT WITH NET CASH FLOW

31/12/2017	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		**27 456**	–	–	**27 456**
	Unliquidated obligations	5 723	–	–	**5 723**
Basis differences	*Unreceived contributions for year*	(97 960)	–	–	**(97 960)**
	Other basis differences	83 329	–		**83 329**
Presentation difference		9 217	(2 246)	(6 971)	–
	Budgetary result with cash basis	**27 765**	**(2 246)**	**(6 971)**	**18 548**
Timing differences		–	–	–	–
Entity differences		2 673	35 525	–	**38 198**
Actual amount in the Cash Flow Statement		**30 438**	**33 279**	**(6 971)**	**56 746**

25.4 UNLIQUIDATED OBLIGATIONS

Expressed in US dollars	31/12/2017	31/12/2016
General Fund		
Commitment portion	5 723	7 387
Accrual portion	2 419	2 453
Unliquidated obligations	**8 142**	**9 840**
Other Proprietary Funds		
Commitment portion	1 700	3 017
Accrual portion	769	1 700
Unliquidated obligations	**2 469**	**4 717**
Programme Fiduciary Funds		
Commitment portion	63 625	59 915
Accrual portion	10 175	6 056
Unliquidated obligations	**73 800**	**65 971**
Total unliquidated obligations	**84 411**	**80 528**

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/settled. 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 2017. 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's risk management policies along with its Investment Policy and Financial Rules and Regulations aim to minimize potential adverse effects on the resources available to UNESCO to fund its activities. The primary objective of UNESCO's Investment Policy is the preservation of the value of resources of the Organization. Within this general objective the principal considerations for investment management are, in order of priority, security of principal, liquidity, and rate of return. UNESCO has an Investment Committee comprising senior management representatives and external member(s) that advise the Chief Financial Officer on investment and cash management policy of UNESCO, on overall investment strategy and on related risk management.

26.1 ACCOUNTING CLASSIFICATION AND FAIR VALUE

Classification

The table below shows the value of UNESCO's financial assets outstanding at year end. No financial asset is classified as available for sale as at 31 December 2017.

Expressed in '000 US dollars	Fair value through Surplus and deficits		Loans & Receivables		Held to maturity		Book value	
	2017	2016	2017	2016	2017	2016	2017	2016
Cash and cash equivalents	–	–	214 604	154 508	–	–	214 604	154 508
Investments	66 591	68 041	406 604	443 067	1 607	2 751	474 802	513 859
Receivables: non-exchange transactions	–	–	37 383	41 452	–	–	37 383	41 452
Receivables: exchange transactions net	–	–	1 555	1 668	–	–	1 555	1 668
Advance issues	–	–	34 843	31 424	–	–	34 843	31 424
Total financial assets	**66 591**	**68 041**	**694 989**	**672 119**	**1 607**	**2 751**	**763 187**	**742 911**

The table below shows the value of UNESCO's financial liabilities outstanding at year–end. As at 31 December 2017, UNESCO has no outstanding financial liabilities recorded at fair value through surplus or deficit.

Expressed in '000 US dollars	FV through S&D	Other financial liabilities		Book value	
		2017	2016	2017	2016
Payables	–	23 149	17 791	23 149	17 791
Transfers payable	–	16 765	15 043	16 765	15 043
Borrowings	–	7 202	6 316	7 202	6 316
Other liabilities	–	6 805	6 674	6 805	6 674
Total financial liabilities	**–**	**53 921**	**45 824**	**53 921**	**45 824**

Fair values and fair value hierarchy

There is no significant difference between the carrying value and fair value of UNESCO's financial assets. The carrying value of financial liabilities is a reasonable approximation of their fair value.

Three fair value categories are defined by IPSAS based on the significance of the inputs used in the valuation. UNESCO's financial investments measured at fair value that amounts to $66.5 million as at 31 December 2017 are included in Category I for which fair values are the most reliable since they are unadjusted prices observed in active financial markets.

26.2 CREDIT RISK

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

Investments cash and cash equivalent

UNESCO utilizes credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's and Fitch, to evaluate credit risk on its financial instruments.

UNESCO holds more than 150 bank accounts in more than 50 countries that expose the organization to default risk. To mitigate this risk, UNESCO has internal guidelines such as minimizing the balances on its current accounts and operating with strong international banking groups whenever possible.

The investment management function is centralized at UNESCO Headquarters whereas field offices and institutes are not permitted to engage in investing.

In accordance with its Investment Policy, UNESCO applies limits on investment counterparty exposures to mitigate credit risk. These limits are based on the several criteria including a minimum long–term rating of A–, a minimum short–term rating of A–1 and all investment counterparties should be established in a country with a long–term rating of at least AA–.

Funds in Brazilian Real can be invested in Brazilian Government Treasury Bills up to one year. The credit risk associated with these investments is the sovereign risk of Brazil which is rated BB as at 31 December 2017.

Credit rating	2017					2016	Variation
	Cash & cash equivalent	Money market instruments classified as loans & receivables	Investments at fair value through surplus and deficit	Bonds held to maturity	TOTAL		
Expressed in '000 US dollars							
AAA	10 000	60 000	–	–	70 000	10 000	60 000
AA	75 012	176 000	–	1 607	252 619	376 312	(123 693)
A	124 900	170 353	–	–	295 253	209 281	85 972
BBB	3 132	–	–	–	3 132	2 974	158
<BBB	472	–	66 591	–	67 063	68 095	(1 032)
Not rated	1 088	251	–	–	1 339	1 804	(465)
Total	**214 604**	**406 604**	**66 591**	**1 607**	**689 406**	**668 466**	**20 940**

Receivables

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

26.3 LIQUIDITY RISK

Liquidity risk is the risk that UNESCO might not have adequate funds to meet its obligations as they fall due. The Organization ensures on the basis of cash flow forecasts that it has sufficient cash on demand to meet expected operating expenses.

As at the year–end, UNESCO's cash and cash equivalents and short–term investments amount to $689.4 million which is substantially more than the current liabilities equaling $225.3 million. Therefore, the Organization is not exposed to a significant liquidity risk.

26.4 FOREIGN EXCHANGE RISK

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

The Split Assessment system, whereby the Organization receives a portion of assessed contributions in euros in order to cover expenses which are denominated in that currency, is a means of ensuring that most of the exposure to exchange fluctuations between euros and US dollars is mitigated. On the other hand, the foreign exchange risk related to the assets of UNESCO's field offices, centres and institutes worldwide is mitigated by maintaining a minimum level of cash or other assets in local currencies at any time.

Foreign currency risk related to UNESCO's extrabudgetary activities is managed through individual project budget planning for foreign currency expenditure. The currency risk on Brazilian Real is limited by the fact that UNESCO Brasilia's functional currency is Brazilian Real and its revenue and expenditure are also in the same currency.

26.5 INTEREST RATE RISK

The Organization is mainly exposed to interest rate risk on its financial interest bearing assets.

Interest rate risk arises from the effects of market interest rates fluctuations on the fair value of financial assets and liabilities and/or on future cash flows.

UBO's Brazilian Treasury Bills that are carried at fair value through surplus and deficit are floating rate debt securities. UNESCO's surplus/deficit would be negatively impacted in case of decreasing BRL interest rates.

Investments classified as held–to–maturity, cash equivalents and investments classified as loans and receivables are not marked to market. Therefore, surplus/deficit reported in UNESCO's financial statements is not impacted by immediate changes in interest rates. However, at maturity of these financial instruments a lower re–investment rate may have a significant impact on the reported surplus and deficit.

UNESCO is mainly exposed to re–investment risk. Therefore, a sensitivity analysis measuring the impact of changing interest rates on surplus and deficit assuming a change in interest rate levels as at the end of the reporting period would not show any significant risk.

The Investment Committee regularly follows up that the rate of return of investments is in line with the benchmarks set up in the Investment Policy.

26.6 OTHER MARKET RISKS

Other market risks are the risk of losses arising from movements in market prices other than those detailed above. There is no such risks as at the end of 2017.

NOTE 27 – EVENTS AFTER THE REPORTING DATE

UNESCO's reporting date is 31 December 2017. The financial statements were authorized for issue on 31 March 2018, 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	31/12/2017	31/12/2016
Revenue	5 778	5 315
Expenses	(1 144)	(1 152)
Interest apportionment on deposit accounts	(4 634)	(4 163)
Deficit (apportioned to reserves)	**–**	**–**
Assets	517 714	485 182
Liabilities	487 260	457 592
Net assets/equity	**30 454**	**27 590**

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 Corporate Services as they have the authority and responsibility for planning, directing and controlling the activities of UNESCO.

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

Key management personnel qualify also for post–employment benefits, such as after–service health insurance, repatriation benefits and payment of unused annual leave. The actuarial assumptions applied to measure such employee benefits are disclosed in Note 15.

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

Number of individuals	Compensation and Post Adjustement	Entitlements (Allowances-Grants and Subsidies)	Pension and Health Plans	Total Remuneration 2017	Outstanding advances against against entitlements Ed. Grant	Outstanding loans	Reimbursement of US Income Tax
Expressed in '000 US dollars							
24	**3 860**	**515**	**1 077**	**5 452**	**164**	**–**	**–**

The Director–General is also provided with rent–free accommodation in the UNESCO owned apartment at Place Vauban, Paris, France.

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.

29.3 CATEGORY 2 INSTITUTES

Institutes and centres under the auspices of UNESCO (category 2) are entities which are not legally part of the Organization, but which are associated with it through formal arrangements approved by the General Conference (171 EX/18, page 17).

During the year–ended 31 December 2017, UNESCO entered into contracted arrangements with some of these Institutes. The total amount invoiced to UNESCO for the year is $0.2 million.

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