برنامج الأغذية العالمي

Programme Alimentaire Mondial

World Food Programme

Programa Mundial de Alimentos

Executive Board
Annual Session

Rome, 4–8 June 2007

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

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ANNUAL ACCOUNTS (2006): PART I

Financial Statements and Notes

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Deputy Executive Director, AD:	Ms S. Malcorra	tel.: 066513-2007
Deputy Chief Financial Officer and Director, CFOA:	Mr E. Whiting	tel.: 066513-2701
Chief, CFOAG	Ms M. Bautista-Owen	tel.: 066513-2240

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms. C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).

EXECUTIVE SUMMARY

The Executive Director has the honour to submit to the Board, for consideration, the Financial Statements of WFP for the year ended 31 December 2006. This document presents the financial position of WFP for the first year of the 2006–2007 biennium; the second part of the 2006 annual accounts is "Review of Preparation of Financial Statements for 2006" (WFP/EB.A/2007/6-F/1/2), which presents the report of the External Auditor.

Financial Regulations 13.1 and 13.3 provide that the Executive Director shall submit to the Board for its approval biennial financial statements in respect of the WFP Fund, including its funds and accounts, and that the same shall be submitted to the External Auditor for his examination and opinion. Although the Annual Accounts for 2006 were not subject to formal audit under the Financial Regulations, they were nonetheless reviewed by the External Auditor as stated above.

In preparation for the move to international accounting standards, the Secretariat has introduced improvements in financial reporting as follows:

- preparation of annual financial statements;
- change in expenditure accrual policies whereby expenditures during the financial period are recognized on the basis of goods and services delivered against legal obligation; and
- reporting of investments at market value.

Reporting of investments at market value was introduced with the 2004–2005 financial statements. Preparation of annual accounts and change in expenditure recognition took effect in 2006.

The preparation of a complete set of Financial Statements and accompanying Notes for the 2006 Annual Accounts and the external audit review of the same will serve as a basis for the Secretariat to address areas that are considered critical in the preparation of the 2006–2007 Biennial Financial Statements. The preparation of the 2006 Annual Accounts will enable WFP to position itself for the introduction of annual accounts and full audit, which will be mandatory from 2008.

DRAFT DECISION*

The Board:

(i) takes note of the 2006 Annual Accounts of WFP;

(ii) takes note of the External Auditor's report and recommendations on the preparation of the 2006 Annual Accounts; and

(iii) requests the Executive Director to implement the External Auditor's recommendations as soon as possible.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.A/2007/15) issued at the end of the session.

World Food Programme

Certification of 2006 Annual Financial Statements
2006-2007 Biennium

Statement I - Statement of Income and Expenditures and Changes in Fund Balances for the Year Ended 31 December 2006

Statement II - Statement of Assets, Liabilities and Reserves and Fund Balances as at 31 December 2006

Statement III - Statement of Cash Flow for the Year Ended 31 December 2006

Notes to the Financial Statements

Pursuant to Financial Rule 113.6, I hereby certify that to the best of my knowledge and information, all material transactions have been properly entered in the accounting records and the attached financial statements and notes fairly present the financial position of the World Food Programme.

James Morris

James T. Morris

Executive Director

Rome, 29 March 2007

STATEMENT I
STATEMENT OF INCOME AND EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2006
(US$ thousand)

	Notes	Programme Category Funds	General Fund and Special Accounts (Note 18)	Bilateral Operations and Trust Funds (Note 19)	Eliminations (Note 20)	Total WFP Fund	Prior Period 2004-2005 (Adjusted) (Note 3C)
INCOME							
Commodity in-kind contributions	**2E1a)**	376 279	-	-	-	376 279	969 089
Services-in-kind contributions	**2E1b)**	10 578	553	-	-	11 131	70 182
Other contributions	**2E1c)**	2 196 003	29 294	126 965	-	2 352 262	5 155 311
Government cash contributions for local costs	**2E1d)**	-	1 327	-	-	1 327	3 242
Interest		-	43 399	3 323	-	46 722	54 785
Currency exchange adjustments		40 991	7 400	(509)	-	47 882	(37 946)
Miscellaneous income		39 747	82 030	-	(25 207)	96 570	95 463
Transfer of indirect support cost contributions to General Fund	**2E1e)**	(157 864)	159 277	(1 413)	-	-	-
TOTAL INCOME INCLUDING TRANSFER		**2 505 734**	**323 280**	**128 366**	**(25 207)**	**2 932 173**	**6 310 126**
EXPENDITURE							
Commodities in-kind		410 001	-	2 538	-	412 539	990 894
Commodities purchased		533 578	62	32 621	-	566 261	1 773 344
Ocean transport and related costs		242 121	10	310	-	242 441	627 740
Landside transport storage and handling		720 345	219	4 179	(3 406)	721 337	1 232 495
Other direct operational costs		262 078	65 590	16 197	(16 766)	327 099	402 121
Direct support costs	**14**	298 730	62 597	38 111	(4 120)	395 318	654 484
Programme support and administration	**14**	-	211 573	-	(915)	210 658	393 037
TOTAL EXPENDITURE		**2 466 853**	**340 051**	**93 956**	**(25 207)**	**2 875 653**	**6 074 115**
Excess/(shortfall) of income over expenditure		**38 881**	**(16 771)**	**34 410**	-	**56 520**	**236 011**
Fund balances, beginning of period	**3C**	**1 656 591**	**185 901**	**220 266**	-	**2 062 758**	**2 317 031**
Contribution adjustments	**15**	(131 899)	(1 156)	(52 791)	-	(185 846)	(445 633)
Write-off of accounts receivable		-	(3 380)	-	-	(3 380)	(4 713)
Prior period adjustments	**16**	6 551	2 637	(8 015)	-	1 173	(89 155)
Savings on cancellation of prior period obligations		-	-	-	-	-	1 004
Transfers between funds and accounts	**17A**	6 107	(6 573)	466	-	-	-
Transfers from reserves	**17B**	27 894	44 110	-	-	72 004	48 213
FUND BALANCES, END OF PERIOD		**1 604 125**	**204 768**	**194 336**	**-**	**2 003 229**	**2 062 758**

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

STATEMENT II
STATEMENT OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2006
(US$ thousand)

	Notes	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Eliminations (Note 20)	Total WFP	Prior Period 2004-2005 (Adjusted) (Note 3C)
ASSETS							
Cash and short-term investments	**4**	481 627	432 482	205 601	-	1 119 710	1 130 239
Cash held in trust in Country Offices	**5**	-	-	2 840	-	2 840	20 578
Accounts receivable	**6**	42 979	138 934	4 258	(14 443)	171 728	219 059
Contributions receivable	**7**	1 228 302	20 805	-	-	1 249 107	1 318 788
Long-term investments	**8**	-	55 168	-	-	55 168	56 788
TOTAL ASSETS		**1 752 908**	**647 389**	**212 699**	**(14 443)**	**2 598 553**	**2 745 452**
LIABILITIES							
Current Liabilities							
Accounts payable	**10**	148 783	132 830	15 523	(14 443)	282 693	296 763
Funds held in trust in Country Offices	**5**	-	-	2 840	-	2 840	20 578
Total Current Liabilities		148 783	132 830	18 363	(14 443)	285 533	317 341
Long-Term Loan	**18G**	-	106 000	-	-	106 000	106 000
TOTAL LIABILITIES		**148 783**	**238 830**	**18 363**	**(14 443)**	**391 533**	**423 341**
RESERVES AND FUND BALANCES							
Reserves	**13**	-	203 791	-	-	203 791	259 353
Fund balances		1 604 125	204 768	194 336	-	2 003 229	2 062 758
TOTAL RESERVES AND FUND BALANCES		**1 604 125**	**408 559**	**194 336**	**-**	**2 207 020**	**2 322 111**
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		**1 752 908**	**647 389**	**212 699**	**(14 443)**	**2 598 553**	**2 745 452**

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

STATEMENT III
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2006
(US$ thousand)

	Notes	WFP Fund	Prior Period 2004-2005 (Adjusted)
Cash inflow (outflow) from operating activities:			
Excess of income over expenditure (Statement I)		56 520	236 011
Decrease in cash held in trust in Country Offices	5	17 738	38 650
(Increase) decrease in accounts receivable	6	47 331	(65 200)
Decrease in contribution receivable	7	69 681	429 812
Increase (decrease) in accounts payable	3C/10	(14 070)	183 448
(Decrease) in funds held in trust in Country Offices	5	(17 738)	(37 961)
Subtotal		159 462	784 760
Less interest income		46 722	54 785
Net cash inflow from operating activities		112 740	729 975
Cash from investing and financing activities:			
Decrease in long-term investments	8	1 620	5 432
Add interest income		46 722	54 785
Net cash from investing and financing activities		48 342	60 217
Cash inflow (outflow) from (to) other sources:			
Contribution adjustments	15	(185 846)	(445 633)
Write-off of accounts receivable		(3 380)	(4 713)
Prior period adjustments	16	1 173	(89 155)
Savings on cancellation of prior period obligations		-	1 004
Transfers from reserves	17B	72 004	48 213
Decrease in reserves		(55 562)	(77 031)
Net cash outflow to other sources		(171 611)	(567 315)
Net increase (decrease) in cash and term deposits		(10 529)	222 877
Cash and term deposits at beginning of period		1 130 239	907 362
Cash and term deposits at end of period	4	**1 119 710**	**1 130 239**

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2006

NOTE 1: OBJECTIVES AND ACTIVITIES OF THE WORLD FOOD PROGRAMME

1. The World Food Programme (WFP) was established in 1963 as the food aid arm of the United Nations system. Its main objectives are to:

- use food aid to support economic and social development;
- meet refugee and other emergency and protracted relief and recovery food needs; and
- promote world food security in accordance with the recommendations of the United Nations and the Food and Agriculture Organization of the United Nations (FAO).

2. To achieve the above objectives, WFP implements on request food aid programmes, projects and activities to:

- assist in economic and social development, concentrating its efforts and resources on the neediest people and countries;
- assist in the continuum from emergency relief to development by giving priority to supporting disaster prevention, preparedness and mitigation, and post-disaster rehabilitation activities;
- assist in meeting refugee and other emergency and protracted relief and recovery food needs, to the extent possible, to serve both relief and development purposes; and
- provide services to bilateral donors, United Nations agencies and non-governmental organizations (NGOs) for operations that are consistent with WFP's aims and that complement WFP's operations.

3. WFP's activities are financed by voluntary contributions from Member States, government agencies, intergovernmental bodies and other public, private and non-governmental sources, and by miscellaneous income, including interest on investments.

4. WFP has its Headquarters in Rome, Italy, and conducts activities through 106 other offices: 88 country offices, 7 regional bureaux and 11 liaison offices around the world. Its policies and budget are determined and approved by the Executive Board, its governing body consisting of 36 members, of whom 18 are elected by the United Nations Economic and Social Council (ECOSOC) and 18 by the FAO Council. Decisions on requests for assistance to meet emergency needs that exceed the level of authority delegated to the Executive Director are made jointly by the Executive Director and the Director-General of FAO.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2A. Financial Period

5. The financial period of WFP is a biennium, starting on 01 January of each even-numbered year. These financial statements relate to the year ended 31 December 2006.

2B. Basis of Presentation

6. These financial statements are prepared in accordance with WFP's Financial Regulations and Rules, Executive Board decisions and resolutions, and the United Nations System Accounting Standards. The format of the financial statements is designed to clearly show the financial position and the results of WFP operations for the year ended 31 December 2006.

2C. Fund Accounting

7. Pursuant to WFP's Financial Regulations, the financial statements of the WFP Fund are presented on a "fund accounting" basis and show a consolidated position of all activities carried out by the Programme as at the end of a given period. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. These are presented as the Programme Category Funds, the General Fund, including Special Accounts, and Bilateral Operations and Trust Funds.

8. Income, expenditure and fund balances for WFP's major operational categories are presented under **Programme Category Funds**. The four major operational categories are classified as development, emergency relief, protracted relief and recovery, and special operations.

9. The **General Fund** shall mean the accounting entity established for recording, under separate accounts, indirect support cost recoveries, miscellaneous income, operational reserve and contributions received which are not designated to a specific programme category, project or a bilateral project. General Fund transactions are recorded under the following categories:

   - **Programme Support and Administrative (PSA)** costs consist of PSA expenditures pertaining to the provision of indirect support to WFP's activities. Income recognized under PSA refers to indirect support cost (ISC) recoveries from contributions to support the execution of projects and activities that cannot be directly linked with their implementation. The fund balance under this category is transferred to the PSA Equalization Account reserve at the end of the biennium.

   - **Government Counterpart Cash Contribution (GCCC)** is recognized as income at the time of confirmation of the actual amount to be given by host governments based on agreements with WFP on the extent of their responsibilities towards commitments for local costs. In 2005 the Executive Board approved (2005/EB.2/9 (ix)) that, with effect from 2006, all contributions from host governments are retained in the Country Office as additional support resources.

- **Capital Asset Fund (CAF)** was established by the Executive Board in October 2002 (2002/EB.3/5 e)) to fund and account separately for capital expenditures relating to systems development and infrastructure enhancements. The CAF was initially funded by the remaining balance on the Financial Management Improvement Programme (FMIP) Special Account of US$5,487,597 at 31 December 2001 and a reprogramming of US$11,000,000 from funds made available from identified surpluses and fund balances. For the 2006-2007 biennium, the Board has authorized (2005/EB.2/9 (v)) the Executive Director to allot up to US$20 million from the PSA Equalization account to the CAF to cover non-recurring capital expenditure. Of this amount, US$15 million was allocated for the WINGS II project while US$5 million has been allocated for the acquisition of property, plant and equipment.
- **Multilateral and Unallocated Contributions (MUC)** are cash contributions not designated to a specific programme category or bilateral project.
- **Private Sector In-kind Contributions** are in-kind contributions from the private sector not designated to a specific programme category or bilateral project.
- **Specific Capacity-Building Initiatives** are non-recurring PSA-related activities approved in the 2004-2005 Management Plan, namely Strengthening of Financial Management, Results-Based Management (RBM) and Security Upgrade. Also included are staff safety and security costs through the UN Department of Safety and Security (UNDSS).
- **IPSAS Implementation Project's** allotment of up to US$3,700,000 was authorized by the Board in June 2006 (2006/EB.A/16 c)) to cover the cost of introducing International Public Sector Accounting Standards for the 2008 Financial Period.
- **Other General Fund** consists of interest income, currency exchange adjustments, miscellaneous income, non-project related bank charges and non-PSA costs such as ex-gratia payments, write-offs of receivables due the Programme as well as expenditures that could not be funded under programme category funds.

10. **Special Accounts** are established by the Executive Director under Financial Regulation 5.1 for special contributions or monies earmarked for specific activities, the balances of which may be brought forward to the succeeding financial period.

11. **Bilateral Operations and other Trust Funds** are identifiable subdivisions of the WFP Fund. These are established by the Executive Director under Financial Regulation 5.1 in order to account for contributions, the purpose, scope and reporting procedures of which have been agreed upon with the donor under specific trust fund agreements.

2D. Basis of Measurement Used in the Financial Statements

⇒ *2D1. Accounting and Reporting Currency*

12. The financial accounts are maintained and financial statements are expressed in US dollars.

⇒ 2D2. Valuation

13. Assets are recorded at historical cost at the amounts of cash or cash equivalents paid to acquire them at the time of their acquisition. Investments are stated at market value except long-term investments that are held until maturity, which are stated at acquisition cost.

14. The cost of buildings, equipment, furniture and vehicles is charged to expenditure at the time of purchase.

15. Liabilities are also recorded at historical cost at the amounts of cash or cash equivalent expected to be paid to satisfy the liability in the normal course of business.

⇒ 2D3. Foreign Currency Translation

16. At the end of the financial period, balances of assets and liabilities in currencies other than US dollars are translated to US dollars at the prevailing United Nations operational rate of exchange (the "United Nations rate"), which approximates the market rate. Resulting gains or losses are disclosed under the line "Currency exchange adjustments" in Statement I.

17. Transactions in currencies other than US dollars are translated into US dollars at the United Nations rate prevailing at the transaction date.

a) **Receipt of confirmed contribution.** A confirmed contribution is recorded in US dollars at the prevailing United Nations rate at the time of recognizing the contribution. Upon receipt, the contribution fund is adjusted to reflect the amount actually received in US dollars. The difference between the US dollar value at time of recognition and the US dollar value at time of receipt is disclosed under the line "Currency exchange adjustments" in Statement I.

b) **Expenditures and obligations.** Expenditures and obligations in currencies other than US dollars are recorded at the prevailing United Nations rates at the time of receipt of goods or services. Differences between the United Nations rates and the market rates at the time of actual payment are charged in the following manner:

- For projects and PSA, losses or gains on foreign exchange at the time of payment are charged or credited to the General Fund.
- For trust funds and special accounts, losses or gains are charged or credited to the relevant trust fund or special account, as appropriate.

c) **Sale and purchase of local currency**. Where there is a conversion of US dollars into another currency, or vice versa, the difference between the market rate and the United Nations rate is recorded as a loss or gain on exchange under the General Fund.

⇒ 2D4. Forward Exchange Contracts

18. In February 2006, WFP implemented a hedging strategy to cover the Euro versus US dollar foreign exchange exposure incurred on budgeted PSA staff costs in the Euro zone (primarily Headquarters). WFP entered into a total of 23 foreign exchange forward contracts in order to purchase forward Euro 4,110,000 for each month during the period February 2006 to December 2007 (total value of the contracts US$115,426,041). The objective of the hedging strategy is to significantly reduce the uncertainty of the US value of the PSA staff costs versus the approved Management Plan 2006-2007. When the foreign exchange forward contracts mature (one per month in the period February 2006

- December 2007), the foreign exchange gain/loss on such contracts versus the applicable UN Operational Rate of Exchange is recognised in the financial statements. Total foreign exchange gain for the period February - December 2006 amounted to US$2,189,098. As at 31 December 2006, unrealized gain on exchange on the 12 outstanding foreign exchange forward transactions which will mature during January to December 2007 is estimated at US$4,610,745.

2E. Accrual Basis of Accounting

19. Under the accrual basis of accounting, the effects of transactions and other events are recognized when they occur, not upon receipt of cash or payment of liabilities. The transactions are recorded in the accounting records and reported in the financial statements in the periods to which they relate.

⇒ *2E1. Income*

a) Commodity-in-kind Contributions

20. In kind commodity contributions are valued at the donor's invoice price, at the Food Aid Convention (FAC) price, or at world market prices, as applicable. Commodities pledged under the FAC are normally valued at FAC prices for each crop year or when requested by the donor, at the donor price.

b) Services-in-kind Contributions

21. Contributions of acceptable services are valued either at world market prices or, where the service is of a local character, at the price contracted by the Executive Director. Contributions in personnel services are valued at WFP's standard staff costs.

c) Other Contributions

22. Other contributions consist of:

- Cash in lieu of commodities (CLC) – recorded at the cash value of contributions pledged, and
- Other cash contributions – made for external transport, landside transportation, storage and handling (LTSH), other direct operational cost (ODOC), direct support cost (DSC) and indirect support cost (ISC).

d) Government Cash Contributions for Local Costs

23. Government cash contributions for local costs are recognized as income at the time of confirmation of the actual amount to be given by host governments based on Government agreements with WFP on the extent of their responsibilities towards their commitments for local costs.

e) Contributions for ISC

24. Contributions for ISC are recorded as income under the segregated funds, and are disclosed as transfers to the General Fund in Statement I. The Board approved an ISC recovery rate of 7% of programme contributions to fund the required income for the PSA budget in the 2006-2007 Management Plan. For bilateral contributions and trust funds, the

ISC rates range from 3 to 7% of direct costs while a service fee of 4% is generally charged against Third Party Agreements (TPAs). In some cases, the ISC is waived by the Executive Director pursuant to General Rule XIII.4. For the year ended 31 December 2006, ISC amounting to US$1.30 million was waived.

f) Income other than donor contributions

25. Investment and interest income is accrued as income in the financial period in which it is earned. Premium income of the Self-Insurance Account (SIA) is recognized every quarter, based on estimates of annual activity, while claims recovery income is recognized upon finalization of claims against third parties. Income of special accounts that provide equipment or services is recognized upon issuance of invoices for equipment delivered or services rendered. Other miscellaneous income is recognized on an accrual basis to the extent that it can be determined based on the underlying agreement.

⇒ *2E2. Expenditures*

26. From 01 January 2006, a change in accounting policy in respect of expenditure recognition has been introduced.

27. In its report to the Board in November 2005 on the introduction of International Accounting Standards (EB.2/2005/5-C/1), the Secretariat informed, and the Board took note of the information contained in the aforesaid report and endorsed the proposed move to international accounting standards (2005/EB.2/11). The Secretariat had also determined that some immediate improvements could be made to financial reporting standards during the transition period. Accordingly, and with effect from 2006, all expenditures are recorded on the delivery principle rather than on the basis of obligation through purchase orders.

28. Expenditures are accrued during the financial period on the basis of goods and services delivered against legal obligations. In previous biennia, expenditures were accrued based on purchase orders not paid at the end of the financial period.

29. Under WFP's standard procedures supported by the WFP Information Network and Global System (WINGS), expenditures are recorded when goods and services covered by purchase orders are delivered or rendered. Expenditures incurred during the financial period and not covered by purchase orders, such as payroll, are also accrued.

30. Liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier are called payables. Liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier are called accrued expenditures.

31. In view of the change in policy in recognizing expenditures as outlined in the preceding paragraphs, Purchase Orders (POs) outstanding at the end of the financial period and for which goods or services were not received at that date will no longer be accrued at the end of the financial period. The value of outstanding POs, however, has been determined for purposes of identifying outstanding commitments of the Programme. As at 31 December 2006, open commitments are valued at US$496,155,777 (US$588,013,089 at 31 December 2005).

32. Stocks of commodities on hand as at 31 December 2006 are included among the commodity expenditures and not reflected as inventories.

2F. Standard Cost Accounting for Staff Costs Related to International and Headquarters-based Staff

33. Staff salaries and entitlements of international and headquarters-based staff are set according to a pre-determined scale of staff grades generally referred to as standard costs.

34. Both PSA and project-funded staff costs related to international and Headquarters-based staff are recorded at standard costs consistent with the treatment in 2004-2005 biennium and prior. The Staff Cost Variance Equalization Account was set up to reflect variances between standard and actual staff costs (see Note 13E).

35. Separation payments and compensation due to work-related death, injury or illness of general service staff and after-service medical benefits to general service and professional staff covered by the FAO Staff Rules are provided for (see Note 12A). Other personnel-related liabilities such as repatriation costs, accrued leave and termination indemnities are disbursed against current funding sources (see Note 12B).

2G. Third Party Agreement (TPA)

36. WFP enters into certain agreements with third parties, the activities of which are outside WFP's normal activities. The receipts and disbursements arising from these activities are reported as receivables or payables in the balance sheet under the General Fund and not as WFP income and expenditures. Service fees charged on TPAs are presented as ISC income of the General Fund.

2H. Demurrage and Despatch

37. Demurrage is cost incurred when the loading or discharging of goods takes longer than the agreed lay time and is added to the freight due to the ship owner. For purchased commodities with free on board terms, demurrage at load port is recoverable from the food vendor. On the other hand, demurrage incurred at discharge port is recoverable from the party that performed discharge operations, either the recipient government or the stevedoring subcontractor.

38. Despatch is the amount earned when the loading or discharging of goods is completed before the agreed lay time expires and is deducted from the freight due to the ship owner. For commodities purchased with free on board terms, despatch at load port is payable to the food vendor. Despatch earned at discharge, however, is payable to either the recipient government or the stevedoring subcontractor.

39. Demurrage receivable is disclosed net of despatch payable to the same governments or subcontractor.

2I. Staff Benefit Funds

40. Staff Benefit Funds (SBF) are presented in a statement of income and expenditures and statement of assets and fund balances and reported in a note to the Financial Statements (see Note 12A). The excess of liabilities over assets is shown in WFP's financial statements as Due to Staff Benefit Funds (see Note 10).

NOTE 3: SUMMARY OF CHANGES IN PRESENTATION AND ADJUSTMENTS

3A. Cash Held in Trust in Country Offices

41. Since January 2005, WFP has been reclassifying locally generated funds as described in Note 5 as Trust Funds or Third Party Agreements. The two remaining locally generated funds generated before January 2005 and held in trust in the amount of US$2.8 million as at 31 December 2006 are still in the process of being converted with a target completion date of 30 June 2007.

3B. Direct Support Cost Advance Facility (see Note 13C)

42. The DSCAF is shown as a reserve at the authorized amount less the amount of outstanding advances.

43. With effect from 2006, the eliminating internal receivable and payable accounts are no longer utilized or shown in the financial statements.

3C. Adjustment of 2004-2005 Financial Statements

44. For comparative purposes, the following adjustments of 2004-2005 figures were made in order to conform to the changes in the accounting policy for the accrual of expenditures:

a) Statement I – Income and Expenditures and Changes in Fund Balances

	(US$ thousand)		
	Prior Period 2004-2005	**Adjustment**	**Prior period 2004-2005 (Adjusted)**
INCOME			
Commodity-in-kind contributions	969 089	-	969 089
Services-in-kind contributions	70 182	-	70 182
Other contributions	5 138 289	-	5 138 289
Contributions from Office of Iraq Programme	17 022	-	17 022
Government cash contributions for local costs	3 242	-	3 242
Interest	54 785	-	54 785
Currency exchange adjustments	(37 946)	-	(37 946)
Miscellaneous income	95 463	-	95 463
TOTAL INCOME	**6 310 126**	-	**6 310 126**
EXPENDITURES			
Commodities in-kind	978 918	11 976	990 894
Commodities purchased	1 813 393	(40 049)	1 773 344
Ocean transport and related costs	622 471	5 269	627 740
Landside transport storage and handling	1 277 701	(45 206)	1 232 495
Other direct operational costs	427 400	(25 279)	402 121
Direct support costs	672 146	(17 662)	654 484
Programme support and administration	385 122	7 915	393 037
TOTAL EXPENDITURES	**6 177 151**	**(103 036)**	**6 074 115**
Excess (shortfall) of income over expenditure	132 975	103 036	236 011
Fund balances, beginning of period	1 832 054	484 977	2 317 031
Contributions adjustments	(445 633)	-	(445 633)
Write-off of accounts receivable	(4 713)	-	(4 713)
Prior period adjustments	(89 155)	-	(89 155)
Savings in cancellation of prior period obligations	1 004	-	1 004
Transfers from reserves	48 213	-	48 213
FUND BALANCES, END OF PERIOD	**1 474 745**	**588 013**	**2 062 758**

45. The adjustment to the prior period expenditures and opening 2004-2005 fund balances result from the change in accounting policy on expenditure recognition as described under paragraph 2E2. The adjusted amounts represent (i) the change in the level of obligations by cost component during the 2004-2005 biennium and (ii) the obligations outstanding at 31/12/2003 relating to the 2002-2003 and prior biennia.

b) Statement II and Statement III

46. Outstanding obligations were reduced by the amount of US$ 588,013,089 with respect to the total amount of the legal obligations recorded as expenditures as at 31 December 2005.

47. Fund balances were increased by the same amount of US$588,013,089 as reflected above.

48. The remaining obligations at 31 December 2005 of US$8,699,577 represent accrued expenditures disbursed in 2006. The opening balance of Accounts Payable has been increased by the same amount (see Note 10).

3D. Reclassification of the "Airlift Activities - Operation Life Line Sudan"

49. Effective 01 January 2006, the balance of the trust fund Airlift Activities – Operation Life line Sudan as well as related customer accounts were transferred to the Aviation Special Account. This transfer resulted in the difference between the beginning balances of both columns "General Fund and Special Accounts" and the "Bilateral Operations and Trust Funds" (see Note 3F).

3E. Office of Iraq Programme

50. No transactions were recorded under the Office of Iraq Programme in 2006. The income disclosed separately in 2004-2005 financial statements in the amount of US$17,022,000 has been included under "Other Contributions" under Statement I.

3F. Summary of Changes

51. The impact on the 31 December 2005 fund balances by category was:

	(US$ thousand)			
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Total WFP**
FUND BALANCES, END OF PERIOD	1 102 391	161 459	210 895	1 474 745
Adjustment of expenditures for 2004-2005	97 865	(1 742)	6 913	103 036
Outstanding Obligations at 01.01.2004	456 336	23 164	5 477	484 977
Fund balances transferred from Trust Fund to General Fund and Special Account (see Note 3D)	-	3 019	(3 019)	-
FUND BALANCES, END OF PERIOD RESTATED	**1 656 592**	**185 900**	**220 266**	**2 062 758**

NOTE 4: CASH AND SHORT-TERM INVESTMENTS

52. Cash and short-term investments at 31 December 2006 consist of the following:

	(US$ thousand)	
	31.12.06	**31.12.05**
Bank and cash holdings at headquarters		
Bank and money market accounts	253 010	194 232
Short-term investments	820 100	895 088
Subtotal	**1 073 110**	**1 089 320**
Bank and cash holdings at country offices:		
In convertible currencies	45 781	40 349
In non-convertible currencies	819	570
Subtotal	**46 600**	**40 919**
Total	1 119 710	1 130 239

53. Short-term investments are stated at market value of the portfolios.

54. The main considerations for investment management in the order of priority are: security of principal, liquidity and return. The investment of funds is restricted to the following sectors of the fixed-income market: cash and equivalents, treasury bills, corporate and government bonds, mortgage-backed commercial and government securities, asset-backed securities and other fixed-income securities.

55. The short-term investments consist of four actively managed portfolios entrusted to three fund managers. During the year, the fund managers complied with WFP’s minimum asset quality of A- (or BBB+ in case of split rating). The average quality of WFP’s portfolios during 2006 was AA. Fund managers also complied with WFP’s investment guidelines, in particular refraining from making investments on behalf of WFP, in corporations which produce, manufacture or distribute landmines and other anti-personnel arms.

NOTE 5: CASH HELD IN TRUST IN COUNTRY OFFICES

56. Certain locally generated funds received by WFP’s regional and country offices are not contributions to projects within WFP’s existing programme categories, but are held locally in trust by WFP. These funds may result from the sale of commodities unfit for human consumption, sale of packing materials and related items or from recoveries made from post delivery losses. These funds may also come from monetization of commodities or other funds from agreements made between WFP country offices and local governments. Monetized funds are proceeds from the sale of commodities after delivery to the recipient government. Amounts presented in these financial statements reflect the assets (cash and short-term investments) and liabilities at 31 December 2006.

57. Based on agreements between WFP country offices and the local governments, the responsibility for the management of these monetized and other locally generated funds lies with WFP and these funds are therefore administered in accordance with WFP's Financial Regulations and Rules. Depending on the provisions in the trust agreements, the use of these funds is required to be audited by local external auditors selected and appointed by the relevant project management. The use of the funds is also audited by WFP's internal and external auditors in the course of their audit cycle.

58. Under existing guidelines, all locally generated funds that were generated prior to January 2005 were to be converted and accounted for either as trust funds or third party agreements. As at 31 December 2006, all country offices have converted to trust funds or third party agreements their locally generated funds, except for two country offices. The two remaining country offices are expected to complete conversion to trust funds of these locally generated funds by June 2007.

59. These funds held in trust in country offices at 31 December 2006 consist of the following:

	(US$ thousand)	
	31.12.06	**31.12.05**
ASSETS		
Cash held in trust in country offices:		
In convertible currencies	2 562	20 463
In non-convertible currencies	278	115
Total	**2 840**	**20 578**
LIABILITIES		
Funds held in trust in country offices	2 840	20 578
Total	**2 840**	**20 578**

NOTE 6: ACCOUNTS RECEIVABLE

60. Accounts receivable as at 31 December 2006 consist of the following:

	(US$ thousand)	
	31.12.06	31.12.05
TPA receivables from United Nations and other organizations	5 779	-
Demurrage receivable from recipient governments & suppliers	-	1 451
Advances to vendors	63 207	93 131
Interest receivable on Loan and Investment Special Account	49 616	47 495
Personnel advances	17 678	21 136
Country office receivables	2 745	10 019
Insurance claims receivables	13 550	23 657
Accrued interest	3 867	3 866
VAT receivable	6 048	4 059
Other receivables	3 746	8 189
Due from UNDP*	5 492	6 056
Advances to projects from Working Capital Financing	14 443	57 567
DSCAF receivable		10 521
Subtotal	**186 171**	**287 147**
Less eliminating entries:		
Advances to projects from Working Capital Financing	14 443	57 567
DSCAF	-	10 521
Total	**171 728**	**219 059**

*UNDP provides payroll, payment and other services for WFP's country offices every month for which WFP advances funds to UNDP monthly or as the need arises. WFP advances to UNDP are net of financial transactions provided by UNDP. During 2006, WFP analyzed transactions reported by UNDP from 2006 and prior years. Based on analysis made and confirmation from WFP country offices, transactions valued at approximately US$4.9 million have been referred to UNDP for analysis and adjustment where necessary. WFP will prepare a global reconciliation of UNDP accounts once an agreement is reached between UNDP and WFP on valid transactions. Close coordination is being made between UNDP and WFP to facilitate reconciliation of the accounts.

61. Effective 2006, the DSCAF advances and recoveries to/from projects are recorded directly as a transfer to/from Reserves (see Note 13C).

NOTE 7: CONTRIBUTIONS RECEIVABLE

62. Contributions receivable at 31 December 2006 consisted of the following transactions:

SUMMARY STATUS OF CONTRIBUTIONS AS AT 31 DECEMBER 2006
(US$ thousand)

	Programme Category Funds			General Funds and Special Accounts			Total			Prior Biennium
Description	**In-kind**	**Others**	**Total**	**In-kind**	**Others**	**Total**	**In-kind**	**Others**	**Total**	**2004-2005**
Balance of contributions receivable as at 31 December 2005	244 600	1 044 101	1 288 701	460	29 627	30 087	245 060	1 073 728	1 318 788	1 748 600
<u>Add (deduct):</u>										
New contributions	386 856	2 196 003	2 582 859	553	30 622	31 175	387 409	2 226 625	2 614 991	5 077 343
Receipts	(441 585)	(2 102 429)	(2 544 014)	(752)	(37 236)	(37 988)	(442 337)	(2 139 665)	(2 582 002)	(5 127 313)
Write-down of contribution receivable	(4 834)	(94 330)	(99 164)	(261)	(895)	(1 156)	(5 095)	(95 225)	(100 320)	(266 325)
Write-off of contribution receivable	-	-	-	-	-	-	-	-	-	(2 843)
Prior period adjustments	262	718	980	-	154	154	262	872	1 134	(84 364)
Other adjustments	(703)	(357)	(1 060)	-	(1 467)	(1 467)	(703)	(1 824)	(2 527)	(26 310)
Sub-total	(60 004)	(395)	(60 399)	(460)	(8 822)	(9 282)	(60 464)	9 217	69 681	(429 812)
Balance of contributions receivable as at 31 December 2006	**184 596**	**1 043 706**	**1 228 302**	**-**	**20 805**	**20 805**	**184 596**	**1 064 511**	**1 249 107**	**1 318 788**

63. In terms of the years in which pledges were confirmed, 72% and 20% of contributions receivable are from 2006 and 2005 respectively and 8% is from 2004 and prior years as per the following ageing schedule:

AGEING OF CONTRIBUTIONS RECEIVABLE

	31.12.06		31.12.05	
	(US$ million)	%	(US$ million)	%
Year of confirmation pledges:				
2006	898.6	72.0	-	-
2005	250.0	20.0	946.0	71.7
2004	42.9	3.4	142.4	10.8
2003	45.2	3.7	144.0	10.9
2002 and prior	12.4	0.9	86.4	6.6
Total	**1 249.1**	**100.0**	**1 318.8**	**100.0**

NOTE 8: LONG-TERM INVESTMENTS

64. The long-term investments consist of investments in United States Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) and are stated at acquisition cost as these are intended to be held until maturity. The total of the remaining STRIPS as at 31 December 2006 was US$56,788,409 which consists of short-term and long-term portions of the investments. The total of market values at 31 December 2006 was US$82,780,620. The short-term and long-term portions of the STRIPS are presented differently when compared to the disclosures made in the Notes to the 2004-2005 Financial Statements to highlight the acquisition cost of the long-term portion of the investments rather than the total value of the STRIPS. As at 31 December 2006, the cost of the STRIPS are broken down as follows:

	(US$ thousand)	
	31.12.2006	31.12.2005
Value of the STRIPS as at 31 December	56 788	58 504
Portion due to mature in less than 12 months and included as Short-term Investments	1 620	1 716
Long-term portion due to mature beyond one year	**55 168**	**56 788**

65. The US Treasury STRIPS are investment instruments of the United States Treasury that were acquired in September 2001 with maturities over a period of 30 years until 2032, designed to guarantee the payment of interest and principal of the commodity loan entered into with a government agency (see Note 18G).

NOTE 9: BUILDINGS AND EQUIPMENT, FURNITURE AND VEHICLES

66. The cost of buildings, equipment, furniture and vehicles are charged against expenditures and not capitalized (see Note 2.D2). The total historical cost at 31 December 2006 is US$245,123,982 (US$201,136,285 at 31 December 2005).

67. During the year ended 31 December 2006, asset acquisitions amounted to US$57,886,394 while assets written off totaled US$13,898,697.

NOTE 10: ACCOUNTS PAYABLE

68. Accounts payable at 31 December 2006 consist of the following:

	(US$ thousand)	
	31.12.06	**31.12.05**
Vendor payable	100 436	136 940
TPA payables:		
Payables to United Nations and other organizations	-	26 707
Cargo preference	5 422	6 152
Despatch to be offset by demurrage	1 877	130
Insurance recoveries payable to donors	27 036	21 794
Payable to donors from closed projects	61 364	40 769
Unrealized VAT - liability	6 285	4 107
Treasury clearing account	1 453	12 154
Other accounts payable	14 526	35 357
Due to Staff Benefit Funds (see Note 12A)	2 820	3 953
Advances to projects from Working Capital Financing	14 443	57 567
Accrued expenditures	61 474	8 700*
DSC advance to be recovered from project funds	-	10 521
Subtotal	**297 136**	**364 851**
Less eliminating entries:		
Advances to projects from Working Capital Financing	14 443	57 567
DSC advance to be recovered from project funds	-	10 521
Total	**282 693**	**296 763**

*****Represents accrued expenditures disbursed in 2006.

69. Since 2006 the DSCAF advances and recoveries to/from projects are recorded directly as a transfer to/from Reserves (Note 13C).

NOTE 11: CERF LOAN

70. The Central Emergency Revolving Fund (CERF) is a cash-flow mechanism of the United Nations which is designed to bridge the gap between needs and available funding. The CERF is funded by donors and loan proceeds are released to UN operational agencies interest-free. The mechanism requires that agencies borrowing from the fund pay back the loan within one year.

71. During 2006, CERF loan of US$18 million was provided to finance the Sudan operations. Repayments of US$6 million and US$12 million were made in July and October 2006, respectively.

NOTE 12: STAFF LIABILITIES

12A. Staff Benefit Funds

72. Eligible WFP staff members are entitled to certain benefits upon separation from service. Three of these future benefits are funded, namely, the After-Service Medical Coverage Plan (ASMCP), the Separation Payments Scheme (SPS), and the Compensation Plan Reserve Fund (CPRF). An actuarial study was conducted in December 2006 using demographic assumptions that were specific to WFP to determine the actuarial valuation of the accrued liabilities as at 31 December 2006.

⇒ *12A1. Definitions*

73. The ASMCP is a plan that allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP). The 2006 Actuarial Valuation Report concluded that the ASMCP accrued liability balance was US$111,637,414 as at 31 December 2006.

74. SPS is a plan for all general service staff at the Rome duty station that funds severance pay upon separation from service. The 2006 Actuarial Valuation Report concluded that the SPS accrued liability balance was US$16,856,886 as at 31 December 2006.

75. The CPRF is a plan that provides compensation to all staff members, employees and dependents in case of death, injury or illness attributable to the performance of official duties. The 2006 Actuarial Valuation Report concluded that the CPRF accrued liability balance was US$3,650,380 as at 31 December 2006.

⇒ *12A2. Statement of Income and Expenditures*

76. The Statement of Income and Expenditures of the three plans for the year ended 31 December 2006 is shown below:

	(US$ thousand)	
	2006	**Prior Period 2004-2005**
INCOME		
Investment income (net of investment fees)	8 257	12 330
Contribution from WFP	10 199	3 420
Revaluation gain (loss)	176	(84)
Total Income	**18 632**	**15 666**
EXPENDITURES		
Benefit payments	3 217	3 411
Actuarial fees	45	67
Total Expenditures	**3 262**	**3 478**
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURES	15 370	12,188
Fund balance, beginning of period	79 550	67 362
FUND BALANCE, END OF PERIOD	**94 920**	**79 550**

⇒ *12A3. Statement of Assets and Fund Balance*

77. The Statement of Assets and Fund Balance of the three plans for the year ended 31 December 2006 is shown below:

	(US$ thousand)	
	31.12.06	**31.12.05**
ASSETS		
Due from WFP (see Note 10)	2 820	3 953
Investments:		
Bonds	48 877	42 549
Equities	43 223	33 048
Total investments	92 100	75 597
Total Assets	**94 920**	**79 550**
FUND BALANCE		
Fund balance	**94 920**	**79 550**

78. The SBF are pooled and placed in long-term investment portfolios with two fund managers. The asset allocation of the portfolio is 60% global bonds and 40% global equities, which is based on asset-liabilities management study. The portfolios entrusted to the fund managers are managed under specific investment mandates.

79. The investments for SBF are stated at market value.

⇒ 12A4. Excess of Actuarial Liabilities over Assets

80. As at 31 December 2006, the total value of assets of the SBF is less than the actuarial liabilities based on 2006 actuarial valuation by US$37.2 million. The details are as follows:

		US$
Total value of assets as at 31 December 2006		**94 920 045**
Less accrued liabilities based on 2006 actuarial valuation:		
ASMC	111 637 414	
SPS	16 856 886	
CPRF	3 650 380	132 144 680
Excess of actuarial liabilities over assets		**37 224 635**

81. Past service liability has increased to US$132,144,680 as at 31 December 2006 (US$111,208,091 as at 31 December 2005). For the After Service Medical coverage, past service liability had increased due to (i) active staff members earning an additional year of service towards eligibility for After Service Medical coverage; (ii) an increase in expected medical claims costs and administrative expenses; and (iii) an increase in the assumed ultimate rate of future medical inflation. For accounting purposes, the increase in liability due to these factors is partially offset by an increase in the discount rate.

82. With respect to the Separation Payments Scheme and the Staff Compensation Plan, the increase in past service liability was mainly due to higher than expected pay increases for general service staff members based in Rome and changes in the monthly benefit amount for participants receiving payment from the plan, respectively.

12B. Termination Benefits

83. Other separation-related benefits consist of repatriation grants, repatriation travel and removal costs, termination indemnities, death grants and commutation of accrued annual leave. The related liabilities are not provided for, but the Programme has the ability to meet its liabilities arising therefrom over an extended period of time, unless a significant staff reduction programme is undertaken.

84. As at 31 December 2006, the Programme’s estimated liability to Professional and Rome-based general service staff in respect of accrued annual leave and estimated termination indemnities is US$17,900,649 (US$16,798,747 at 31 December 2005). For the field staff administered by the United Nations Development Programme (UNDP), the estimated liability on termination indemnities and accrued leave is US$13,521,935 (US$21,742,734 at 31 December 2005). These contingent liabilities are not provided for in the accounts but are expensed when paid.

12C. United Nations Joint Staff Pension Fund

85. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The pension fund is a funded defined benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with a share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the

United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the fund as of the valuation date. At the time of this report, the United Nations General Assembly has not invoked this provision.

86. The consulting Actuary performed the latest actuarial valuation as at 31 December 2005 which showed an actuarial surplus amounting to 1.29% of pensionable remuneration.

NOTE 13: RESERVES

87. Reserves are established by the Executive Board as facilities for funding and/or financing specific activities under specific conditions. There are currently five active reserves consisting of the following:

		(US$ thousand)	
	Note	**31.12.06**	**31.12.05**
Operational Reserve	13A	51 075	57 000
Immediate Response Account	13B	67 210	30 768
DSC Advance Facility	13C	27 510	49 479
PSA Equalization Account	13D	57 996	122 106
Staff Cost Variance Equalization Account	13E	-	-
Total		**203 791**	**259 353**

88. The net movements in Reserves during the year ended 31 December 2006 can be summarized as follows:

	(US$ thousand)	
Balance, 01 January 2006		**259 353**
Reduction in reserves in 2006:		
Net transfers from reserves (Note 17B)	(72 004)	
IRA contribution movements in 2006 (net)	16 442	
Total net reduction		(55 562)
Balance, 31 December 2006		**203 791**

13A. Operational Reserve and Working Capital Financing

89. Financial Regulation 10.5 calls for the maintenance of an Operational Reserve for the purpose of ensuring the continuity of operations in the event of a temporary shortfall of resources.

90. At its Thirty-Eighth Session in 1994, the Board (formerly the Committee of Food Aid Policies and Programmes), agreed to establish the operational reserve at a level of up to US$57 million. The operational reserve has remained at this level since then.

91. In March 2004, the Board approved the use of the Operational Reserve to finance five pilot projects under the Business Process Review on the basis of forecast contributions (2004/EB.1/8).

92. In February 2005, the Board approved the following recommendations to improve the policies and procedures that will govern the granting of advances against forecast contributions (2005/EB.1/7):

- Establishment of a working capital advance ceiling of US$180 million to ensure continued financing of projects pending confirmation of forecast contributions within established risk-management parameters;
- Revision of Financial Regulation 10.6 to allow the use of the Operational Reserve to cover cases where a working capital advance is made but the forecast contribution(s) used as collateral for the advance do not materialize;
- Working capital financing not to exceed 80% of forecast income for any project;
- Any "losses" would be written off as they occur but with an annual cap of US$20 million;
- Limit further roll out of working capital financing to seven country operations during 2005.

93. During 2006, the Executive Director approved the write off of outstanding working capital financing granted to one of the pilot projects in January 2005. Out of the original loan of US$15.8 million, the WFP Credit Committee has determined that US$5.9 million could not be recovered taking into consideration the (i) the age of the loan; (ii) the income situation of the project; and (iii) the deterioration of the quality of collateral as well as the collateralizable income. The loan, which was granted based on forecasted contribution that never materialized, was written off against the Operational Reserve. This reduced the level of the Operational Reserve from US$57 million to US$51.1 million.

94. Financial Regulation 10.6 provides that drawdowns from the Operational Reserve shall be restored as soon as possible from the contributions made for the purpose for which the drawdown was made. At the end of each financial period, the Executive Director should determine any such forecast or confirmed contributions that are uncollectible and for which expenditure was incurred and request the Board to approve the replenishment of the Operational Reserve from the unearmarked portion of the General Fund. Such requests shall be made at the time of the presentation of the audited biennial accounts.

95. As at 31 December 2006, the total of advances to WFP projects from the Working Capital Financing (WCF) amounted to US$14,442,750 (see Notes 6 and 10) as detailed below:

	(US$ thousand)	
Balance, 01 January 2006		**57 567**
Add (deduct):		
Advances during the year	40 749	
Recoveries from projects	(77 948)	
DRC WCF loan repayment from the Operational Reserve	(5 925)	(43 124)
Balance, 31 December 2006		**14 443**

13B. Immediate Response Account

96. The Immediate Response Account (IRA) was established by the Committee on Food Aid Policies and Programmes (CFA) in December 1991 as a cash account within the Programme Category Fund to act as a flexible resource facility to enable the Programme to respond quickly to emergency needs for the purchase and delivery of food aid. In November 1995, the Board decided to merge the Emergency Logistics Authorization Mechanism (ELA) with the IRA to also allow the IRA to be used for non-food related costs. In October 2004, the Board approved an annual target level of a minimum of US$70 million for the IRA (2004/EB.3/31).

97. The IRA is maintained through contributions from donors and, with the consent of the donors concerned, through insurance recoveries from commodity losses and from interest income on bilateral funds due to donors.

98. As at 31 December 2006, the IRA had a balance of US$67,209,750 (US$30,768,279 at 31 December 2005). The movements during the year ended 31 December 2006 were as follows:

	(US$ thousand)	
	2006	**2005**
Balance, 01 January	30 768	32 671
Add (deduct):		
Funding from PSA Equalization Account*	20 000	20 000
Replenishments – new contributions	32 352	43 472
Revolvements – recovered from projects	123 963	95 831
Used for projects	(139 873)	(161 206)
Balance, 31 December	**67 210**	**30 768**

*In June 2006, the Board approved the reprogramming to IRA of US$20 million from the PSA Equalization Account (2006/EB.A/16).

13C. Direct Support Cost Advance Facility

99. In January 1999, the Board approved the use of the General Fund as a guarantee mechanism to advance direct support costs (DSC) as the need arises, to enable the Executive Director to ensure continued financing of DSC pending the confirmation of contributions. The DSC Advance Facility (DSCAF) is the guarantee mechanism to implement projects that are awaiting DSC contributions.

100. The Board at its third regular session in October 2003 approved setting aside US$60 million for the DSCAF (2003/EB.3/6).

101. The movements in the DSCAF during the year period ending 31 December 2006 are shown below (US$ thousand):

	(US$ thousand)
Balance, 01 January 2006	**49 479**
Add (deduct):	
Advances to projects – net of recoveries	(21 969)
Balance, 31 December 2006	**27 510**

102. The net amounts transferred from the DSCAF are included in the Programme Category Funds**.** The amounts advanced and recovered during the year ended 31 December 2006 are as follows:

	(US$ thousand)	
	31.12.06	**31.12.05**
Balance, 01 January	10 520	15 934
Add advances made during the biennium	69 276	186 738
Less recoveries against advances	(47 307)	(192 152)
Balance, 31 December	**32 489**	**10 520**
AGEING PER YEAR:		
2006	25 600	
2005	5 589	9 182
2004 and prior	1 300	1 338
Total	**32 489**	**10 520**

13D. PSA Equalization Account

103. The PSA Equalization Account is a reserve set up in 2002 to record any gaps between actual ISC income and PSA expenditures for a biennium. During 2006, the movements in this account were as follows:

	(US$ thousand)
Balance, 01 January 2006	**122 106**
Less utilization:	
Approved by the Board:	
IPSAS implementation Project*	(3 700)
Transfer to IRA*	(20 000)
WINGS II Project**	(15 000)
Other Capital Asset Fund**	(5 000)
Results Based Management***	(3 500)
Strengthening Financial Management***	(2 000)
Staff Costs Variances****	(14 910)
Balance, 31 December 2006	**57 996**

* 2006/EB.A/16

** 2005/EB.2/9 (v)

*** 2005/EB.2/9 (vi)

**** 2007/EB.1/5 (i)

13E. Staff Cost Variance Equalization Account

104. Staff costs are charged at standard costs during the budgetary process. At the end of an accounting period, all positive variances between the standard and actual costs are carried forward in the Staff Cost Variance Equalization Account under the General Fund in Statement II.

105. During the first year of the 2006-2007 biennium, actual staff costs were greater than standard costs by US$35.8 million. This variance could be attributed to the following: (i) changes to the salary scale; (ii) changes to the amount, timing and number of staff allowances; (iii) changes to the average step in grade for a given grade; (iv) changes in the number and cost of staff re-assignments; and (v) exchange rate fluctuations.

106. As these represent additional staff costs incurred, the US$35.8 million unfavourable staff cost variance was charged as expenditures under the PSA and the General Fund.

NOTE 14: SUPPORT COSTS

107. The Direct Support Cost (DSC) and Programme Support and Administrative Cost (PSA) for the year ended 31 December 2006 consist of the following:

SUPPORT COSTS - DSC AND PSA FOR THE YEAR ENDED 31 DECEMBER 2006
(US$ thousand)

	Programme Category DSC	General Fund and Special Accounts PSA	General Fund and Special Accounts DSC	General Fund and Special Accounts Total	Bilateral Operations and Trust Funds	Total	Prior Biennium 2004-2005 (Adjusted)
Staff costs*	215,135	176,166	43,524	219,690	31,187	466,012	769,194
Non-staff costs	79,767	34,492	18,901	53,393	6,804	139,964	278,326
Total	**294,902**	**210,658**	**62,425**	**273,083**	**37,991**	**605,976**	**1,047,520**

Analysis of total: **(US$ thousand)**

	Total	Less: Elimination	Balance	
Direct support costs:				
Programme Category DSC	298 730	3 828	294 902	
General Fund and Special Accounts	62 597	172	62 425	
Bilateral Operations and Trust Funds	38 111	120	37 991	395 318
Programme support and administration	211 573	915		210 658
Total	**611 011**	**5 035**		**605 976**

* The term "Staff Costs" refers to the costs of WFP staff members, consultants and other short-term contract holders. Not included above are staff costs of US$8.6 million for the year 2006 (US$12.6 million in 2004-2005) which were incurred and disclosed within the ODOC cost element. This brings the total staff cost for the year ended 31 December 2006 to US$474.6 million (US$781.8 million in 2004-2005). There are also elements of staff cost incurred within LTSH which could not be accurately identified as these are paid directly in the field offices and not part of the regular payroll. The total Support Cost is net of US$5.0 million (US$26.24 million in 2004-2005) eliminated entries from the Support Cost amount of US$606 million (US$1,047.5 million in 2004-2005) shown in Statement I.

NOTE 15: CONTRIBUTION ADJUSTMENTS

108. Contribution adjustments refer to transactions during the period (January to December 2006) that are not treated as part of current income and expenditure. During the year ended 31 December 2006, these transactions consist of the following:

	(US$ thousand)				
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Total WFP Fund	Prior Period 2004-2005
Reprogramming of unused fund balances	25 119	-	-	25 119	79 194
Unused fund balances - Refunded	1 562	-	52 791	54 353	56 496
Unused fund balances - Refundable	6 054	-	-	6 054	40 769
Write-off of contribution receivables	-	-	-	-	2 843
Write-down of contribution receivables	99 164	1 156	-	100 320	266 331
Total	**131 899**	**1 156**	**52 791**	**185 846**	**445 633**

109. Reprogramming is the usage of excess funds from financially closed projects.

110. Refunded and refundable amounts represent unspent funds from financially closed projects. Refunded amounts are funds that have been returned to donors while refundable amounts are funds that have been set up as payable to donors (see also Note 10). Where donors have requested that funds be transferred to their bilateral general accounts, such transfers are treated as refunds.

111. Write-off is the reduction of contributions receivable where the receivable was made available for funding and expenditures have already been incurred but the receivable is not likely to be realized. Write-offs require a transfer from the General Fund and approval by the Executive Director for amounts in excess of US$5,000.

112. Write-down is the reduction of contributions receivable where income was recognized and where the receivable was made available for funding but expenditures have not been incurred, and the receivable amount is no longer needed by the project to which the contribution was directed or is otherwise unavailable.

NOTE 16: PRIOR PERIOD TRANSACTIONS

16A. Prior Period Adjustments

113. Prior period adjustments are corrections of transactions that affect the income and expenditure of previous accounting periods and not those of the current period. During 2006 (January to December), the following adjustments were made:

	(US$ thousand)			
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral Operations and Trust Funds**	**Total WFP Fund**
Adjustments of prior period contributions	(982)	(155)	(346)	(1 483)
Clearing of GR/IR and other invalid payables	-	(3 899)	-	(3 899)
Refund to World Bank from FITTEST	-	4 095	-	4 095
Adjustment of 2005 interest income on long-term investment previously recorded in Special Account	-	6 309	-	-
Adjustment of 2005 interest income on long-term investment that should be recorded in the General Fund	-	(6 309)	-	-
Refund of Iraq IRA project balance	-	440	-	440
Programme category bank charges previously reported as cost to General Fund	889	(889)	-	-
Iraq EMOP project balance	(8 256)	-	8 256	-
ISC Income	1 798	(1 903)	105	-
Others	-	(326)	-	(326)
Total	**(6 551)**	**(2 637)**	**8 015**	**(1 173)**

16B. Savings on Cancellation of Prior Period Obligations

114. With the change in policy effective 2006 in recording expenditures only at the time of delivery or receipt of goods and services, instead of when these expenditures were committed, there will not be any savings to be recognized when there are cancellations of obligations that pertain to prior period.

NOTE 17: TRANSFERS OF FUNDS

17A. Transfers between Funds and Accounts

115. During the year ended 31 December 2006, the following transfers were made between funds and accounts:

	(US$)			
	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Total
Funds transferred from:				
Programme Category Funds -				
Protracted relief and recovery	144 044	-	-	144 044
Emergency relief	316 346	-	-	316 346
General Fund and Special Accounts				
Other General Funds	-	5 215	-	5 215
Emerging donor matching fund to Programme Category	-	4 695 732	-	4 695 732
Multilateral and unallocated contributions to Programme Category	-	2 854 437	-	2 854 437
2006 PSA funds	-	2 683 010	-	2 683 010
UN Joint Logistics Centre	-	3 180	-	3 180
Subtotal	460 390	10 241 574	-	10 701 964
Funds transferred to:				
Programme Category Funds -				
Development projects	2 534 447	-	-	2 534 447
Protracted relief and recovery	2 714 404	-	-	2 714 404
Emergency relief	1 283 182	-	-	1 283 182
Special operations	35 797	-	-	35 797
General Fund and Special Accounts -	-	-	-	-
2006 PSA Funds (ISC Income)	-	982 339	-	982 339
Walk the World	-	2 642 910	-	2 642 910
Ending Child Hunger and Logistics Award	-	40 100	-	40 100
UN Interagency Global Fleet Forum	-	3 180	-	3 180
Bilateral Operations and Trust Funds -				
Closed project balances	-	-	465 605	465 605
Subtotal	6 567 830	3 668 529	465 605	10 701 964
Net transfers between funds and accounts	**6 107 440**	**(6 573 045)**	**465 605**	-

116. These transfers have zero effect across the total of the funds affected.

17B. Transfers to/from Reserves

117. The net transfers from reserves of US$72,003,798 consisted of:

	(US$)		
	Programme Category Funds	**General Fund and Special Accounts**	**Total**
Transfers from reserves for:			
From DSCAF to projects - net	21 968 479		21 968 479
From PSA Equalization Account to:			
IRA	-	20 000 000	20 000 000
IPSAS implementation project	-	3 700 000	3 700 000
WINGS II Project	-	15 000 000	15 000 000
Other Capital Asset Fund	-	5 000 000	5 000 000
Results Based Management	-	3 500 000	3 500 000
Strengthening Financial Management	-	2 000 000	2 000 000
Staff Cost Variances	-	14 910 057	14 910 057
WCF Loan – Operational Reserve	5 925 262	-	5 925 262
Subtotal	27 893 741	64 110 057	92 003 798
Transfer to reserves from:			
PSA Equalization Account – transferred to IRA	-	(20 000 000)	(20 000 000)
Subtotal	-	(20 000 000)	(20 000 000)
Net transfers from reserves	**27 893 741**	**44 110 057**	**72 003 798**

NOTE 18: GENERAL FUND AND SPECIAL ACCOUNTS

118. The General Fund and Special Accounts for the year ended 31 December 2006 consist of the items shown in the following pages.

119. Contributions from non-budgeted extraordinary gifts in kind contributions were excluded as these could not be valued to enable compliance with the United Nations System Accounting Standards.

GENERAL FUND AND SPECIAL ACCOUNTS SPECIFICATION OF INCOME AND EXPENDITURES FOR THE YEAR ENDED DECEMBER 2006 (US$ thousand)

	Programme Support and Administrative Costs	Government Counterpart Cash Contributions	Specific Capacity Building Initia-tives	IPSAS Project	Capital Asset Fund	Private Sector Contributions in Kind	Multilateral & Unallocated Contributions	Other General Fund	Total General Fund	Total Special Accounts	Total WFP Fund
INCOME											
Services-in-kind Contributions	-	-	-	-	-	490	(154)	-	**336**	**217**	**553**
Other contributions	-	-	-	-	-	-	12 203	257	**12 460**	**16 835**	**29 295**
Government cash contributions for local cost	-	1 327	-	-	-	-	-	-	**1 327**	**-**	**1 327**
Interest	-	-	-	-	-	-	-	36 498	**36 498**	**6 901**	**43 399**
Currency exchange adjustments	4 949	-	(2)	-	(66)	-	(306)	2 397	**6 972**	**428**	**7 400**
Miscellaneous income	-	-	-	-	-	-	-	6 290	**6 290**	**75 740**	**82 030**
Transfer of ISC contributions to General Fund	161 523	-	-	-	-	-	(1 090)	(257)	**160 176**	**(899)**	**159 277**
TOTAL INCOME	**166 472**	**1 327**	**(2)**	**-**	**(66)**	**490**	**10 653**	**45 185**	**224 059**	**99 222**	**323 281**
EXPENDITURE											
Commodities purchased	-	-	-	-	-	-	-	-	**-**	**62**	**62**
Ocean transport and related costs	-	-	-	-	-	-	-	-	**-**	**10**	**10**
Landside transport storage and handling	-	-	-	-	-	-	-	-	**-**	**218**	**218**
Other direct operational costs	-	-	31	-	-	-	-	-	**31**	**65 559**	**65 590**
Direct support costs	-	318	2 410	287	10 423	535	-	22 857	**36 830**	**25 767**	**62 597**
Programme support and administration	211 573	-	-	-	-	-	-	-	**211 573**	-	**211 573**
TOTAL EXPENDITURE	**211 573**	**318**	**2 441**	**287**	**10 423**	**535**	**-**	**22 857**	**248 434**	**91 616**	**340 051**
Excess/(shortfall) of income over expenditures	**(45 101)**	**1 009**	**(2 443)**	**(287)**	**(10 489)**	**(45)**	**10 653**	**22 328**	**(24 375)**	**7 606**	**(16 770)**
Fund balances, beginning of period	11 169	1 769	4 730	-	9 321	45	29 056	14 618	**70 708**	**115 192**	**185 900**
Contributions Adjustments	-	-	-	-	-	-	(644)	(1)	**(645)**	**(511)**	**(1 156)**
Write-off of account receivable	-	-	-	-	-	-		(3 380)	**(3 380)**	**-**	**(3 380)**
Prior period adjustments	1 878	-	148	-	-	-	(11)	11 397	**13 412**	**(10 775)**	**2 637**
Transfers between funds and accounts	(1 701)	-	-	-	-	-	(2 854)	(5)	**(4 560)**	**(2 013)**	**(6 573)**
Transfers from reserves	18 410	-	2 000	3 700	20 000	-	-	-	**44 110**	**-**	**44 110**
FUND BALANCES END OF PERIOD	**(15 345)**	**2 778**	**4 435**	**3 413**	**18 832**	-	**36 200**	**44 957**	**95 270**	**109 498**	**204 768**

SPECIAL ACCOUNTS SPECIFICATION OF INCOME AND EXPENDITURES FOR THE YEAR ENDED 31 DECEMBER 2006
(US$ thousand)

	Notes	Fund balances, beginning of period	Income	Expenditures	Prior period and other adjustments*	Fund balances, end of period
TC/IT Standby Equipment and Services	18A	10 261	30 120	25 510	(4 531)	10 340
UNHRD	18B	9 731	6 781	5 947	(256)	10 309
Aviation Special Account	18C	14 420	37 828	44 591	(2)	7 655
Self Insurance Account	18D	29 671	11 224	7 179	62	33 778
Advocacy Special Account	18E	694	1 534	333	-	1 895
Emerging Donors Matching Fund	18F	41 199	2 525	66	(4 696)	38 962
Long Term Loan and Investment	18G	6 309	2 120	2 120	(6 309)	-
JPO Fees	18H	370	694	596	-	468
UN Joint Logistic Centre	18I	1 016	581	880	(253)	464
Walk the World	18J	21	333	2 702	2 643	295
Ending Child Hunger and Malnutrition	18K	1 475	169	1 517	40	167
Logistic Award	18L	24	-	1	-	23
Local SC/SSA Staff Insurance	18M	-	1 360	-	-	1 360
Inter-Agency Global Fleet Forum	18N	-	271	37	3	237
Global Logistics Cluster	18O	-	3 682	138	-	3 545
TOTAL SPECIAL ACCOUNTS		**115 191**	**99 222**	**91 616**	**(13 299)**	**109 498**

*Includes transfers, contribution adjustments and transfers between funds and accounts.

120. The Special Accounts are described below:

18A. TC/IT Standby Equipment and Services

121. The Telecommunications and Information Technology Special Account (TC/IT) Standby Equipment and Services Special Account was established by the Executive Director effective January 2000, to be used for financing stand-by equipment and services for rapid deployment in emergency situations and to enhance information and communication technology (ICT) support services worldwide. The services are provided through ADI in Rome and through the Fast Information Technology and Telecommunications Emergency Support Team (FITTEST) in Dubai.

122. Effective 2006, the Dubai office provides expanded administrative services to support emergencies and to provide a cost-effective support for the increasing administrative demands on field offices.

18B. United Nations Humanitarian Resource Depot (UNHRD)

123. The United Nations Humanitarian Resource Depot (UNHRD) Special Account was established to account for the transactions affecting the operations of this depot that was established in June 2000, in Brindisi, Italy, and managed by WFP. The depot is operated for a consortium of United Nations humanitarian agencies and non-governmental organizations (NGOs) that provide services to other parties under separate contractual agreements.

124. Cash or in-kind receipts for services rendered are recorded as income. Costs incurred, whether general costs common to all services or specific costs for specific contract services, are recorded as expenditures in this special account. Surpluses arising from the excess of income over expenditure in one period are carried forward to succeeding periods.

18C. Aviation Special Account

125. The Aviation Special Account was established in December 2003 with the following objectives:

- To provide the Transport and Procurement Division (ODT) with a single, integrated financial management system that will generate sufficient income to finance aviation services and related activities as a non-profit "business unit";
- To serve as a funding mechanism for use as "bridging finance" to maintain preferential terms and conditions afforded to WFP by its contractors while awaiting receipt of funds from the users of its services; and
- To centralize financial accounting and reporting for all aviation activities to enhance efficiency of tracking of income and expenditure, and monitoring of financial performance.

126. Through this Special Account, WFP also administers air transport services for humanitarian and other activities for UN agencies, funds and programmes and their NGO implementing partners, as agreed at the High Level Committee for Management (HLCM) meeting held in New York on 15 June 2003.

127. The Special Account is reimbursed by its users at cost. The users consist of Special Operations projects on air transport services and third parties such as NGOs and other UN organizations. To cover costs for maintaining an aviation management infrastructure, including safety and management quality assurance programmes, users are charged management cost recovery fees.

128. The establishment of the Aviation special account also calls for the consolidation of aviation-related activities into the special account. The Airlift Activities - Operation Lifeline Sudan, which was established as a trust fund, became part of the Aviation Special Account with effect from 01 January 2006. Accordingly, the balance of the trust fund has been transferred to the Aviation Special Account.

18D. International Cargo Self-Insurance Account

129. WFP has had a self-insurance scheme since 1 May 1994. The scheme covers pre-delivery and transit commodity losses involving international cargo. Each shipment is reinsured with an external company against losses exceeding US$750,000 per consignment, or US$1.5 million per vessel.

130. The Self-Insurance Account is credited with premiums charged to projects on a basis equivalent to commercial rates. The Account pays for financial compensation on transit losses on commodities and is credited to the donors concerned, who may allow this compensation to flow back to projects as additional contributions or as replenishment of the IRA. Recoveries from responsible third parties are likewise credited to this account.

18E. Advocacy Special Account

131. The Advocacy Special Account was set up to account for and use proceeds from advocacy, visibility and media activities as well as royalties from creative products for which WFP has intellectual property rights.

18F. Emerging Donor Matching Fund (EDMF)

132. In October 2002, the Board approved the use of US$39.7 million excess of loan proceeds (see Note 18G below) over expected repayments to fund in part the Executive Director's expenditure plan (2002/EB.3/5). The Executive Director established the EDMF account with these proceeds in June 2003 to provide matching funding for commodity contributions for WFP projects from emerging non-traditional donors. The funds in the EDMF Special Account are to be used as a last resort to cover associated operational and support costs as provided for under General Rule XIII.4 (e) (i).

18G. Loan and Investment

133. In December 2000, an agreement was reached between a major donor and WFP regarding a scheme to facilitate the provision of food assistance to two country projects. Under the scheme, the donor gave a directed multilateral contribution in cash of US$164,140,948, of which US$106,000,000 would be used to cover the costs of commodities and US$58,140,948 for transport and other related costs. WFP then purchased commodities valued at US$106,000,000 against a long-term loan contract with a government agency of the donor country.

134. The loan is payable over 30 years, with a ten-year grace period on the principal. Interest on the loan is at the rate of 2% per year for the first ten years, starting in June 2001, and 3% per year on the declining balance each year thereafter.

135. To ensure the repayment of the interest and principal, US$106,000,000 cash contribution for the commodity was invested in long-term United States Treasury STRIPS (with acquisition cost of US$66,288,383, plus US$16,572 commissions) and in short-term fixed-income securities (US$39,695,045). Five of the STRIPS have matured over the last five years to pay off the annual interest due on the loan and the balance of the investment in STRIPS has been reduced to US$56,788, 409 as at 31 December 2006 (see also Note 8).

136. The Long-term Loan and Investment Special Account was established in July 2001 in order to record all financial transactions related to this loan, including the investment of the cash and the interest income generated and paid.

18H. Junior Professional Officer (JPO) Fees

137. The donor contributions for the individual Junior Professional Officers (JPOs) employed by WFP and which are accounted for as trust funds (see Note 20) are subject to administration fees to fund the general administration of the JPO programme. The special account JPO Fees was set up in order to set aside the indirect support cost income of the JPO trust funds to meet the incidental expenditures associated with the implementation of

the JPO programme. As a trust fund, the income of the JPO programme is recognized on a cash basis.

18I. UN Joint Logistics Centre (UNJLC)

138. The UNJLC is an inter-agency humanitarian response mechanism that ensures the provision of logistics support for the movement of relief to and in the area of operations at the onset of an emergency regardless of location. In February 2001, this concept was endorsed by the Inter-Agency Standing committee – Working Group (IASC-WG) of the UN and designated WFP as the pilot agency for developing the project.

139. In July 2004, the UNJLC special account was established in order to serve as a funding mechanism for the establishment of the UNJLC Core Unit as a permanent and self-sustaining body.

18J. Walk the World

140. The establishment of the Walk the World special account was approved by the Executive Director in June 2005 to enable the Walk the World Division (FDW) of the Fundraising Department to account for local costs of supporting the Walk the World and related fundraising activities.

141. Funding for the local costs comes from 10% of funds raised locally by WFP through the Walk the World and related FDW-assisted activities. Any excess of funds held beyond the expected funding needs may be programmed to school feeding, maternal/child nutrition or other child-based projects. In 2006, the Executive Director authorized a transfer from the PSA budget to the special account in the amount of US$2,642,910 (see Note 17A).

18K. Ending Child Hunger and Undernutrition

142. During its Second Regular Session in 2005, the Board took note of the concept paper on “Ending Child Hunger and Undernutrition Initiative” and of the Executive Director’s intention to allocate up to US$1.5 million from 2005 PSA to support WFP’s participation in the development and launch of the Plan of Action for this initiative (2005/EB.2/2 (i)).

143. A special account was established in December 2005 as a mechanism to receive monies from a variety of sources, including direct contributions from donors who wish to support the initiative. The initial funding of US$1,475,000 was transferred from the 2005 PSA. Additional fund transfer from PSA was made in 2006 in the amount of US$40,100 (see Note 17A).

18L. Logistics Award

144. A private donor gave US$13,000 to WFP, which was matched by WFP, for the purpose of providing an annual cash award to a deserving WFP staff member for “Excellence in Humanitarian Logistics” or more specifically, for exceptional service in designing and carrying out effective delivery of food aid in humanitarian interventions.

145. The purpose of the special account, which was established in September 2005, is to provide an accounting mechanism for the capital and interest income of the fund as well as for the annual cash awards and other expenditures that may be incurred by the fund. The balance of the fund as at 31 December 2006 was US$23,000.

18M. Local SC/SSA Staff Insurance

146. In 2005, WFP negotiated with the insurance company, Assurances Générales de France (AGF), that an agreed percentage of profits calculated since 2004 would be transferred to WFP and this should be retained under the local staff insurance project.

147. The purpose of the special account, with the amount received from AGF as the initial source of funding, are the following:

- to cover the cost of authorized medical evacuations for in-service incurred emergencies when no local medical facilities are available at the scene of the incident;
- provide death grants of US$25,000 for staff who die as a result of causes not covered by the AGF-Van Breda policy

148. Additional funds generated by maintaining the 2005 premium rates in 2006, and retained separately from the profits, will be used to offset any increases in medical insurance premiums for SC/SSA holders in 2007.

149. In 2006, the amount received from AGF representing such agreed share in profits totalled US$1.36 million.

18N. Inter-Agency Global Fleet Forum

150. The Fleet Forum is a joint initiative taken by the International Federation of the Red Cross, the World Food Programme and the World Vision International. In addition, one of WFP's partners from the private sector is also involved in the Fleet forum by providing funds for the position of the Fleet Forum Coordinator as well as funding the various projects initiated by the Fleet Forum and the annual Fleet Forum Conference.

151. The Fleet Forum serves as the primary interface between key stakeholders that must strive constantly to improve the impact of relief and development programmes through the provision of reliable, cost effective, and efficient transport support. It also brings together members of the aid community who are responsible for vehicle fleet management to discuss common challenges, share best practices, develop appropriate solutions, mobilize expertise and record learning as well as acting as an interface between the community and other stakeholders including the commercial sector and donors.

18O. Global Logistics Cluster

152. The Global Logistics Cluster special account was established in July 2006 as a result of the 12 September 2005 decision of the Inter-Agency Standing Committee (IASC) Principals designating WFP as the Logistics Cluster lead agency with primary managerial responsibility and accountability for logistics cluster activities. Clusters are built to fill gaps in the humanitarian response. While improved coordination is one of the expected outcomes, the real goal is to improve the overall humanitarian response and help the beneficiaries in a more effective way.

153. The objective of the special account is to provide the Logistics Service of the Transport and Procurement Division with a single integrated financial management system for its managerial responsibilities for the Logistics Cluster.

154. The Logistics Cluster Special Account will be able to receive funding from donors and fund activities as agreed upon in the Logistics Cluster. The fund will roll over from one year to the next year, as the activities of the Logistics Cluster are not limited within a certain timeframe.

NOTE 19: BILATERAL OPERATIONS AND TRUST FUNDS

155. The Bilateral Operations and Trust Funds for the year ended 31 December 2006 consisted of the following:

BILATERAL OPERATIONS AND TRUST FUNDS SPECIFICATION OF INCOME AND EXPENDITURES FOR THE YEAR ENDED 31 DECEMBER 2006 (US$ thousand)

	Bilateral Operations *	Trust Funds	Bilateral Operations and Trust Funds
INCOME			
Commodity in-kind contributions	-	-	-
Services in-kind contributions	-	-	-
Other contributions	13 270	113 694	126 965
Interest	1 043	2 280	3 323
Currency exchange adjustments	(413)	(96)	(509)
Miscellaneous income	-	-	-
Transfer of indirect support cost contributions to General Fund	(744)	(669)	(1 413)
TOTAL INCOME INCLUDING TRANSFER	**13 156**	**115 210**	**128 366**
EXPENDITURE			
Commodities in-kind	-	2 538	2 538
Commodities purchased	4 103	28 518	32 621
Ocean transport and related costs	(70)	380	310
Landside transport, storage and handling	513	3 666	4 179
Other direct operational costs	3 647	12 550	16 197
Direct support costs	3 572	34 539	38 111
TOTAL EXPENDITURE	**11 765**	**82 191**	**93 956**
Excess of income over expenditure	**1 391**	**33 019**	**34 410**
Fund balances, beginning of period	150 516	69 750	220 266
Contribution adjustments	(52 018)	(774)	(52 791)
Prior period adjustments	(7 926)	(89)	(8 015)
Transfers between funds and accounts	466	-	466
FUND BALANCES, END OF PERIOD	**92 429**	**101 907**	**194 336**

* The Project Technical Support to Iraq Public Distribution System was integrated in the column Bilateral Operations in 2006.

NOTE 20: ELIMINATIONS

156. Certain internal activities lead to accounting transactions that create inter-office balances in the financial statements. In order to more accurately present these financial statements, these balances are eliminated through consolidation, as shown in Statement I and Statement II. During the year ended 31 December 2006, the activities that created such inter-office balances were:

Eliminations			US$
A. Statement of Income and Expenditure and Changes in Reserves and Fund Balances			
Income		Expenditure	
TC/IT Standby Equipment and Services Special Account	6 796 148	ODOC Project expenditures	16 766 340
Aviation Special Account	14 141 684	LTSH Project expenditures	3 405 461
UNHRD Special Account	766,165	DSC Project expenditures	4 119 514
Self-Insurance Account	2 256 240	PSA Expenditures	915 407
Advocacy Special Account	33 305		
Special Operations – Air Ops	1 213 180		
Total amount eliminated	**25 206 722**		**25 206 722**
B. Statement of Assets, Liabilities, Reserves and Fund Balances			
Receivable of General Fund from Projects & Payable of Projects to General Fund			
Advances against Working Capital Financing			14 442 750
Total amount eliminated			**14 442 750**

NOTE 21: COMMODITY LOANS AND BORROWINGS

157. Commodities can be borrowed to initiate an operation, to avoid a pipeline break, or to rotate stocks provided that the quantity and type of commodities concerned are part of the project/programme budget or a revision thereto.

158. Borrowing may be from stocks of other WFP projects or operations, from one component to another in a Country Programme, from government stocks or, exceptionally, from other donors, aid agencies or the private sector (e.g. from a grain mill with which WFP works regularly).

159. In all cases of borrowings, certain conditions need to be met such as the following:

- There is a confirmed contribution, or if ODMP confirms an allocation from the IRA and/or the multilateral funds, to assure replacement.
- Borrowing is normally limited to the same commodity items that are to be delivered under the project/component/operation, and be on a ton-for-ton basis.

- Borrowing must be less than the planned total input of the commodity concerned (in case there should be any shortfall in delivery of the anticipated WFP consignment).
- Borrowing should not impede the progress of the project/component/operation from which commodities are borrowed.
- The approval of the original donor is required in most cases for directed contributions and from ODMP in cases where multilateral contributions are involved.

160. As at 31 December 2006, commodity loans and borrowings totalled 122,128 metric tons valued at US$30.39 million using the average FOB prices for WFP-supplied commodities. These loans and borrowings are between programme categories, between countries as well as between WFP and other UN agencies and cooperating partners.

NOTE 22: SEIZURE OF COMMODITIES AND OTHER ASSETS

161. In April 2006, a government had seized all food aid in the country; including 64,549 metric ton of commodities from WFP valued at US$31 million and integrated these commodities into the government's food security policy. In addition, the Government had denied access to WFP equipment stored at a government facility.

162. In his letter of October 2006, the Executive Director has informed the Government that its action was in violation of the Basic Agreement dated May 2000 and subsequent Letters of Understanding and indicated that WFP had started formal arbitration proceedings. The Executive Director has also informed the Executive Board during its second regular session in November 2006 of the integration of WFP commodity into the Government's Cash-for-Work programme.

163. On 15 December 2006, WFP sent a demand letter to the Government demanding the restitution of food aid, either in cash or in kind.

NOTE 23: LEGAL OR CONTINGENT OBLIGATION

164. In addition to the estimated staff liability mentioned under Note 12B, financial liability may arise to third parties related to the fraud in a regional bureau and reported in 2004-2005 financial statements. Such contingent liabilities would be attenuated by the recovery of funds pursuant to asset forfeiture proceedings commenced by the local authorities against the alleged perpetrators. The amount of such recovery cannot be determined at this time with any degree of certainty.

165. While WFP is a party to certain administrative proceedings, legal actions or claims brought by or against it, it is anticipated that none of these proceedings and actions would result in a significant liability to WFP.

ACRONYMS USED IN THE DOCUMENT

AD	Administration Department
AGF	Assurances Générales de France
ASA	Aviation Special Account
ASMCP	After-Service Medical Coverage Plan
BMIP	Basic Medical Insurance Plan
CAF	Capital Asset Fund
CERF	Central Emergency Revolving Fund
CFA	Committee on Food Aid Policies and Programmes
CFOA	Office of Financial Accounting
CFOAG	General Accounts Branch
CLC	cash in lieu of commodities
CPRF	Compensation Plan Reserve Fund
DOC	Direct Operational Costs
DSC	Direct Support Cost
DSCAF	Direct Support Cost Advance Facility
EB	Executive Board
ECOSOC	United Nations Economic and Social Council
EDMF	Emerging Donor Matching Fund
ELA	Emergency Logistics Authorization Mechanism
EMOP	emergency operation
FAC	Food Aid Convention
FAO	Food and Agriculture Organization of the United Nations
FDW	Fundraising Division, Walk the World
FITTEST	Fast Information Technology & Telecommunications Emergency Support Team
FMIP	Financial Management Improvement Programme
FOB	Free on Board
GCCC	Government Counterpart Cash Contribution
GR/IR	good receipts/invoice receipts
HLCM	High-Level Committee on Management
IASC	Inter-Agency Standing Committee
ICT	information and communications technology
IPSAS	International Public Sector Accounting Standards
IRA	Immediate Response Account
ISC	Indirect Support Costs (income)

JPO	Junior Professional Officer
LTSH	landside transport, storage and handling
MUC	Multilateral and Unallocated Contributions
NGO	non-governmental organization
ODMP	Programme Management Division, Programming Service
ODOC	other direct operational cost
ODT	Transport and Procurement Division
OLS	Operation Lifeline Sudan
PSA	Programme Support and Administrative (costs)
RBM	Results-Based Management
SBF	Staff Benefit Funds
SC/SSA	Service Contracts/Special Service Agreements
SIA	Self-Insurance Account
SO	Special Operations
SPS	Separation Payments Scheme
STRIPS	Separate Trading of Registered Interest and Principal of Securities
TC/IT	Telecommunications and Information Technology
TPA	Third Party Agreement
UNDP	United Nations Development Programme
UNDSS	United Nations Department of Safety and Security
UNHRD	United Nations Humanitarian Response Depot
UNJLC	United Nations Joint Logistics Centre
UNJSPF	United Nations Joint Staff Pension Fund
UNSECOORD	Office of the United Nations Security Coordinator
WCF	Working Capital Financing
WINGS	WFP Information Network and Global System