United Nations

United Nations Capital Development Fund

Financial report and audited financial statements

for the financial year ended 31 December 2012

and

Report of the Board of Auditors

General Assembly

Official Records
Sixty-eighth Session
Supplement No. 5N

General Assembly
Official Records
Sixty-eighth Session
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United Nations Capital Development Fund

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Report of the Board of Auditors

United Nations • New York, 2013

Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

[12 July 2013]

Contents

Letters of transmittal and certification

30 April 2013

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Capital Development Fund (UNCDF) for the year ended 31 December 2012, which we hereby approve.

Copies of these financial statements are also being transmitted to the Advisory Committee on Administrative and Budgetary Questions.

We, the undersigned, acknowledge that:

The management is responsible for the integrity and objectivity of the financial information included in these financial statements.

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards and include certain amounts that are based on management's best estimates and judgements.

Accounting procedures and related systems of internal control provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions and that overall, policies and procedures are implemented with an appropriate segregation of duties. United Nations Development Programme (UNDP) internal auditors, who provide internal audit services to UNCDF, continually review the accounting and control systems. Further improvements are being implemented in specific areas.

The management provided the United Nations Board of Auditors and UNDP internal auditors with full and free access to all accounting and financial records.

The recommendations of the United Nations Board of Auditors and UNDP internal auditors are reviewed by the management. Control procedures have been revised or are in the process of being revised, as appropriate, in response to those recommendations.

We each certify that, to the best of our knowledge, information and belief, all material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements.

(*Signed*) Helen **Clark**
Administrator, United Nations Development Programme
Managing Director, United Nations Capital Development Fund

The Chair of the Board of Auditors
United Nations
New York

(*Signed*) Marc **Bichler**
Executive Secretary
United Nations Capital Development Fund

(*Signed*) Jens **Wandel**
Assistant Administrator and Director
Bureau of Management
United Nations Development Programme

(*Signed*) Darshak **Shah**
Chief Finance Officer/Comptroller
Bureau of Management
United Nations Development Programme

30 June 2013

I have the honour of transmit to you the report of the Board of Auditors on the financial statements of the United Nations Capital Development Fund for the year ended 31 December 2012.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the
United Kingdom of Great Britain and Northern Ireland
Chair, United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Capital Development Fund for the year ended 31 December 2012, which comprise the statement of financial position, the statement of financial performance, the statement of cash flow, the comparison of budget to actual amounts, and the statement of changes in net assets, and the supporting statements and explanatory notes.

Management's responsibility for the financial statements

The Administrator is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards and for such internal control as is deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Capital Development Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Capital Development Fund that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the financial regulations and rules of the United Nations Capital Development Fund and legislative authority.

In accordance with article VII of the Financial Regulations of the United Nations, we have also issued a long-form report on our audit of the United Nations Capital Development Fund.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom
of Great Britain and Northern Ireland
Chair, United Nations Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2013

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Capital Development Fund (UNCDF) for the financial year ended 31 December 2012. The audit involved an examination of financial transactions and operations at UNCDF headquarters in New York.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements of UNCDF for the year ended 31 December 2012. The Board's opinion is included in chapter I of the present report.

Overall conclusion

UNCDF adopted the International Public Sector Accounting Standards (IPSAS) in 2012. Prior to 1 January 2012, UNCDF accounts were part of the United Nations Development Programme (UNDP) main fund financial statements, which were prepared in accordance with the United Nations System Accounting Standards, which prescribed the use of a modified cash basis of accounting. The adoption of IPSAS brought about significant changes, including the formulation of accounting policies for UNCDF and the preparation of financial statements separate from UNDP. The adoption of the new accounting policies also resulted in the recognition and presentation of assets and liabilities and more detailed and informative financial statements. In previous bienniums two recommendations relating to UNCDF were raised, concerning the process for preparing the financial statements and the funding of after-service health insurance and end-of-service liabilities. Both recommendations were under implementation at the time of the Board's audit.

The Board's analysis of the financial position of UNCDF at 31 December 2012 noted good financial health. The successful first-time implementation of the IPSAS accounting framework in 2012 was also a major achievement. The Board, however, noted a number of deficiencies in the presentation and disclosure of financial statements, the procedures for recognition and valuation of assets and liabilities, internal controls and accounting policy issues that required adjustment before the issuance of the present report. UNCDF is now facing the challenge of realizing the full benefits of IPSAS by making use of the new information to improve its business processes, information systems and internal control framework to support better financial management and decision-making.

Follow-up of previous recommendations

Two recommendations were made in previous bienniums, when the UNCDF financial audit was done jointly with that of UNDP. Both remained under implementation.

Financial overview

For the year under review, total revenue was $55.1 million, while total expenses amounted to $50.6 million, resulting in a surplus of $4.5 million.

Implementation of the International Public Sector Accounting Standards

During its audit of interim and draft financial statements, the Board noted that the presentation and disclosure of interest revenue of $367,000 and the method of reflecting the effect of adjustments to opening balances through the accumulated surplus or deficit were not in line with IPSAS.

Loan policy and impairment provision for overdue loans

UNCDF did not have an approved loan policy. Loans amounting to $1.26 million as at 31 December 2012 were overdue for periods ranging from 550 to 1,371 days, but no impairment provision was made and part interest of $113,000 accrued to the overdue loans was not recognized in the financial statements. Late recovery of the loans has the potential risk of full impairment of the outstanding amount, and the failure to provide for impairment misleads the user of financial statements about the worthiness of the investment.

Procurement

The tender evaluation team for a consultancy contract for the provision of technical services (worth some $1 million per year) did not complete conflict of interest forms contrary to the Programme and Operations Policy and Procedures. In the Board's view, the written declaration is an important means of reminding those entrusted with tender evaluation to declare their interests and can also serve deterrent and corrective functions. Additionally, the work was not advertised on the United Nations Global Marketplace, narrowing the range of competition for this important and high-value consultancy. Market research for the consultancy was conducted after the receipt of proposals from vendors, contrary to the UNDP Programme and Operations Policy and Procedures and the Procurement Manual. Moreover, the Board noted substantial changes in evaluation scores after one vendor submitted additional clarification. The Board emphasizes the need to maintain high ethical standards in UNCDF procurements so as to protect the Fund's reputation, and to ensure procurement practices that maximize the potential value for money from the services being purchased.

Recommendations

The Board has made recommendations based on its audit. The main recommendations are that UNCDF:

(a) **Consider how to accelerate the approval process of the loan policy in liaison with UNDP, make impairment provisions for overdue loans and recognize $113,000 as revenue and interest receivable on the loans issued;**

(b) **Re-examine the procurement process followed to establish the rationale for the evaluation team accepting the additional clarification and, eventually, the reason behind the substantial changes in the original proposal and the final scores. The Board also recommended closer monitoring and oversight of the procurement process by the Chief of the Management Support Unit to ensure full compliance with the procurement rules and regulations, including procurement training for all staff and access to procurement support on demand, online and/or through the Management Support Unit.**

A. Mandate, scope and methodology

1. By its resolution 2186 (XXI) of 13 December 1966, the General Assembly established the United Nations Capital Development Fund (UNCDF) as a capital investment agency to support the world's least developed countries. The Fund creates new opportunities for poor people with small businesses by increasing access to microfinance and investment capital. UNCDF programmes also help to empower women, and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact in terms of the achievement of the Millennium Development Goals. UNCDF is headquartered in New York and operates in 29 countries and territories.

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2012 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations (ST/SGB/2003/7 and Amend.1), as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCDF as at 31 December 2012 and its financial performance and cash flows for the financial year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the financial regulations and rules of UNDP applicable to UNCDF. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to the audit of the accounts and financial statements, the Board carried out reviews of UNCDF operations under financial regulation 7.5 of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNCDF operations.

5. The Board coordinates with the Office of Audit and Investigations in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that can be placed on the work of the Office.

6. The present report relates to audits performed at the headquarters of the Fund and therefore the recommendations relate to the headquarters. The Board considers that its recommendations may have wider application across all UNCDF locations. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up of previous recommendations

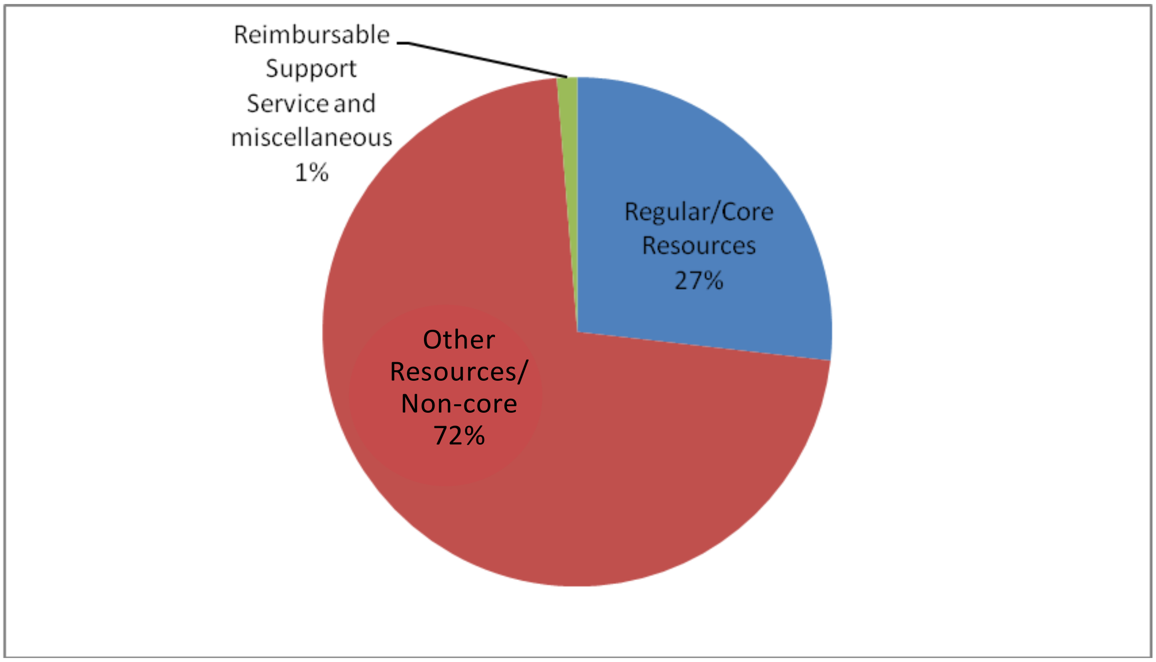
7. Of the two recommendations made for the biennium 2010-2011, when UNCDF accounts were included within UNDP financial statements, both were still under implementation. One of those recommendations reiterated a previous recommendation made in 2008-2009. Further detail is in annex I to the present report. The Board would like to encourage the full implementation of the two recommendations by the end of 2013.

2. Financial overview

Revenue and expenses

8. The UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During the year under review, total revenue amounted to $55.14 million and total expenses amounted to $50.59 million, resulting in a surplus of $4.55 million. In 2012, total voluntary contributions to the Fund were $54.14 million (net of refunds to donors), equivalent to 98 per cent of total revenue. The amount of voluntary contributions comprised regular or core resources of $14.5 million (27 per cent), other or non-core resources of $38.9 million (72 per cent) and reimbursable support service and miscellaneous activities at $700,000 (1 per cent). These contribution levels are shown in figure II.1.

Figure II.1
Comparative contributions for regular and other resources

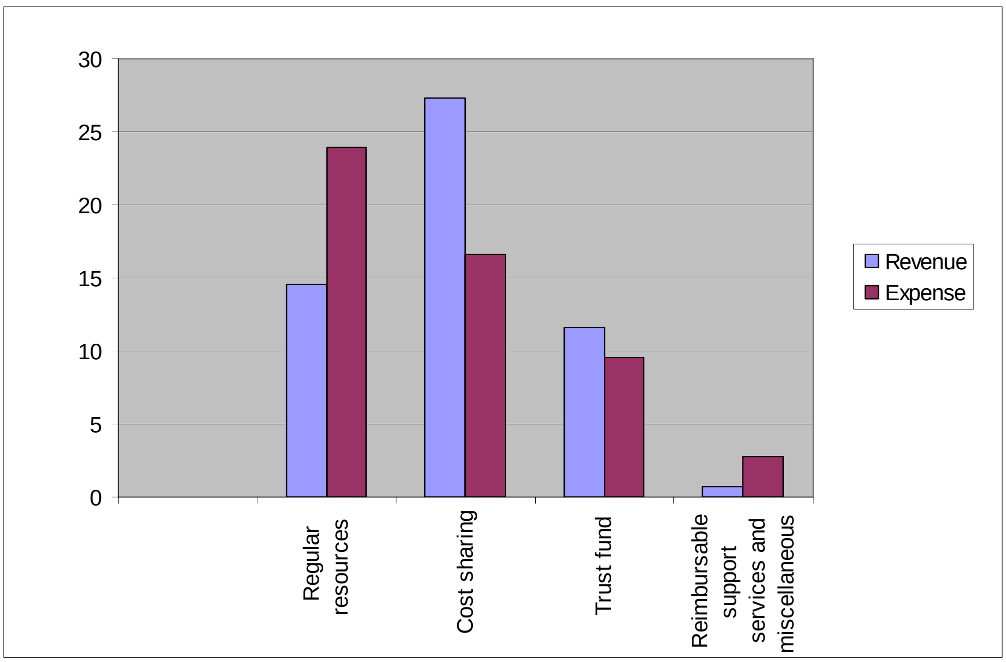


Source: The Board's analysis of UNCDF financial statements for the year ended 31 December 2012.

9. Expenses during the reporting period, as reported in the statement of financial performance (statement II), amounted to $50.59 million. The breakdown by segment was as follows: expenses related to cost-sharing, $16.58 million; expenses for regular resources, $23.93 million; expenses for trust funds, $9.58 million; and expenses for reimbursable support services and miscellaneous activities, $0.50 million (net of $2.30 million for cost recovery). Classification of these expenses by nature shows $16.73 million for grants and other transfers, $16.03 million for staff costs, $8.19 million for general operating expenses (net of $2.30 million for cost recovery), $7.23 million for contractual services and $2.42 million for supplies and consumables, other expenses, depreciation and finance cost.

10. Comparative revenue and expenses by segment are shown in figure II.2.

Figure II.2
Comparative revenue and expenses
(Millions of United States dollars)



Source: The Board's analysis of UNCDF financial statements for the year ended 31 December 2012.

Assets and liabilities

11. The current assets of UNCDF as at 31 December 2012 were $78.36 million, 7.6 times the current liabilities of $10.29 million, confirming the Fund's ability to meet short-term obligations. Similarly, the total assets of $95.42 million comfortably exceeded total liabilities of $25.6 million, revealing a healthy financial position.

12. UNCDF also held cash and investments as at 31 December 2012 of $89.3 million. In accordance with the financial regulations and rules of UNDP applicable to UNCDF, the entity shall maintain reserves in its account at the level of at least 20 per cent of the project commitments. For the financial period under review, $24.6 million was held in reserves (96.5 per cent of total liabilities), again indicating a healthy financial position.

Implementation of the International Public Sector Accounting Standards

13. The UNCDF financial statements for the year ended 31 December 2012 have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). These are the Fund's first annual financial statements prepared in accordance with IPSAS. Prior to 1 January 2012, UNCDF accounts were part of the UNDP main fund and the financial statements were prepared in accordance with the United Nations System Accounting Standards (UNSAS), which prescribed the use of a modified cash basis of accounting. Adoption of IPSAS has resulted in significant changes to accounting policies and in the type and measurement of assets, liabilities, revenues and expenses recognized.

14. IPSAS provides a platform for improving operational performance and financial management across the organization. It facilitates better measurement and understanding of the full costs of operations and benchmarking or comparison of costs and performance against those of similar organizations. IPSAS also generates new and improved information which can be used to strengthen control and improve management of resources, liabilities, fixed assets, inventory, payroll and employee benefits.

15. Adoption of IPSAS entailed adjustments and reclassifications in the statement of financial position as at 31 December 2011 under UNSAS to arrive at a restated opening statement of financial position in conformity with IPSAS. The total assets in the first IPSAS statement as at 1 January 2012 were $2.03 million higher than the reclassified UNSAS balance reported as at 31 December 2011. The increase results from recognition of receivables and property, plant and equipment. Total liabilities increased by $13.47 million owing to recognition of employee benefit liabilities. The net effect was to decrease net equity by $11.41 million on 1 January 2012.

16. The Board noted some deficiencies in the financial statement preparation process. IPSAS opening balance adjustments of $11.4 million were not included in the accumulated surplus or deficit; interest revenue of $367,000 was not separately disclosed in the cash flow statement; the inventory policy was not properly disclosed; and note 7 to statement V was not properly presented. The Board also noted the improper presentation and disclosure of disposals of property, plant and equipment; and cash flows from operating activities of $1.61 million which were not appropriately classified. UNCDF took action to address the noted deficiencies and issue revised financial statements.

17. UNCDF now faces the challenges of realizing the full potential benefits of IPSAS by making use of the new information to improve business processes, information systems and the internal control framework to support better financial management and decision-making.

18. **The Board recommends that UNCDF (a) assign responsibility for realizing IPSAS benefits as a specific function of the accounting unit; and (b) ensure that the procedures for processing information across the organization for the preparation of financial statements are improved to avoid recurrence of the noted deficiencies.**

3. Loan policy and provision for overdue loans

19. The Board noted deficiencies in loan operations and the associated financial reporting. Note 4 to the UNCDF financial statements for the year ended

31 December 2012 (see chap. IV below) explains that all categories of financial assets are assessed at each reporting period to consider any evidence of impairment. The evidence of impairment would include default or delinquency of the counterparty or any permanent reduction in the value of assets. Section IX of the Fund's draft loan policy explains that the Finance Department is responsible for allocating provisions for loan impairment on the basis of the loan portfolio ageing report.

20. The Board notes that under current arrangements the UNCDF loan policy requires the clearance of UNDP but that this has not yet been obtained. The Board also noted that as at 31 December 2012 UNCDF had 23 loans outstanding with balances amounting to $3.21 million (principal). Of those loans, eight amounting to $1.26 million (39 per cent of the total amount of the loans) were overdue for periods ranging from 550 to 1,371 days. UNCDF had not made any provisions to impair these loans and the overdue loans had total accrued interest of $134,000, thus increasing the total outstanding amount to $1.39 million. Late recovery of the loans has potential risk of full impairment of the outstanding amount, and the lack of providing for impairment misleads the user of financial statements about the worthiness of the investment.

21. On reviewing interest income on loans, the Board found total interest of $175,000 that should have been accrued from all loans, whereas the recognized interest income was $62,000, understating accrued interest by some $113,000. UNCDF did not adjust the financial statements for this error but the Board considered this omission does not materially affect the overall fair presentation of the financial statements.

22. UNCDF has informed the Board that its loan policy has been submitted to UNDP for clearance. UNCDF is also in discussion with the financial service providers to restructure the overdue loans and enable them to make repayments.

23. **UNCDF agreed with the Board's recommendations that it (a) liaise with UNDP and agree on the urgent clearance of the loan policy, which is the instrument governing UNCDF loans provisions; (b) appropriately impair all overdue loans following the approval of the loan policy; and (c) disclose in the financial statements the interest accrued of $113,000 for adjustment after the reporting date.**

4. Compliance with procurement requirements

24. The Board noted that UNCDF entered into a three-year long-term agreement with one company to provide technical services in support of the UNCDF local development finance initiative. The contract for the first year was signed on 30 April 2012 with a contract value of $1 million; $0.9 million was paid to the company for services rendered in 2012.

25. The Board noted non-compliance with important procurement procedures as follows:

(a) *Conflict of interest forms*. None of the five members of the tender evaluation team completed conflict of interest forms contrary to the requirement of section 5.4 (a) of the Programme and Operations Policy and Procedures. In the Board's view, the written declaration is an important document to remind those entrusted with tender evaluation to declare their interests and can also serve both deterrent and corrective functions;

(b) *Limited advertisement of the request for proposal*. The Board noted that the advertisement for the consultancy was made through the procurement module of the UNDP and UNCDF websites only, contrary to section 4.0 of the Programme and Operations Policy and Procedures, which requires tender advertisements to be posted on the United Nations Global Marketplace as well as for wider competition. The Board was informed that the consultancy was not advertised in the Global Marketplace owing to the inability of UNCDF, as an agency, to access and use the website for posting tender advertisements. However, the Board considers that the decision potentially narrowed the scope of competition and there was no clear explanation whether vendors were made aware of the websites used to post the advertisements;

(c) *Late conduct of market research*. The UNDP procurement rules require the procuring entity to conduct market research before starting any procurement activities to enable a clear understanding of sourcing objectives. The Board noted that market research for this consultancy was conducted in August 2012 after UNCDF had received vendor proposals in January 2012. The minutes of the meeting of the contract, assets and procurement committee held on 23 March 2012 indicated clearly that market research was supposed to be completed before starting any procurement activities;

(d) *Substantial changes in evaluation scores*. On 8 March 2012 the Procurement Associate requested one vendor to submit additional clarifications of the methodology proposed in its proposal. The Board noted substantial changes in the original proposal contrary to section 5.4 (f) of the Programme and Operations Policy and Procedures, which stipulates that vendors are not to delete, add or modify the original proposals, and that evaluation team members are expected to continue with evaluation whether or not additional clarifications are submitted. The Board noted that the additional clarifications resulted in an increased average score from 650 (65 per cent) to 704 (70 per cent) for this vendor purposely to make the bid responsive. The Board considers that the resubmitted clarification and the effected changes weakened transparency and fairness in the procurement process and did not fully comply with the terms of reference provided for in section 22 of the request for proposal dated 15 December 2011. The Board is satisfied that the change of the vendor’s scores did not help it to win the contract but is concerned that it goes against the established evaluation procedures.

26. UNCDF informed the Board that the position of the Chief of the Management Support Unit had been vacant in 2012 until the latter part of the year, which had weakened oversight of the procurement process.

27. **UNCDF agreed with the Board’s recommendations that it re-examine the procurement process followed to establish the rationale for the evaluation team accepting the additional clarification and the substantial changes of the original proposal and the evaluation scores.**

28. **UNCDF also agreed with the Board’s recommendation that it improve the monitoring and oversight of the procurement process to ensure full compliance with the procurement rules and regulations, including procurement training for all staff and access to procurement support on demand, online and/or through the Management Support Unit.**

C. Disclosures by management

1. Write-off of losses of cash, receivables and property

29. In accordance with financial rule 106.9 of the Financial Regulations and Rules of the United Nations, UNCDF reported no losses for the period.

2. Ex gratia payments

30. In accordance with financial rule 123.01, UNCDF reported no ex gratia payments for the period.

3. Cases of fraud and presumptive fraud

31. During the year under review, in the context of paragraph 6 (c) of the annex to the Financial Regulations and Rules of the United Nations, nothing came to the attention of the UNCDF management which would constitute fraud or presumptive fraud that might affect the financial statements of UNCDF.

D. Acknowledgement

32. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Secretary of the United Nations Capital Development Fund and his staff.

(*Signed*) Amyas **Morse**
Comptroller and Auditor-General of the United Kingdom
of Great Britain and Northern Ireland
Chair of the United Nations Board of Auditors

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor-General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor-General of China

30 June 2013

Annex I

Status of implementation of recommendations for the biennium ended 31 December 2011

	Summary of recommendation	*Paragraph reference (A/67/5/Add.1, chap. II)*	*Financial period first made*	*Implemented*	*Under implementation*	*Overtaken by events*
1	UNCDF should (a) perform regular reviews and reconciliations of the general ledger to detect errors; (b) subject its accounts to a review and challenge during the financial statement preparation process to ensure that financial information presented is accurate and a complete reflection of the activities that have occurred; and (c) review the level at which the operational reserve is maintained to ensure maximum funds are available for programme activities.	145	2010-2011		X	
2	UNCDF should (a) fully provide for after-service health insurance and end-of-service liabilities; (b) establish a policy to fund the liabilities; and (c) implement processes to correctly compute and accrue for the annual leave liability. This recommendation reiterated a recommendation of 2008-2009.	149	2010-2011		X	
	Total	**2**		**0**	**2**	**0**
	Percentage	**100**		**0**	**100**	**0**

Chapter III
Financial report for the year ended 31 December 2012

A. Introduction

1. In accordance with United Nations Development Programme (UNDP) financial regulation 26.01, which is applicable to the United Nations Capital Development Fund (UNCDF), the Administrator of UNDP and Managing Director of UNCDF hereby submits the financial statements of UNCDF for the year ended 31 December 2012.

2. For the first time, the financial statements of UNCDF have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). In 2011 and prior years, the financial statements were prepared in accordance with the United Nations System Accounting Standards (UNSAS).

3. The report of the United Nations Board of Auditors, the Board's opinion on the financial statements and the comments of UNCDF on the substantive observations are submitted in accordance with UNDP financial regulation 4.04, which is applicable to UNCDF.

4. UNCDF is a fund of the United Nations established by the General Assembly in its resolution 2186 (XXI) of 13 December 1966. UNCDF is the capital investment agency of the United Nations for the world's 49 least developed countries. UNCDF creates new opportunities for poor people and their small businesses by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyse larger capital flows from the private sector, national Governments and development partners for maximum impact in terms of the achievement of the Millennium Development Goals.

B. Adoption of the International Public Sector Accounting Standards in 2012

An investment in best practice

5. IPSAS represents best accounting practice for the public sector. UNCDF adopted IPSAS on 1 January 2012 in accordance with General Assembly resolution 60/283. After a single financial year under IPSAS, UNCDF is already realizing the benefits of implementing these international best practice standards: more transparent financial reporting; stronger accountability and good governance; complete disclosure and accounting for assets and liabilities; and improved tracking, management and reporting of financial and non-financial assets.

6. IPSAS adoption required a holistic review of the Fund's business processes and management of significant organization-wide change initiatives, involving both internal and external stakeholders. Specifically, UNCDF adopted new accounting policies and implemented system changes and reporting tools to capture new as well as improved management information.

7. As IPSAS evolves over time, UNCDF will monitor the changes to ensure that it continues to comply with and benefit from having implemented best international practice.

Highlights of key changes to the financial statements

8. IPSAS reporting standards and the conversion to full-accrual accounting as prescribed by IPSAS have resulted in significant changes to accounting policies and in the type and measurement of revenue, expenses, assets, and liabilities recognized and reported in the financial statements.

9. Revenues from voluntary contributions are referred to as non-exchange transactions. These contributions are recorded as revenue when contribution agreements become enforceable or when cash is received where no contribution agreements are required, such as for regular resources contributions. Voluntary contributions are recorded as receivables and, when necessary, an allowance for impairment is made for any amounts that are unlikely to be received.

10. Expenses are now recorded in the UNCDF financial statements only when goods have been received or services rendered and accepted by UNCDF and not when commitments have been made. For national implementation or implementation by non-governmental organizations, expenses are recorded when funds are disbursed by executing entities or implementing partners and reported to UNCDF.

11. The value of employee benefits that UNCDF staff have earned but not yet received (for example, accumulated annual leave, repatriation grants and after-service health insurance) are now recorded on an accrual basis to capture the full cost of employing staff. In the previous financial statements these types of benefits were shown as expenses only when paid, and the liabilities were only disclosed in the notes.

12. Tangible assets such as inventory and property, plant and equipment and intangible assets such as software licences and software development costs are now reported as assets under IPSAS. Previously, these assets were recorded as expenses on the date of acquisition.

13. The UNCDF financial statements now comprise five statements and 28 notes. The five statements are the statement of financial position, the statement of financial performance, the statement of changes in net assets/equity, the cash flow statement and the comparison of budget to actual (regular resources) amounts. These statements and notes bring together in a single document the financial results of UNCDF for 2012.

14. Under UNSAS, the principal financial statements were presented showing the distinction between regular and other resources (including cost-sharing, trust funds and reimbursable support services). Under IPSAS, only the consolidated position is shown on the face of the financial statements, with the types of funds distinguished in the segment reporting note (note 6).

15. Owing to the change of accounting basis in the first year of IPSAS utilization, comparative information for the prior year is not provided.

16. The UNCDF budget, which is still presented on a modified cash basis, has not been affected by the implementation of IPSAS. As the accounting basis for the budget differs from the accrual basis applied to the financial statements, a reconciliation between the budget and the cash flow statement is provided (note 7).

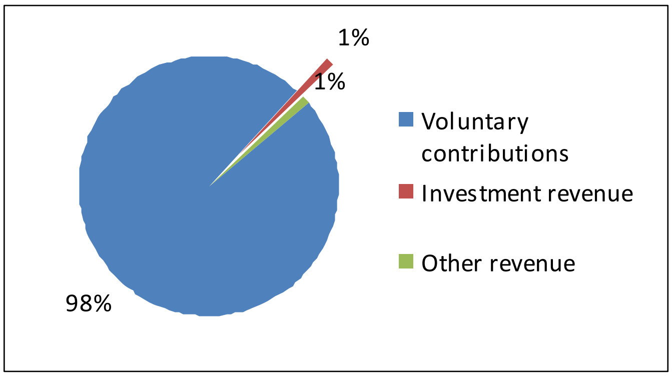
C. Financial performance

17. The total revenue of UNCDF for 2012, comprising contributions and other income, was $55.1 million, while total expenses were $50.6 million, which resulted in a surplus of $4.5 million.

Revenue by nature

18. As shown in figure III.1, of the total revenue of $55.1 million, $54.1 million, or 98 per cent, was from voluntary contributions, $367,000, or 1 per cent, was from investment revenue and $638,000, or 1 per cent, was from other revenue.

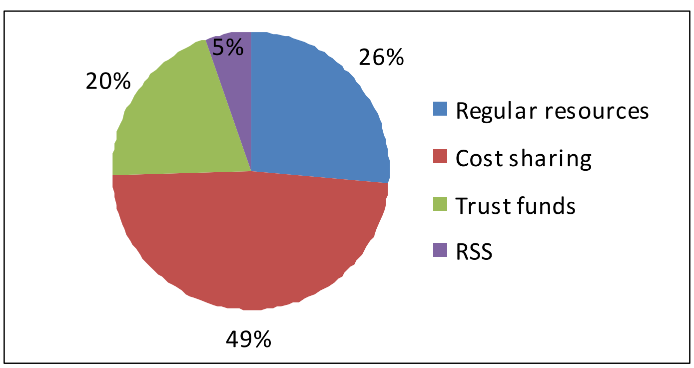
Figure III.1
Composition of 2012 revenue by nature



Revenue by segment

19. Analysis of revenue[1] by segment shows that cost-sharing is the largest revenue source, providing 48 per cent in 2012, followed by regular resources with 27 per cent, trust funds with 20 per cent and reimbursable support services and miscellaneous activities with 5 per cent (see figure III.2).

Figure III.2
Composition of 2012 revenue by segment

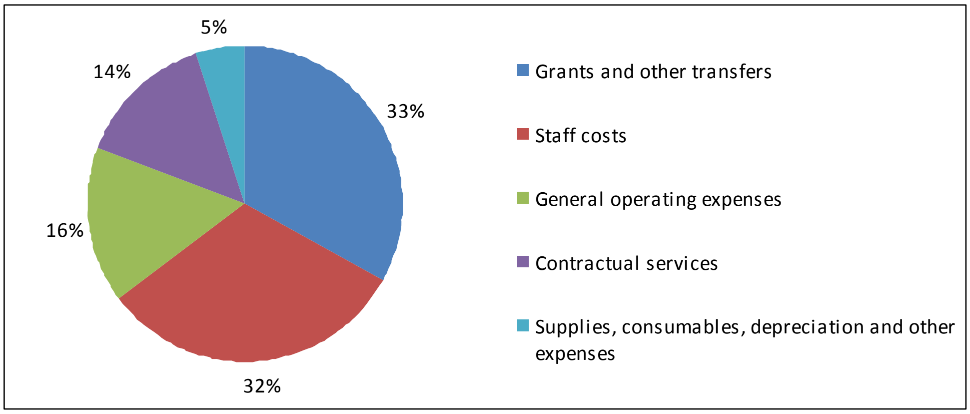


[1] Excludes elimination for inter-fund transactions.

Expenses by nature

20. Total UNCDF expenses in 2012 were $50.6 million. As shown in figure III.3, the largest expense category by nature was grants and other transfers ($16.7 million or 33 per cent). The remaining categories were staff costs ($16.0 million or 32 per cent), general operating expenses ($8.2 million or 16 per cent), contractual services ($7.2 million or 14 per cent) and supplies, consumables, depreciation and other expenses ($2.5 million or 5 per cent).

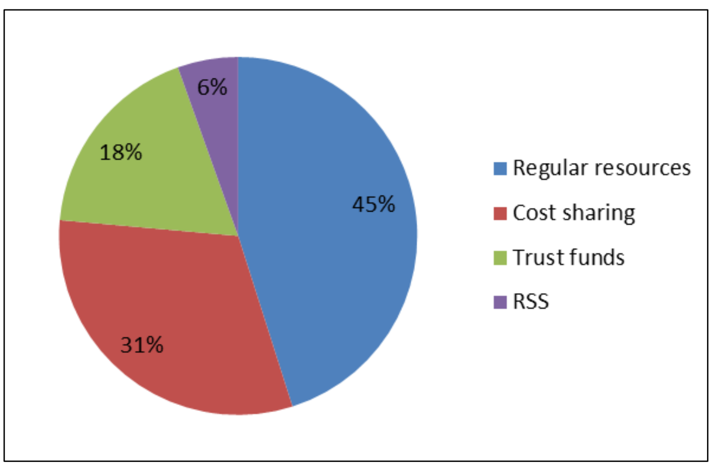
Figure III.3
Composition of 2012 expenses by nature



Expenses by segment

21. Of the total 2012 expenses,[2] 45 per cent corresponded to regular resources, 31 per cent to cost-sharing, 18 per cent to trust funds and 6 per cent to reimbursable support services and miscellaneous activities (see figure III.4).

Figure III.4
Proportion of 2012 expenses by segment

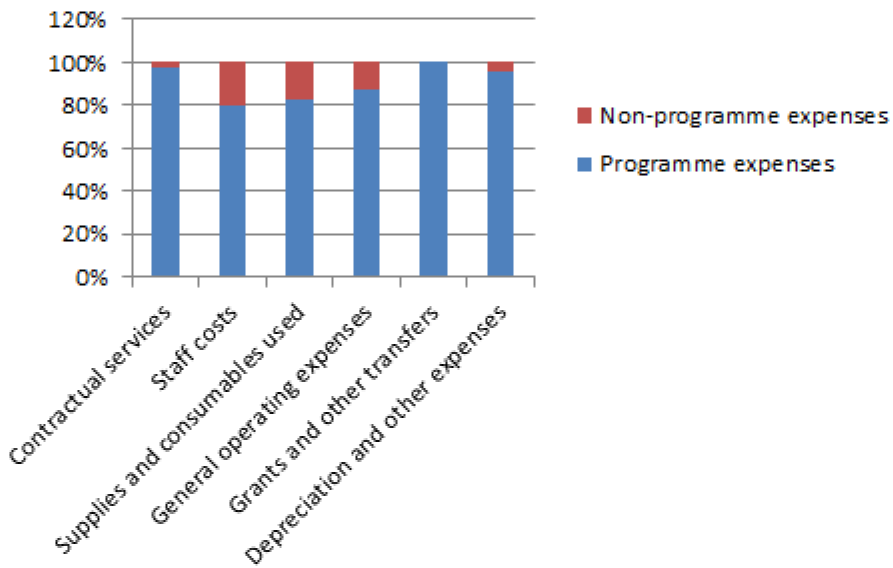


[2] Excludes elimination for inter-fund transactions.

Expenses relating to programme

22. Of the total expenses of $50.6 million for 2012, $48.4 million were programme expenses, reflecting the development nature of the Fund's operations. By expense category, programme expenses made up 98 per cent of the total contractual services with individuals and companies, 80 per cent of staff costs, 82 per cent of supplies and consumables used, 88 per cent[3] of general operating expenses, 100 per cent of grants and other transfers and 96 per cent of depreciation and other expenses (see figure III.5).

Figure III.5
Proportion of programme expenses to total expenses by nature



23. Note 6 to the financial statements provides details of financial performance by segment, which is summarized below.

Table III.1
Summary of 2012 financial performance by segment
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Inter-fund elimination*	*Total*
Total revenue	15.2	27.5	11.6	3.1	(2.3)	55.1
Total expenses	23.9	16.6	9.6	2.8	(2.3)	50.6
Surplus for the year	(8.7)	10.9	2.0	0.3	–	4.5
Total net assets	**16.5**	**35.7**	**12.1**	**5.5**	**–**	**69.8**

[3] Excludes elimination for inter-fund transactions.

D. Budgetary performance

24. The UNCDF budget continues to be prepared on a modified cash basis and is presented in statement V and note 7. In order to facilitate a comparison between the budget and the financial statements prepared under IPSAS, a reconciliation of the budget to the cash flow statement is included in note 7.

25. For UNCDF, approved budgets are those that permit expenses to be incurred related to development and management activities to be funded from regular resources. The Fund's other resources are a forward estimate and projection based on assumptions about future events and are not formally approved by the Executive Board. Utilization in 2012 against budget levels for regular resources is shown in table III.2.

Table III.2
Budget utilization rates for 2012

Budget component	*Annualized approved budget (millions of United States dollars)*	*Actual utilization rate (per cent)*
Development activities	29.9	68
Management activities	2.6	97
Total	**32.5**	**71**

E. Financial position

Assets

26. The UNCDF assets of $95.4 million were largely composed of investments ($52.1 million), cash and cash equivalents ($37.2 million) and loans to financial service providers ($3.2 million) (adding up to $92.5 million, or 97 per cent of the total). The remaining balance comprised advances issued of $2.0 million, property, plant and equipment of $0.5 million, receivables of $0.3 million and other assets of $0.1 million.

Cash, cash equivalents and investments

27. At 31 December 2012, UNCDF held cash, cash equivalents and investments of $89.3 million. Investment revenue was $0.4 million in 2012.

Receivables

28. At 31 December 2012, UNCDF had receivables of $279,000, which included receivables from third parties of $2,000, receivables from United Nations entities of $5,000 and investments receivable of $272,000.

Advances issued

29. At 31 December 2012, UNCDF had outstanding advances of $2.0 million. Of that amount, $0.5 million was advances issued as operating funds to Governments and other executing entities or implementing partners, and the remaining $1.5 million was prepaid advances and advances to staff.

Loans to financial service providers

30. At 31 December 2012, UNCDF had receivable loans from financial service providers of $3.2 million. This included loans to microfinance institutions, banks, cooperatives and money transfer companies.

Property, plant and equipment and intangible assets

31. At 31 December 2012, UNCDF held property and equipment of $488,000, of which $269,000 was vehicles, $192,000 was communications and information technology equipment and $27,000 was furniture, fixtures, and other equipment.

Liabilities

32. The Fund's liabilities of $25.59 million comprised employee benefits ($17.33 million), accounts payable and accrued liabilities ($8.22 million) and other current liabilities ($0.04 million). Liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by an actuarial valuation conducted as at 31 December 2012.

Employee benefits

33. IPSAS requires recording of all accumulated employee benefits liabilities in the financial statements, even though the disbursements for these benefits will occur over several decades. The principal liability was after-service health insurance valued at $12.6 million.

Accumulated surpluses

34. At 31 December 2012, total UNCDF accumulated surpluses and reserves were $69.8 million. The level was mainly affected by (a) IPSAS adjustments of minus $11.4 million, which included the recording of historical after-service health insurance liabilities; (b) a surplus for the year of $4.5 million; (c) an increase in the value of the liability for after-service health insurance ("actuarial loss") of minus $1.2 million owing to external economic conditions and change in actuarial assumptions; and (d) adjustment for funds with specific purposes of minus $0.8 million.

Financial position by segment

35. The Fund's financial position by segment and in aggregate as detailed in note 6 is summarized in table III.3.

Table III.3
Summary of financial position by segment as at 31 December 2012

	Assets		*Liabilities*		*Net assets/equity*	
	Millions of $US	*Percentage of total assets*	*Millions of $US*	*Percentage of total liabilities*	*Millions of $US*	*Percentage of total net assets/equity*
Regular resources	37.5	39	21.0	82	16.5	24
Cost-sharing	37.8	40	2.1	8	35.7	51
Trust funds	13.3	14	1.2	5	12.1	17
Reimbursable support services	6.8	7	1.3	5	5.5	8
Total	**95.4**	**100**	**25.6**	**100**	**69.8**	**100**

Chapter IV
Financial statements for the year ended 31 December 2012

Statement I
United Nations Capital Development Fund

Financial position as at 31 December 2012

(Thousands of United States dollars)

		31 December 2012	*1 January 2012 (restated)*
Assets			
Current assets			
Cash and cash equivalents	(note 8)	37 159	35 120
Investments	(note 9)	38 777	32 960
Receivables (non-exchange transactions)		–	948
Receivables (exchange transactions)	(note 10)	279	438
Advance issued	(note 11)	1 966	2 865
Other current assets	(note 12)	178	178
Total current assets		**78 359**	**72 509**
Non-current assets			
Investments	(note 9)	13 366	7 554
Loans to financial service providers	(note 13)	3 207	4 816
Property, plant and equipment	(note 14)	488	1 005
Total non-current assets	**(note 9)**	**17 061**	**13 375**
Total assets		**95 420**	**85 884**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	(note 15)	8 223	5 147
Employee benefits	(note 16)	2 033	1 696
Other current liabilities	(note 17)	38	59
Total current liabilities		**10 294**	**6 902**
Non-current liabilities			
Employee benefits	(note 16)	15 302	13 255
Total non-current liabilities		**15 302**	**13 255**
Total liabilities		**25 596**	**20 157**
Net assets			
Reserves	(note 18)	24 600	24 600
Accumulated surplus	(note 19)	45 224	41 127
Total net assets/equity		**69 824**	**65 727**
Total liabilities and net assets/equity		**95 420**	**85 884**

The accompanying notes are an integral part of the financial statements.

Statement II
United Nations Capital Development Fund

Financial performance for the year ended 31 December 2012

(Thousands of United States dollars)

		Amount at 31 December 2012
Revenue		
Voluntary contributions, net	(note 20)	54 139
Investment revenue	(note 21)	367
Other revenue	(note 22)	638
Total revenue		**55 144**
Expenses		
Contractual services	(note 23)	7 226
Staff costs	(note 23)	16 026
Supplies and consumables used	(note 23)	567
General operating expenses	(note 23)	8 193
Grants and other transfers	(note 23)	16 727
Other expenses	(note 23)	1 517
Depreciation	(note 23)	329
Finance costs	(note 23)	8
Total expenses		**50 593**
Surplus for the period		**4 551**

The accompanying notes are an integral part of the financial statements.

Statement III
United Nations Capital Development Fund

Changes in net assets/equity for the year ended 31 December 2012

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2011 (UNSAS — restated)	**24 600**	**52 537**	**77 137**
IPSAS adjustment for property, plant and equipment	–	1 005	1 005
IPSAS adjustment for employee benefits	–	(13 606)	(13 606)
IPSAS adjustment for revenue	–	1 171	1 171
Other IPSAS adjustments	–	20	20
Balance at 1 January 2012 restated (IPSAS)	**24 600**	**41 127**	**65 727**
Changes in net assets/equity			
Funds with specific purposes (note 19)	–	775	775
Actuarial losses	–	(1 229)	(1 229)
Surplus/(deficit) for the period	–	4 551	4 551
Total revenue and expense recognized directly in net assets/equity	**–**	**4 097**	**4 097**
Balance at 31 December 2012	**24 600**	**45 224**	**69 824**

The accompanying notes are an integral part of the financial statements.

Statement IV
United Nations Capital Development Fund

Cash flow for the year ended 31 December 2012

(Thousands of United States dollars)

		Amount at 31 December 2012
Cash flows from operating activities		
Surplus for the period		4 551
Adjustments to reconcile deficit for the period to net cash flows:		
Depreciation		329
Amortization of bond premium		1 020
(Gains)/losses on disposal of property, plant and equipment		269
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)		948
(Increase)/decrease in receivables (exchange transactions)		(1 333)
Interest received on loans		18
(Increase)/decrease in advances issued		899
(Increase)/decrease in loans to financial service providers		1 609
Changes in liabilities/net assets		
Increase/(decrease) in accounts payable and accrued liabilities		3 076
Increase/(decrease) in employee benefits		1 155
Increase/(decrease) in other liabilities		(21)
Increase/(decrease) in funds with specific purposes		775
Net cash flows from operating activities		**13 295**
Cash flows from investing activities		
Purchases of investments		(55 249)
Maturities of investments		42 600
Interest received		1 474
Purchases of property, plant and equipment		(81)
Net cash flows from investing activities		**(11 256)**
Cash flows from financing activities		
Net cash flows from financing activities		–
Net increase in cash and cash equivalents		**2 039**
Cash and cash equivalents at beginning of the period		**35 120**
Cash and cash equivalents at end of the period	(note 8)	**37 159**

The accompanying notes are an integral part of the financial statements.

Statement V
United Nations Capital Development Fund

Comparison of budget to actual (regular resources) amounts for the year ended 31 December 2012

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*	*Difference between final approved budget and actual expenditure (note 7)*
	Original	*Final*		
Development activities				
Programme	22 660	22 660	16 998	5 662
Development effectiveness	7 206	7 206	3 425	3 781
Subtotal	**29 866**	**29 866**	**20 423**	**9 443**
Management activities	2 623	2 623	2 539	84
Total	**32 489**	**32 489**	**22 962**	**9 527**

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1
Reporting entity

The United Nations Capital Development Fund (UNCDF) is a fund and programme of the United Nations established by the General Assembly in its resolution 2186 (XXI) of 13 December 1966. UNCDF is the capital investment agency of the United Nations for the world's 49 least developed countries. It creates new opportunities for poor people and their small businesses by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyse larger capital flows from the private sector, national Governments and development partners, for maximum impact in terms of the achievement of the Millennium Development Goals.

UNCDF is headquartered in New York and is on the ground in 29 countries and territories.

The financial statements include only the operations of UNCDF. UNCDF has no subsidiaries or interests in associates or jointly controlled entities.

Note 2
Statement of compliance with the International Public Sector Accounting Standards

The Fund's financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). These are first annual financial statements of the Fund prepared in accordance with IPSAS and certain transitional provisions as identified in note 3.

Prior to 1 January 2012, UNCDF prepared its financial statements in accordance with the United Nations System Accounting Standards (UNSAS), which prescribed the use of a modified cash basis of accounting. For this reason, the 2011 audited financial statements are not comparable to the 2012 financial statements.

On 1 January 2012, UNCDF adopted IPSAS reporting standards. The conversion to full-accrual accounting as prescribed by IPSAS has resulted in significant changes to accounting policies and in the type and measurement of assets, liabilities, revenues and expenses recognized. Accordingly, adjustments and reclassifications were made to the UNCDF statement of financial position as at 31 December 2011 under UNSAS to arrive at the restated 1 January 2012 IPSAS opening statement.. The net effect of the changes resulting from the adoption of IPSAS adjustments in the statement of financial position (statement I) amounted to a decrease in total net assets/equity of $11,410,000 on 1 January 2012, as detailed in note 5. In addition, the adoption of IPSAS will require the preparation of annual financial statements, as compared to the biennial statements required under UNSAS.

Note 3
Basis of preparation and authorization for issue

(a) Basis of measurement

The present financial statements are prepared on an accrual basis of accounting in accordance with IPSAS and the UNCDF financial regulations and rules.

UNCDF applies the historical cost principle except where stated in note 4. Accounting policies have been applied consistently throughout the period. The financial period is from January to December.

(b) Foreign currency

The functional and presentation currency of UNCDF is the United States dollar. These financial statements are expressed in thousands of United States dollars unless otherwise stated.

Foreign currency transactions are translated at the date of the transaction into United States dollars at the United Nations Operational Rate of Exchange, which approximates market/spot rates.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date and are recognized in net assets/equity.

Non-monetary items in foreign currencies measured at historical cost are translated at the exchange rate in effect at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance.

(c) Critical accounting estimates

Preparing financial statements in accordance with IPSAS requires UNCDF to make estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of assets, liabilities, revenues and expenses. For this reason, actual results may differ from these estimates. Accounting estimates and underlying assumptions are reviewed on an ongoing basis and revisions to estimates are recognized in the period in which the estimates are revised and in any future period affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits; selection of useful lives and the depreciation/amortization method for property, plant and equipment/intangible assets; impairment on assets; classification of financial instruments and contingent assets and liabilities.

(d) Transitional provisions

IPSAS standards effective 1 January 2012 are applied in accordance with IPSAS transitional provisions as follows:

(i) For Standard 1 (Presentation of financial statements), as permitted in the first year of adoption, comparative information has not been provided except for the statement of financial position (statement I);

(ii) For Standard 25 (Employee benefits), UNCDF has taken advantage of the provision allowing it, in the first year of adoption, not to present amounts for the previous four reporting periods with regard to the present value of defined benefit obligations and experience adjustments arising on plan liabilities;

(iii) Financial instruments are measured at fair value through surplus or deficit in the statement of financial performance and available-for-sale financial assets measured at fair value through net assets/equity.

(e) Future accounting pronouncements

Significant future accounting pronouncements from the International Public Sector Accounting Standards Board that are expected to affect UNCDF include:

(i) The conceptual framework for general-purpose financial reporting by public sector entities: the objective of the project is to develop a public sector conceptual framework which is applicable to the preparation and presentation of general-purpose financial reports of public sector entities;

(ii) Reporting service performance information: the objective of the project is to use a principles-based approach to develop a consistent framework for reporting service performance information of public sector programmes and services that focuses on meeting the needs of users;

(iii) Financial statement discussion and analysis: the objective of the project is to develop financial reporting guidance on financial statement discussion and analysis;

(iv) Social benefits (see www.ifac.org/public-sector/projects/social-benefits): the objective of the project is to identify the circumstances and manner in which expenses and liabilities of certain social benefits should be reflected in the financial statements;

(v) Financial instruments: Standards 28 (Financial instruments: presentation), 29 (Financial instruments: recognition and measurement) and 30 (Financial instruments: disclosures) are applicable for periods beginning 1 January 2013. UNCDF will fully adopt these standards on 1 January 2013. As UNCDF has already implemented most of the requirements of these standards in its financial statements, full adoption in 2013 will entail only a few additional disclosures.

The progress and impact of these future accounting pronouncements on the UNCDF financial statements continues to be assessed and monitored.

(f) Authorization for issue

The present financial statements are approved and certified by the Administrator of UNDP and Managing Director of UNCDF, the Executive Secretary of UNCDF, the Assistant Administrator and Director of the Bureau of Management of UNDP and the Chief Finance Officer and Comptroller of UNDP. In accordance with the UNDP financial regulations and rules, these financial statements are authorized for issue on 30 April 2013.

Note 4
Significant accounting policies

(a) Financial assets classification

UNCDF classifies financial assets into the following categories in the statement of financial performance: held-to-maturity; available-for-sale; loans and receivables; and fair value through surplus or deficit. 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. All financial assets are initially measured at fair value. UNCDF initially recognizes loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date UNCDF becomes party to the contractual provisions of the instrument.

Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements, and assets denominated in foreign currency are translated into United States dollars at the United Nations Operational Rate of Exchange prevailing at the reporting date, with gains and losses recognized in surplus or deficit in the statement of financial performance.

IPSAS classification	*Type of UNCDF financial asset*
Held-to-maturity	Investments
Available-for-sale	None
Loans and receivables	Cash and cash equivalents, receivables exchange and non-exchange, advances issued and loans to microfinance institutions
Fair value through surplus or deficit	Derivatives

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturities that UNCDF has the positive intention and ability to hold to maturity. They are initially recorded at fair value plus transaction costs and subsequently recognized at amortized cost calculated using the effective interest method. UNCDF classified a substantial portion of its investment portfolio as held-to-maturity assets.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets either designated in this category or not classified in any of the other categories. They are initially recorded at fair value plus transaction costs and subsequently reported at fair value, with any resultant fair-value gains or losses recognized directly in net assets/equity. Interest on available-for-sale financial assets is calculated using the effective interest method. When an available-for-sale financial asset is de-recognized, the gain or deficit accumulated in net assets/equity is reclassified to surplus or deficit in the statement of financial performance. As at 31 December 2012, UNCDF had no financial assets classified as available for sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method on the respective financial asset.

Cash and cash equivalents include cash, short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, net of impairment for restricted-use currencies. Financial instruments classified as cash equivalents include investments with a maturity of three months or less from the date of acquisition.

A financial asset is classified as fair value through surplus or deficit in the statement of financial performance if acquired principally for the purpose of selling in the short term or if so designated by UNCDF. A financial asset is classified in this category if it is designated as such upon initial recognition or is classified as held for trading. Derivative instruments are categorized as held for trading. Financial assets in this category are measured at fair value on each reporting date, and changes therein are recognized in surplus or deficit in the statement of financial performance. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the reporting date. At year-end, UNCDF had no open foreign exchange derivative instruments positions in this asset category.

Receivables non-exchange comprise contributions receivable and represent uncollected revenue committed to UNCDF by donors. At year-end, UNCDF had no outstanding non-exchange receivables.

Exchange receivables represent accrued interest due on UNCDF investments.

Advances issued represents cash transferred to executing entities/implementing partners as an advance. Advances issued are initially recognized as assets and then converted to expense when goods are delivered or services are rendered by the executing entities or implementing partners and confirmed by receipt by UNCDF of the applicable certified expense reports, such as financial reports, funding authorization and certification of expense forms or project delivery reports. Once these certified expense reports are received, UNCDF recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the reporting period, either from the entities' statements as submitted for audit or from the entities' unaudited statements.

Prepayments are issued where agreements with UNCDF and the executing entity, implementing partner or supplier require upfront payment. Prepayments are recorded as a current asset until goods or services associated with them are delivered, at which point the expense is recognized and the prepayment is reduced by a corresponding amount.

UNCDF provides advances to staff for up to 12 months for specified purposes in accordance with the Staff Rules and Staff Regulations of the United Nations (see ST/SGB/2013/3). These advances have an initial maturity of less than 12 months and the carrying amount approximates fair value.

Loans to financial service providers

As part of its efforts to support financial inclusion in least developed countries, UNCDF maintains a small portfolio of loans extended directly to financial service providers. The loans are “concessional”, that is, they offer lower interest rates and longer maturities than those found in the commercial market. The loans help financial service providers demonstrate their potential creditworthiness and their ability to manage debt to grow their portfolios.

UNCDF extends loans to financial service providers on the basis of sound business plans demonstrating how the loans will contribute to their reaching financial sustainability. The loans follow two general principles. First, they should not “crowd out” private sources of capital. In other words, UNCDF will not lend to financial service providers who could otherwise use private sources such as commercial banks. Second, they should avoid exposing the financial service provider to exchange risks (that is, the loan should preferably be in local currency).

Terms and conditions of loans to financial service providers

The amount of a single UNCDF loan to a financial service provider can be between $100,000 and $5 million. The average size of a loan disbursed by UNCDF to financial service providers is currently $252,000.

The maximum tenure of a UNCDF loan shall not exceed 10 years, inclusive of the grace period. The current average loan tenure is 3.7 years. The grace period is between 1 and 2 years. During the grace period only interest payments are scheduled. The financial service provider will pay interest semi-annually in accordance with the repayment schedule attached to the loan agreement.

The interest rate is calculated on the basis of a 360-day year composed of 12 30-day months. UNCDF loans to financial service providers have a fixed interest rate, and are calculated on a declining balance.

All loans are made in local currency. UNCDF will take up the exchange rate risk.

All categories of financial assets are assessed at each reporting date to determine whether there is objective evidence that an investment or group of investments is impaired. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized in surplus or deficit in the statement of financial performance (directly or through the use of an allowance account) in the year they arise. As at 31 December 2012, UNCDF had no impaired financial assets. Loans outstanding for more than 500 days with a principal amount of $1.3 million are under restructuring to ensure full settlement of the outstanding loans. At year-end, the amount and timing of the restructuring outcome is not known with certainty.

Inventories

Inventories held for distribution at no charge or for a nominal charge are stated at the lower of cost or current replacement cost. Inventories held for sale are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using the first-in, first-out inventory valuation method. The cost of inventories includes costs incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. For inventories acquired through a non-exchange transaction (e.g. donated goods), cost shall be measured at its fair value at the date of acquisition.

Property, plant and equipment

All property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. This includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired without charge or for nominal consideration, the fair value at the date of acquisition is deemed to be its cost. The threshold for recognition of property, plant and equipment as an asset is $500 or more per unit, and for leasehold improvements is $50,000.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to UNCDF and the cost of the item can be measured reliably. Repair and maintenance costs are charged to surplus or deficit in the statement of financial performance in the period in which they are incurred.

Project assets that are not controlled by UNCDF are expensed as incurred. UNCDF is deemed to control an asset if it can use or otherwise benefit from the asset in pursuit of its objectives and if UNCDF can exclude or regulate the access of third parties to the asset. This is the case when UNCDF is implementing the project directly.

Property, plant and equipment includes right-to-use arrangements for property that meets the criteria for recognition (refer to the section entitled "Leases" below).

Depreciation on property, plant and equipment is calculated using the straight-line basis over the estimated useful lives, except for land, which is not subject to depreciation. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, i.e., major components of property, plant and equipment. Assets under construction are not depreciated, as these assets are not yet available for use.

The estimated useful lives are as follows:

Class	*Estimated useful life (in years)*
Buildings	40
Vehicles	5-12
Communications and information technology equipment	4-20
Furniture and fixtures	8-15
Heavy machinery and other equipment	10-20
Leasehold improvements	Shorter of lease term or life of applicable asset

A gain or loss from disposal of property, plant and equipment arises where proceeds from disposal differ from its carrying amount. These gains or losses are recognized in surplus or deficit in the statement of financial performance.

Impairment of non-cash-generating assets

Property, plant and equipment are reviewed for impairment at each reporting date. For property, plant and equipment, UNCDF reviews for impairment during the biannual physical verification process. An impairment loss is recognized in surplus or deficit in the statement of financial performance when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value, less costs to sell, and its value in use. In assessing value in use, UNCDF applies, depending on the availability of data and the nature of impairment, a depreciated replacement cost approach, a restoration cost approach or a service units approach.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the impairment of value has decreased or no longer exists. An impairment deficit is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment deficit had been recognized.

(b) Financial liabilities classification

IPSAS classification	*Type of UNCDF financial liabilities*
Other financial liabilities	Accounts payable and accrued liabilities, and other liabilities

Other financial liabilities are initially recognized at fair value less transaction costs and subsequently measured at amortized cost using the effective interest method. Financial liabilities entered into with duration of less than 12 months are recognized at their nominal value.

Payables and accruals arising from the purchase of goods and services are recognized initially at fair value and subsequently measured at amortized cost when goods are delivered or services rendered and accepted by UNCDF. Liabilities are stated at invoice amounts less payment discounts at the reporting date. The liability is estimated in cases where invoices are not available at the reporting date.

Employee benefits

Short-term employee benefits

Short-term employee benefits are those that are expected to be settled within 12 months after the end of the period in which employees render the related service. These benefits include assignment benefits, regular monthly benefits (e.g. wages and salaries), compensated absences (e.g. paid leave such as annual leave), other short-term and non-monetary benefits and the current portion of long-term benefits provided to current employees. An expense is recognized when a staff member provides services in exchange for employee benefits. A liability is reported for any entitlement that has not been settled at the reporting date and represents the amount paid or expected to be paid to settle the liability. Owing to the short-term nature of these entitlements, the liabilities are not discounted for the time value of money. They are presented as current liabilities.

Post-employment benefits

Post-employment benefits are those payable after completion of employment, but exclude termination payments.

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, reduced by the fair value of plan assets (if any) at the reporting date. UNCDF did not hold any assets corresponding to the definition of a plan asset.

UNCDF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan.

Actuarial valuations are prepared every two years for the Pension Fund using the open group aggregate method. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, 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. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the General Assembly on the audit every two years. The Pension Fund publishes quarterly reports on its investments on its website (www.unjspf.org).

The UNCDF contribution to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly, together with its share of any actuarial deficiency payments under article 26 of the Regulations, Rules and Pension Adjustment System of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked article 26, following determination that there is a requirement for deficiency payments based on an assessment of an actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which it paid during the three years preceding the valuation date.

The after-service health insurance (programme extends subsidized health insurance coverage to retirees and their dependants under the same health insurance terms as for active staff based on certain eligibility requirements. The after-service health insurance programme at UNCDF is a defined benefit plan. Accordingly a liability is recognized to reflect the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The latest actuarial valuations for the UNCDF after-service health insurance programme were carried out as at 31 December 2012 using the projected unit credit method.

Defined contribution plan

UNCDF, along with other participating organizations, is not in a position to identify its share of the underlying financial position and performance of the Pension Fund's multi-employer funded, defined benefit plan on the basis of International Public Sector Accounting Standard 25 with sufficient reliability for accounting purposes and, as allowed by Standard 25, treats this plan as if it were a defined contribution plan. Thus, obligations for contributions to the Pension Fund are recognized as an employee benefit expense in surplus or deficit in the statement of financial performance when they are due.

Defined benefit plans

The Fund's defined benefit plans include after-service health insurance and certain end-of-service entitlements. Its obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that obligation is discounted to determine its present value and stated at the end of reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on high-quality credit-rated corporate bonds that have maturity dates approximating the terms of the payment obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly to a reserve in net assets/equity in the period in which they arise. All other changes in the liability for these obligations are recognized in surplus or deficit in the Statement of Financial Performance in the period in which they arise.

Other long-term employee benefits

Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the period in which employees provide the related service. These benefits include the non-current portions of home leave and compensation for death and injury attributable to performance of duties. These are recognized 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. Actuarial gains and losses are reported in the statement of changes in net assets/equity.

Termination benefits

Termination benefits are recognized as an expense only when UNCDF is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted.

Leases

Operating lease

Leases are classified as operating leases where UNCDF is the lessee and the lessor retains a significant portion of the risks and rewards inherent to ownership. Payments under operating leases, net of incentives received from the lessor, are recognized on a straight-line basis in the statement of financial performance over the lease term.

Finance lease

Leases of tangible assets, where UNCDF has substantially all the risks and rewards of ownership, are classified as financial leases. Initial recognition of a finance lease results in an asset and liability being recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. Subsequent to initial recognition, leased assets are depreciated over the shorter of the lease term and their useful lives in accordance with the accounting policies for property, plant and equipment. Each finance lease payment is allocated between the liability and finance charges. The interest portion of the finance lease obligations is recognized as an expense in the statement of financial performance over the term of the lease to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-to-use arrangements

Where UNCDF has signed an agreement for the right to use assets without legal title/ownership of the assets, for example through donated use granted to UNCDF at no cost, the transaction is a non-exchange transaction. In this case, an asset and revenue are recognized at the point the agreement is entered into. Recognition of an asset is contingent upon satisfying criteria for recognition of an asset. Valuation of the asset will be the fair value of the resource for which the right to use was acquired at the date of acquisition. The asset is depreciated over the shorter of the asset's useful life and the right-to-use term. Revenue is also recognized in the same amount as the asset, except to the extent that a liability is also recognized.

(c) Recognition of revenue

Contributions

Voluntary contributions are non-exchange transactions which are recognized as revenue when contribution agreements become enforceable, or when cash is received in the absence of contribution agreements. Depending on the agreements, enforceability occurs upon signature alone or signature and receipt of deposit, or when conditions, if any, in contribution agreements are met. Revenue is shown net of returns of unused funds to donors and impairment of receivables.

In-kind contributions of goods provided are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to UNCDF and the fair value of these assets can be measured reliably. In-kind contributions recognize revenue from right-to-use arrangements at the fair value of the asset reported. UNCDF does not recognize or disclose contributions of services in kind as an asset and revenue.

(d) Recognition of expenses

Expenses are recognized when goods have been delivered or services rendered and accepted by UNCDF or by UNDP on its behalf or as specified below.

For direct implementation by UNCDF or full country-office support to national Government implementation, expenses are recognized when (non-capital) goods or services have been received by UNCDF.

For national implementation or implementation by non-governmental organizations, expenses are recognized when funds are disbursed by an executing entity or implementing partner and reported to UNCDF.

Advances transferred to executing entities or implementing partners are recognized as expenses when goods are delivered or services rendered by the executing entities or implementing partners and confirmed by receipt by UNCDF of the applicable certified expense reports, such as financial reports, funding authorization and certification of expense forms or project delivery reports. Once these expense reports are received, UNCDF recognizes expenses in its statement of financial performance. Data may be obtained from the audited statements of the executing entities or implementing partners or, when such statements are not available for the reporting period, from the entities' statements as submitted for audit or unaudited statements.

(e) Commitments, provisions and contingencies

Commitments

Commitments are future expenses and liabilities to be incurred on contracts entered into at the reporting date which UNCDF has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments relating to employment contracts are excluded. Commitments include:

(i) Capital commitments: the aggregate amount of capital expenses contracted for but not recognized as paid or provided for at the end of the period;

(ii) Contracts for the supply of goods or services which UNCDF is expecting to be delivered in the ordinary course of operations;

(iii) Non-cancellable minimum lease payments;

(iv) Other non-cancellable commitments.

Provisions

A provision is recognized if, as a result of a past event, UNCDF has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenses expected to be required to settle the obligation. The increase in provision owing to the passage of time is recognized as a finance cost.

Contingencies

Contingent assets

A contingent asset is disclosed when an inflow of economic benefits or service potential is probable. If it has become virtually certain that an asset is no longer contingent and the asset's value can be measured reliably, the asset and the related revenue are recognized in the period in which the change occurs.

Contingent liabilities

A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recognized in the period in which the change of probability occurs.

Note 5
Opening balances

The following table shows the adjustments made between the audited UNSAS statement of financial position of UNCDF as at 31 December 2011 (reclassified and restated for IPSAS presentation) and the opening statement of financial position as at 1 January 2012.

(Thousands of United States dollars)

	UNSAS closing balance (restated)	*Effect of transition to IPSAS*	*IPSAS opening balance*
Assets			
Current assets			
Cash and cash equivalents	35 120	–	35 120
Investments	–	32 960	32 960
Receivables (non-exchange transactions)	(223)	1 171	948
Receivables (exchange transactions)	438	–	438
Advances issued	3 015	(150)	2 865
Other current assets	178	–	178
Total current assets	**38 528**	**33 981**	**72 509**
Non-current assets			
Investments	40 513	(32 959)	7 554
Loans to financial service providers	4 816	–	4 816
Property, plant and equipment	–	1 005	1 005
Total non-current assets	**45 329**	**(31 954)**	**13 375**
Total assets	**83 857**	**2 027**	**85 884**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5 217	(70)	5 147
Employee benefits	32	1 664	1 696

	UNSAS closing balance (restated)	Effect of transition to IPSAS	IPSAS opening balance
Other current liabilities	59	–	59
Total current liabilities	**5 308**	**1 594**	**6 902**
Non-current liabilities			
Employee benefits	1 412	11 843	13 255
Total non-current liabilities	**1 412**	**11 843**	**13 255**
Total liabilities	**6 720**	**13 437**	**20 157**
Net assets/equity			
Reserves	24 600	–	24 600
Accumulated surplus	52 537	(11 410)	41 127
Total net assets/equity	**77 137**	**(11 410)**	**65 727**
Total liabilities and net assets/equity	**83 857**	**2 027**	**85 884**

Total assets in the IPSAS opening statement of financial position as at 1 January 2012 were $2,027,000 higher than in the reclassified UNSAS statement of financial position as at 31 December 2011. This increase primarily results from recognition of receivables and property, plant and equipment. Total liabilities increased by $13,437,000 owing primarily to recognition of employee benefit liabilities. Net assets/equity decreased by $11,410,000.

Note 6
Segment reporting

UNCDF classifies all its activities into four segments (regular resources; cost-sharing; trust funds; and reimbursable support services and miscellaneous activities) for purposes of evaluating its past performance in achieving its objectives and for making decisions about the future allocation of resources.

(a) Regular resources

Regular resources are all resources of UNCDF that are commingled, untied and unearmarked. These include voluntary contributions, contributions from other governmental, intergovernmental or non-governmental sources and related interest earnings and miscellaneous revenue.

(b) Cost-sharing

Cost-sharing is a co-financing funding modality under which contributions can be received for specific UNCDF programme activities in line with UNCDF policies, aims and activities. This modality is used for the direct funding of a specific project, group of projects or part of a country programme. Use of donor contributions is normally limited to the duration of a particular project. Cost-sharing has a decentralized signatory authority and agreements are signed at the country office level.

(c) Trust funds

Trust funds are a co-financing funding modality established as a separate accounting entity under which UNCDF receives contributions to finance programme activities specified by the contributor. Separate accounting records are kept for each individual trust fund and financial reporting is at the level of the individual trust fund. Trust funds are required to be reported separately to the UNCDF Executive Board. Trust funds have a centralized signatory authority and agreements have to be authorized by the Associate Administrator at the headquarters level. Each trust fund has specific terms of reference and a trust fund manager assigned to it.

(d) Reimbursable support services and miscellaneous activities

Reimbursable support services and miscellaneous activities are the resources of UNCDF, other than the three categories mentioned above, which are received for a specific programme purpose consistent with the policies, aims and activities of UNCDF and for the provision of management and other support services to third parties.

In order to attribute assets to the appropriate segment, UNCDF has allocated cash and investments based on the inter-fund balances between the four segments.

Financial position as at 31 December 2012, by segment

(Thousands of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Total*
Assets					
Current assets					
Cash and cash equivalents	13 218	15 678	5 437	2 826	37 159
Investments	14 266	16 052	5 567	2 892	38 777
Receivables (exchange transactions)	278	–	–	1	279
Advances issued	1 616	41	306	3	1 966
Other current assets	87	88	3	–	178
Total current assets	**29 465**	**31 859**	**11 313**	**5 722**	**78 359**
Non-current assets					
Investments	4 815	5 600	1 942	1 009	13 366
Loans to financial service providers	2 910	297	–	–	3 207
Property, plant and equipment	357	60	1	70	488
Total non-current assets	**8 082**	**5 957**	**1 943**	**1 079**	**17 061**
Total assets	**37 547**	**37 816**	**13 256**	**6 801**	**95 420**
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	7 724	244	225	30	8 223
Employee benefits	1 452	285	154	142	2 033

	Regular resources	Cost-sharing	Trust funds	Reimbursable support services and miscellaneous activities	Total
Other current liabilities	38	–	–	–	38
Total current liabilities	**9 214**	**529**	**379**	**172**	**10 294**
Non-current liabilities					
Employee benefits	11 802	1 605	807	1 088	15 302
Total non-current liabilities	**11 802**	**1 605**	**807**	**1 088**	**15 302**
Total liabilities	**21 016**	**2 134**	**1 186**	**1 260**	**25 596**
Net assets/equity					
Reserves	22 600	–	–	2 000	24 600
Accumulated surplus	(6 069)	35 682	12 070	3 541	45 224
Total net assets/equity	**16 531**	**35 682**	**12 070**	**5 541**	**69 824**
Total liabilities and net assets/equity	**37 547**	**37 816**	**13 256**	**6 801**	**95 420**

Financial performance as at 31 December 2012, by segment

(Thousands of United States dollars)

	Regular resources	Cost-sharing	Trust funds	Reimbursable support services and miscellaneous activities	Elimination[a]	Total
Revenue						
Voluntary contributions, net	14 520	27 363	11 574	682	–	54 139
Investment revenue	206	110	51	–	–	367
Other revenue	546	13	5	2 378	(2 304)	638
Total revenue	**15 272**	**27 486**	**11 630**	**3 060**	**(2 304)**	**55 144**
Expenses						
Contractual services	2 939	2 544	1 586	157	–	7 226
Staff costs	9 371	3 348	1 470	1 837	–	16 026
Supplies and consumables used	411	51	104	1	–	567
General operating expenses	4 519	3 859	1 436	683	(2 304)	8 193
Grants and other transfers	5 146	6 648	4 933	–	–	16 727
Other expenses	1 299	93	53	72	–	1 517
Depreciation	239	32	2	56	–	329
Finance costs	8	–	–	–	–	8
Total expenses	**23 932**	**16 575**	**9 584**	**2 806**	**(2 304)**	**50 593**
Surplus/(deficit) for the period	**(8 660)**	**10 911**	**2 046**	**254**	**–**	**4 551**

[a] This adjustment is required to remove the effect of internal UNCDF cost recovery.

Note 7
Comparison to budget

The budget and the accounting basis are different. Statement V is prepared on the budget basis, i.e., approved budgets of UNCDF are prepared on a modified accrual basis. The presentation of activities and associated expenditures in statement V reflects the cost classification categories approved by the UNDP Executive Board. It is noted that the statement of financial performance (statement II) reflects expenses by nature. For this reason the total actual regular resources budget expenditure of $22,962,000 differs from total financial accounting expenses.

For UNCDF, approved budgets are those that permit expenses to be incurred related to development and management activities to be funded from regular resources. As the Fund's other resources are a forward estimate and projection based on assumptions about future events, and not formally approved by the Executive Board, they are not presented in statement V.

Statement V compares the final approved budget to actual amounts calculated on the same basis as the corresponding budget. There are no material differences between the original approved budget and the final approved budget.

Budget utilization levels in 2012 are driven by a combination of the approved budget levels and the Fund's overall cash flow and liquidity requirements. Accordingly, utilization in the year 2012 against budget levels is as follows:

(a) Development activities: actual utilization of $20,423,000, representing 68.4 per cent of the annualized approved budget of $29,866,000;

(b) Management activities: actual utilization of $2,539,000, representing 96.8 per cent of the annualized approved budget of $2,623,000.

Actual net cash flows from operating activities, investing activities and financing activities as presented on a comparable basis reconcile to the amounts presented in the financial statements as follows:

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual amount on comparable basis as presented in the Budget and actual comparative statement	(22 776)	(186)	–	(22 962)
Basis differences	30	104	–	134
Entity differences	36 041	(11 174)	–	24 867
Net increase/(decrease) in cash and cash equivalents from the cash flow statement	**13 295**	**(11 256)**	**–**	**2 039**

Basis differences include differences between the budget basis (modified accrual) and accounting basis (accrual) which result primarily from purchase orders issued but not delivered. These are included in the budget basis but not in the accounting basis as delivery of goods and the rendering of services has not yet occurred for these undelivered purchase orders.

Entity differences between statement V and statement IV include the Fund's other resources, that is, amounts for cost-sharing, trust funds and reimbursable support services and miscellaneous activities which are incorporated in statement IV but not in statement V.

Timing differences do not exist as the budget period annualized is the same as the financial statement reporting period.

Note 8
Cash and cash equivalents

(Thousands of United States dollars)

	Amount at 31 December 2012
Cash in bank accounts	15 469
Money market funds	21 690
Total	**37 159**

UNCDF does not hold cash in local currencies in country offices. UNCDF uses UNDP local bank accounts for its day-to-day financial commitments and does not receive contributions at the country-office level. All contributions are made directly to UNCDF or UNDP contribution accounts at UNDP headquarters. The Fund’s exposure to credit risks is disclosed in note 24.

Note 9
Investment portfolio: held-to-maturity financial assets

(Thousands of United States dollars)

	1 January 2012	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Unrealized gains/ (losses)*	*Reclassification non-current to current*	*31 December 2012*
Current investments								
Money market instruments	–	9 987	–	1	–	–	–	9 988
Bonds	32 960	15 722	(42 600)	(612)	–	–	23 319	28 789
Total current investments	**32 960**	**25 709**	**(42 600)**	**(611)**	**–**	**–**	**23 319**	**38 777**
Non-current investments								
Bonds	7 554	29 540	–	(409)	–	–	(23 319)	13 366
Total non-current investments	**7 554**	**29 540**	**–**	**(409)**	**–**	**–**	**(23 319)**	**13 366**
Total investments	**40 514**	**55 249**	**(42 600)**	**(1 020)**	**–**	**–**	**–**	**52 143**

As at 31 December 2012, UNCDF did not have any impairment on its investments.

The Fund’s exposure to credit risks and risk management activities related to investments is disclosed in note 24.

Note 10
Receivables exchange transactions

(Thousands of United States dollars)

	Amount at 31 December 2012
By type	
Receivables from third parties	2
Investments assets and receivables	272
Receivables from United Nations Population Fund	5
Total	**279**

	Amount at 31 December 2012
By age	
Less than 6 months	277
More than 6 months	2
Total	**279**

The Fund's exposure to credit and currency risks related to receivables is disclosed in note 24.

Note 11
Advances issued

(Thousands of United States dollars)

	Amount at 31 December 2012
Non-exchange transactions	
Operating funds provided to Governments	410
Operating funds provided to executing entities/implementing partners	71
Subtotal	**481**
Exchange transactions	
Prepaid advances	1 174
Advances to staff	311
Subtotal	**1 485**
Total	**1 966**

Advances issued by age

(Thousands of United States dollars)

	Amount at 31 December 2012
Less than 6 months	372
More than 6 months	1 594
Total	**1 966**

Note 12
Other assets

(Thousands of United States dollars)

	Amount at 31 December 2012
Current assets	
Other miscellaneous assets	178
Total other assets	**178**

Note 13
Loans to financial service providers

(Thousands of United States dollars)

	Amount at 31 December 2012
Non-current	
Loans to financial service providers	3 207
Total loans to financial service providers	**3 207**

	Amount at 31 December 2012
Balance at 1 January 2012	4 816
Loans revaluation	(812)
Loans repayment	(797)
Balance at 31 December 2012	**3 207**

Note 14
Property, plant and equipment

(Thousands of United States dollars)

	Furniture and fixtures	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Total*
Balance at 1 January 2012					
Cost	19	616	1 065	21	1 721
Accumulated depreciation	(3)	(304)	(405)	(4)	(716)
Carrying amount at 1 January 2012	**16**	**312**	**660**	**17**	**1 005**
Period ended 31 December 2012					
Additions	3	77		1	81
Disposals		(56)			(56)
Retirements	(7)	(197)	(253)		(457)
Adjustments			(33)		(33)
Depreciation	(2)	(127)	(198)	(2)	(329)
Adjustments to accumulated depreciation i.e. disposals, retirements and adjustments	1	183	93		277
Carrying amount at 31 December 2012	**11**	**192**	**269**	**16**	**488**
Balance at 31 December 2012					
Cost	15	440	779	22	1 256
Accumulated depreciation	(4)	(248)	(510)	(6)	(768)
Carrying amount at 31 December 2012	**11**	**192**	**269**	**16**	**488**

UNCDF has two broad categories of property, plant and equipment: project assets (used in the delivery of programmes and projects) and management assets (used for non-project-specific operations at country offices and headquarters).

Note 15
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	Amount at 31 December 2012
Payables to third parties	418
Accruals	73
Payables to staff	14
Payables to the United Nations Entity for Gender Equality and the Empowerment of Women	3
Payables to UNDP	7 715
Total accounts payable and accrued liabilities	**8 223**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2012
Current	
Annual leave	1 415
Home leave	224
After-service health insurance	192
Repatriation entitlements	156
Death benefits	4
Accrued contribution to the United Nations Joint Staff Pension Fund	1
Other employee benefits	41
Subtotal	**2 033**
Non-current	
After-service health insurance	12 448
Repatriation entitlements	1 709
Home leave	135
Death benefits	31
Other employee benefits	979
Subtotal	**15 302**
Total	**17 335**

Employee benefits are established in accordance with the Staff Rules and Staff Regulations of the United Nations. The liabilities arising from post-employment benefits are determined by independent actuaries. As at 31 December 2012, liabilities for after-service health insurance, repatriation entitlements and death benefits are determined by the actuarial valuation conducted as at 31 December 2012.

(a) United Nations Joint Staff Pension Fund

UNCDF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to staff. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Pension Fund, membership is to 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.

The actuarial method adopted by the Pension Fund to determine whether its present and estimated future assets will be sufficient to meet its present and estimated future liabilities is the open group aggregate method, using various sets of assumptions as to future economic and demographic developments. The Board of

Auditors carries out an annual audit of the Pension Fund and reports to the General Assembly on the audit every two years. The Pension Fund publishes quarterly reports on its investments on its website (www.unjspf.org).

The financial obligation of UNCDF to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund.

Such deficiency payments are only payable if and when the General Assembly invokes the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which it paid during the three years preceding the valuation date. At the time of the present report, the General Assembly had not invoked the provision of article 26.

The latest pension actuarial valuation was performed as at 31 December 2011. The valuation revealed an actuarial deficit of 1.87 per cent of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2011 was 25.57 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent.

As the plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations, there is no reliable basis for allocating the obligation, plan assets and costs to participating organizations in the plan. As a result, UNCDF has accounted for this plan as a defined contribution plan consistent with the provisions of International Public Sector Accounting Standard 25 (Employee benefits).

(b) Defined benefit plans

In addition to the Pension Fund, UNCDF provides its staff and former staff with the following defined benefit plans, which are actuarially valued: after-service health insurance; end-of-service entitlements such as repatriation entitlement; and other benefits such as death benefits.

The movements in the present value of the defined benefit obligation for these plans are:

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Net defined benefit obligation at 1 January 2012	**10 416**	**1 645**	**–**	**12 061**
Increase of the obligation				
Current service cost	708	213	–	921
Interest cost	465	71	–	536
Actuarial losses from change in assumptions	1 231	109	–	1 340
Actuarial losses from initial recognition of death benefits	–	–	35	35

	After-service health insurance	Repatriation	Death benefits	Total
Decrease of the obligation				
Actual benefits paid	(35)	(172)	–	(207)
Actuarial (gains) on disbursements	(145)	(1)	–	(146)
Net recognized liability at 31 December 2012	**12 640**	**1 865**	**35**	**14 540**

The value of the defined benefit obligation equals the defined benefit liability that is recognized in the statement of financial position (statement I).

The current service cost and interest cost recognized in the statement of financial performance are as follows:

(Thousands of United States dollars)

	After-service health insurance	Repatriation	Death benefits	Total
Current service cost	708	213	–	921
Interest cost	465	71	–	536
Total employee benefits expenses recognized	**1 173**	**284**	**–**	**1 457**

The actuarial losses recognized in net assets/equity directly are as follows:

(Thousands of United States dollars)

	After-service health insurance	Repatriation	Death benefits	Total
Actuarial losses from change in assumptions	(1 231)	(109)	–	(1 340)
Actuarial losses from initial recognition of death benefits	–	–	(35)	(35)
Actuarial gains on disbursements	145	1	–	146
Total	**(1 086)**	**(108)**	**(35)**	**(1 229)**

The next comprehensive actuarial valuation will be conducted as at 31 December 2013.

(c) Actuarial assumptions

The last actuarial valuation was conducted as at 31 December 2012 and the principal actuarial assumptions used to determine the defined benefit obligation are as follows:

Discount rate	4.0 per cent
Expected rate of medical cost increase (varies by medical plan)	5 to 8 per cent
Salary scale (varying by age and staff category)	4 to 9.1 per cent
Rate of inflation	2.5 per cent
Per capita claim cost (varies by age)	\$824 to \$14,206
Actuarial method	Projected unit credit method

Assumptions regarding future mortality are based on published statistics and mortality tables. The current rates of death underlying the values of the liabilities in the after-service health insurance and repatriation calculations are as follows:

	Rate of death pre-retirement	
Category	*At age 20*	*At age 69*
Male	0.00065	0.00906
Female	0.00034	0.00645

	Rate of death post-retirement	
Category	*At age 20*	*At age 70*
Male	0.00072	0.01176
Female	0.00037	0.00860

The rates of retirement for professionals with 30 or more years of professional service hired on or after 1 January 1990 are as follows:

	Rate of retirement	
Category	*At age 55*	*At age 62*
Male	0.20	0.70
Female	0.25	0.80

Sensitivity analysis

If the assumptions about medical cost trends described above were to change, this would affect the measurement of the after-service health insurance obligation as follows:

(Thousands of United States dollars)

	+1 per cent health costs	*-1 per cent health costs*
Effect of discount rate change on year-end accumulated defined benefit obligation	2 899	(2 224)
Effect of change in expected rate of medical costs on combined service and interest cost components of net periodic post-employment medical costs	356	(261)

(d) Termination benefits

No termination benefits are recognized for the reporting period.

Note 17
Other liabilities

(Thousands of United States dollars)

	Amount at 31 December 2012
Deferred revenue	12
Other miscellaneous liabilities	26
Total current other liabilities	38

Note 18
Reserves

(Thousands of United States dollars)

	Amount at 31 December 2012
Operational reserve	24 600
Total reserves	**24 600**

The operational reserve, established in 1979 by the Governing Council (now Executive Board) to ensure adequate liquidity for UNCDF, is maintained at the level of 20 per cent or more of project commitments.

Note 19
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2012	*Movements*	*31 December 2012*
Accumulated surpluses	41 127	5 326	46 453
Actuarial losses	–	(1 229)	(1 229)
Total	**41 127**	**4 097**	**45 224**

Included in accumulated surplus are individual funds with specific purposes. The significant funds include the information and communications technology fund ($135,000), the security fund ($359,000), the learning fund ($75,000), the appendix D fund ($27,000), the malicious acts insurance policy premium ($18,000) and reimbursable costs for United Nations jointly financed activities ($161,000).

Note 20
Voluntary contributions

(Thousands of United States dollars)

	Amount at 31 December 2012
Contributions	54 822
Less: returns to donors of unused contributions	(683)
Total voluntary contributions, net	**54 139**

Note 21
Investment revenue

(Thousands of United States dollars)

	Amount at 31 December 2012
Interest revenue	367
Total	**367**

Interest revenue consists of $286,095 in interest revenue from money markets, time deposits and non-callable bonds held by UNCDF and $81,271 in interest revenue from loans to microfinance institutions. The interest accrued in connection with the loans under restructuring is not included in the interest revenue reported above since the timing and amount of interest revenue from such loans, which will be based on the new negotiated terms after the restructuring, is not known with certainty.

Note 22
Other revenue

(Thousands of United States dollars)

	Amount at 31 December 2012
Foreign exchange gains	414
Revenue from closed projects, disposal of assets and other miscellaneous revenue	224
Total	**638**

Note 23
Expenses

(Thousands of United States dollars)

	Programme expenses[a] *31 December 2012*	*Total expenses* *31 December 2012*
23.1 Contractual services		
Contract services with individuals	5 528	5 703
Contract services with companies	1 330	1 332
United Nations Volunteers expenses for contractual services	192	191
Subtotal	**7 050**	**7 226**
23.2 Staff costs		
Salary and wages	8 663	10 895
Pension benefits	1 539	1 946
Post-employment	827	1 024
Appointment and assignment	773	880
Leave benefits	414	444
Other staff benefits	651	837
Subtotal	**12 867**	**16 026**
23.3 Supplies and consumables used		
Maintenance costs for property, plant and equipment and project-related supplies	157	227
Stationery and other office supplies	69	83
Agricultural, petroleum and metal products	69	80
Information technology supplies and software maintenance	58	64
Information technology and communications equipment	75	65
Other consumables used	39	48
Subtotal	**467**	**567**
23.4 General operating expenses		
Travel	3 454	3 548
Learning and recruitment	1 371	1 402
Rent, leases, utilities	397	692
Reimbursement	339	670
Communications	384	463
Security	306	384
Professional services	349	370
General management costs	2 509[b]	205
Contribution to United Nations jointly financed activities	133	168
Contribution to information and communications technology	111	140
Freight	58	63

	Programme expenses[a] 31 December 2012	*Total expenses 31 December 2012*
Insurance/warranties	26	26
Miscellaneous operating expenses	51	62
Subtotal	**9 488**	**8 193**
23.5 Grants and other transfers		
Grants	16 709	16 709
Transfers	18	18
Subtotal	**16 727**	**16 727**
23.6 Other expenses		
Foreign exchange losses	984	984
Losses on sale of fixed assets	219	237
Sundries	256	296
Subtotal	**1 459**	**1 517**
23.7 Depreciation		
Depreciation	306	329
Subtotal	**306**	**329**
23.8 Finance costs		
Bank charges	8	8
Subtotal	**8**	**8**
Total	**48 372**	**50 593**

[a] Of the total expenses, $48.372 million represents programme expenses, and the remaining $2.221 million represents development effectiveness, and management.
[b] Of the $2.509 million, $2.304 million is eliminated to remove the effect of internal UNCDF cost recovery.

Note 24
Financial instruments and financial risk management

The investment activities of UNCDF are carried out by UNDP under a service-level agreement. Under the terms of the agreement, UNDP applies its investment guidelines and governance framework for the benefit of UNCDF. Investments are registered in the name of UNCDF, with marketable securities held by a custodian appointed by UNDP.

The principal objectives of the investment guidelines (listed in order of importance) are:

(i) Safety: preservation of capital, which is assured by investing in high-quality fixed-income securities emphasizing the creditworthiness of the issuers;

(ii) Liquidity: flexibility to meet cash requirements, which is assured by investment in highly marketable fixed-income securities and by structuring maturities to align with liquidity requirements;

(iii) Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

UNCDF is susceptible to a variety of financial risks, including:

(i) Credit risk: the possibility that third parties may not pay amounts due to UNCDF;

(ii) Liquidity risk: the possibility that UNCDF might not have adequate funds to meet its current obligations;

(iii) Market risk: the possibility that UNCDF might incur significant financial losses owing to unfavourable movements in foreign currency exchange rates, interest rates and prices of investment securities.

The UNDP Investment Committee, comprising senior managers, meets quarterly to review performance of investment portfolios and ensure that investment decisions are in compliance with the established investment guidelines.

(a) Credit risk

The UNDP investment guidelines limit the amount of credit exposure to any one counterparty and include minimum credit quality requirements. The credit risk mitigation strategies stated in the investment guidelines include conservative minimum credit criteria of investment grade for all issuers with maturity and counterparty limits by credit rating. The investment guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments are limited to fixed income instruments of sovereigns, supranationals, governmental or federal agencies and banks.

Credit ratings

As of 31 December 2012, UNCDF non-current and current investments were in investment-grade instruments as indicated below:

(Thousands of United States dollars)

	Average credit rating	*Amount at 31 December 2012*
Money market instruments	AAA	9 988
Bonds	AA+	42 155
Total current and non-current investments		**52 143**

Note: Excludes investments classified as cash equivalents.

The investment management function is performed by the UNDP Treasury. UNCDF offices do not routinely engage in investment activities.

For other resources, the UNCDF financial regulations and rules require that expenses be incurred after receipt of funds from the donor, thereby considerably reducing the financial risk to UNCDF with regard to contributions receivable. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk management criteria are adhered to with regard to the amount receivable. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, including other United Nations entities which do not have significant credit risk.

(Thousands of United States dollars)

	Amount at 31 December 2012
Receivables (exchange transactions)	279
Advances issued	1 966
Total short-term and long-term investments	**2 245**

Receivables (exchange transactions) comprise mainly interest receivable from bonds and notes. Advances issued comprise mainly prepaid advances issued where agreements between UNCDF and the executing entity, implementing partner or supplier require upfront payment.

UNCDF evaluates for impairment or doubtful accounts when there is objective evidence, based on a review of outstanding amounts at the reporting date, that UNCDF will not collect all amounts due. As of 31 December 2012, UNCDF had no impaired assets.

(b) Liquidity risk

Investments are made with due consideration to the cash requirements of UNCDF for operating purposes based on cash-flow forecasting. The Fund's investment approach includes consideration of investment maturity structuring that takes into account the timing of future funding needs of the organization. UNCDF maintains a large portion of its investments in cash equivalents and current investments sufficient to cover its commitments as and when they fall due as highlighted in the table below.

Liquidity

(Thousands of United States dollars)

	Percentage of total	*Amount at 31 December 2012*
Cash balances	1	474
Investments — cash equivalents	41	36 685
Subtotal	**42**	**37 159**
Current investments	43	38 777
Non-current investments	15	13 366
Subtotal	**58**	**52 143**
Total	**100**	**89 302**

Note: Investments classified as cash equivalents have a maturity of three months or less from the date of acquisition; investments classified as non-current investments have a maturity greater than 12 months from the reporting date.

(c) Market risk

Interest rate risk

UNCDF is exposed to interest rate risk on its interest-bearing assets. Due to the relatively short average maturity and held-to-maturity classification of the Fund's investment portfolio, an interest sensitivity analysis related to these investments would not disclose significant variations in value. Held-to-maturity assets are not marked to market and therefore the carrying values are not affected by changes in interest rates.

Classification of portfolio

(Thousands of United States dollars)

	Amount at 31 December 2012	*Carrying amount*
Held-to-maturity investments	52 143	Amortized cost
Available-for-sale investments	–	Fair value
Total current and non-current investments	**52 143**	

Note: Amortized cost and fair value are based on effective interest rate method; excludes investments classified as cash equivalents.

The UNDP Investment Committee regularly monitors the rate of return on the investment portfolio compared to the benchmarks specified in the investment guidelines.

Foreign exchange risk

At 31 December 2012, 99 per cent of the Fund's cash, cash equivalents and investments were denominated in United States dollars and 1 per cent in other currencies. Non-United States dollar holdings have the primary objective of supporting local operating activities in programme countries. UNCDF maintains a minimum level of assets in local currencies, and whenever possible maintains accounts in United States dollars.

Currency exposure

(Thousands of United States dollars)

	Denominated in United States dollars	*Denominated in other currencies*	*Total*
Cash and cash equivalents	36 679	480	37 159
Current and non-current investments	52 143	–	52 143
Total investments and cash and cash equivalents at 31 December 2012	**88 822**	**480**	**89 302**
Percentage of total	**99**	**1**	**100**

UNCDF is exposed to foreign exchange risk arising primarily from non-United States dollar contributions. Foreign exchange risk to UNCDF is mitigated where contributions are received in local currency from programme country Governments; they are converted to United States dollars immediately and held in United States dollar accounts or used for United States dollar investments.

UNDP uses derivative instruments such as foreign exchange forwards, options and structured options to manage its foreign exchange exposure. The derivatives are marked to market with gains or losses recognized in surplus and deficit in the statement of financial performance. At year-end, UNCDF had no open foreign exchange derivative instruments.

Note 25
Related parties

(a) Key management personnel

The Fund's leadership structure consists of a four-member Executive Group: the Executive Secretary, the Deputy Executive Secretary and two Directors of the Practice Areas. The Executive Group is responsible for the strategic direction and operational management of UNCDF and is entrusted with significant authority to execute the Fund's mandate. For 2012, one of the posts of Director of the Practice Areas was vacant and no amounts are included in the calculation below. In addition, two individuals encumbered the post of Executive Secretary, the first from January to April and the second from November to December 2012. The remuneration below includes the entitlements of both.

(b) Remuneration

(Thousands of United States dollars)

Tier	*Number of posts*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*Annual leave, repatriation and after-service health insurance liability*
Key management personnel	3	613	152	765	1 435
Total	**3**	**613**	**152**	**765**	**1 435**

The remuneration paid to key management personnel includes salary, post adjustment and other entitlements as applicable, such as assignment grants, employer contribution to health insurance and pension, dependency allowance, education grants, hardship, mobility and non-removal allowance, real estate agency reimbursement and representation allowance.

Key management personnel are also eligible for post-employment employee benefits such as after-service health insurance, repatriation benefits and payment of unused annual leave.

(c) Advances

Staff advances are referred to as salary advances at UNCDF. Salary advances are available to all UNCDF staff, including key management personnel, for specific purposes as provided for in the Staff Rules and Staff Regulations of the United

Nations. At 31 December 2012, the balance of $112,705 represented salary advances made to three key management personnel.

Note 26
Commitments and contingencies

(a) Open commitments

(Thousands of United States dollars)

	Amount at 31 December 2012
Property, plant and equipment	139
Goods	2
Services	274
Total	**415**

At 31 December 2012, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $276,000, and acquisition of property, plant and equipment contracted but not received amounted to $139,000.

(b) Lease commitments by term

(Thousands of United States dollars)

	Amount at 31 December 2012
Obligations for property leases	
Less than 1 year	141
1 to 5 years	599
Over 5 years	–
Total	**740**

UNCDF contractual leases are typically between 5 and 10 years; however, some leases permit early termination within 30, 60 or 90 days. The above presents future obligations for the minimum lease term/contractual term of the lease payment.

	Amount at 31 December 2012
Obligations for operating leases	
Less than 1 year	–
1 to 5 years	40
Over 5 years	–
Total	**40**

UNCDF has a lease of three photocopiers for a period of 36 months from the beginning of 2012 to the end of 2014. The lease falls under the classification of an operating lease since the risks and rewards are not fully transferred to UNCDF. The obligation is $1,652 per month for a total of $19,824 per year.

(c) Contingencies

As at the reporting date UNCDF had no contingent assets and no contingent liabilities.

Note 27
Events after reporting date

The reporting date for the present financial statements is 31 December 2012. No material events, favourable or unfavourable, have occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have materially affected the statements.

Note 28
Additional disclosure

All trust funds established by UNCDF: schedule of financial performance

(Thousands of United States dollars)

Name of trust fund	*Opening net assets 1 January 2012 (restated)*	*Revenue*	*(Expenses)*	*Adjustments recognized directly in closing net assets*	*Closing net assets 31 December 2012*
Belgium — Anseba Local Development Fund	471	2	–	–	473
Belgium — Projet d’appui au développement local de la région de Mayahi	(1)	–	–	–	(1)
Belgium (Belgian Fund for Food Security) — Programme conjoint à Nara-Nioro	–	877	(73)	–	804
Belgian Fund for Food Security — Evaluation	4	–	(4)	–	–
Belgian Fund for Food Security — Programme d’appui au développement économique local	917	1 237	(1 184)	–	970
Belgian Fund for Food Security — Projet d’appui à la décentralisation, à la déconcentration et au développement économique local au Bénin	662	614	(1 030)	–	246
Bill and Melinda Gates Foundation — Least Developed Countries Fund	6 556	21	(2 518)	(25)	4 034
Canada (Canadian International Development Agency) — Appui à la gouvernance locale dans le département du Nord-Est en Haïti	175	5	(52)	–	128
Belgian Fund for Food Security — Collectivités territoriales et développement local à Tombouctou et a Mopti-Mali	716	2	(213)	–	505
Belgian Fund for Food Security — Projet d’appui au développement communautaire en province de Byumba — Rwanda	281	1	–	–	282
France — Projet d’appui à la commune urbaine de Diffa — Niger	136	1	–	–	137
France — Projet d’appui à la décentralisation et au développement local — Mauritanie	264	1	–	–	265
Japan — District Development Programme 2 — Gender Mainstreaming Component	120	–	–	–	120
Luxembourg — Mali project	75	–	(48)	–	27
Luxembourg — Programme d’appui à la décentralisation en milieu rural	192	1	–	–	193
Multi-donor trust fund — (UNDP AA) One United Nations funds and joint programmes	(510)	6 622	(4 462)	(51)	1 599
Spain — Millennium Development Goals — Water and sanitation	4	–	–	–	4
Spain — Spain Millennium Development Goals	15	–	–	–	15
Sweden — United Nations advisory group	23	–	–	–	23
Multi-donor trust fund — Livelihoods and food security fund	–	2 246	–	–	2 246
Total	**10 100**	**11 630**	**(9 584)**	**(76)**	**12 070**

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