برنامج
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Programme
Alimentaire
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World
Food
Programme

Programa
Mundial
de Alimentos

Executive Board
Annual Session

Rome, 9–12 June 2008

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For approval

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AUDITED BIENNIAL ACCOUNTS (2006–2007): SECTION II

Opinion of the External Auditor on Audited Financial Statements (2006–2007)

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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.

Chief Financial Officer and Director, FL*:	Mr A. Abdulla	tel.: 066513-2401
Deputy Chief Financial Officer and Director, FLA**:	Mr E. Whiting	tel.: 066513-2701
Chief, FLAG***:	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).

* Finance and Legal Division
** Office of Financial Accounting
*** General Accounts Branch

UNITED NATIONS WORLD FOOD PROGRAMME
FINANCIAL STATEMENTS 2006–2007

OPINION OF THE EXTERNAL AUDITOR

I have audited the accompanying financial statements comprising Statements I to III and supporting Notes of the United Nations World Food Programme for the biennium ended 31 December 2007.

Respective Responsibilities

These financial statements are the responsibility of the Executive Director of the United Nations World Food Programme. My responsibility is to express an opinion on these financial statements based on my audit.

Basis of Opinion

I conducted my audit in accordance with International Standards on Auditing. These standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the World Food Programme at 31 December 2007 and the results of its operations and cash flows for the period then ended in accordance with the United Nations System Accounting Standards and World Food Programme's stated accounting policies set out in Note 2 to the financial statements.

Further, in my opinion, the transactions of the World Food Programme which I have tested as part of the audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with Article XIV of the Financial Regulations, I have also issued a long form Report on my audit of the United Nations World Food Programme's financial statements.

Signed on original

T J Burr

Comptroller and Auditor General, United Kingdom

External Auditor

National Audit Office April 2008

London

World Food Programme

Certification of Financial Statements 2006–2007 Biennium

Statement I	-	Statement of Income and Expenditures and Changes in Fund Balances for the Biennium Ended 31 December 2007
Statement II	-	Statement of Assets, Liabilities and Reserves and Fund Balances as at 31 December 2007
Statement III	-	Statement of Cash Flow for the Biennium Ended 31 December 2007

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.

Signed on original

Josette Sheeran

Executive Director

Rome, 31 March 2008

STATEMENT I
STATEMENT OF INCOME AND EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE BIENNIUM ENDED 31 DECEMBER 2007
(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 3D)
INCOME							
Cash contributions	**2E1a)**	4 408 254	33 921	294 254	-	4 736 429	5 155 311
Commodity in-kind contributions	**2E1b)**	826 182	-	-	-	826 182	969 089
Services-in-kind contributions	**2E1c)**	21 030	985	-	-	22 015	70 182
Government counterpart cash contributions	**2E1e)**	-	3 647	-	-	3 647	3 243
Interest		-	86 957	7 892	-	94 849	54 785
Currency exchange adjustments		63 802	25 587	(610)	-	88 779	(37 946)
Miscellaneous income	**2E1g)**	73 785	179 677	-	(63 942)	189 520	95 463
Transfer of indirect support cost contributions to General Fund	**2E1f)**	(319 039)	325 392	(6 353)	-	-	-
TOTAL INCOME INCLUDING TRANSFER		**5 074 014**	**656 166**	**295 183**	**(63 942)**	**5 961 421**	**6 310 126**
EXPENDITURE							
Commodities purchased		1 254 698	239	121 285	-	1 376 222	1 773 344
Commodities inkind		861 837	-	2 585	-	864 422	990 894
Ocean transport and related costs		459 876	25	2 976	-	462 877	627 740
Landside transport, storage and handling		1 320 501	353	11 749	(14 490)	1 318 113	1 232 495
Other direct operational costs		465 076	111 063	30 214	(27 277)	579 076	402 121
Direct support costs	**14**	586 084	172 290	79 519	(20 302)	817 591	654 484
Programme support and administrative	**14**	-	425 513	-	(1 873)	423 640	393 036
TOTAL EXPENDITURE		**4 948 072**	**709 483**	**248 328**	**(63 942)**	**5 841 941**	**6 074 114**
Excess/(shortfall) of income over expenditure		**125 942**	**(53 317)**	**46 855**	-	**119 480**	**236 012**
Fund balances, beginning of period		**1 656 591**	**185 901**	**220 266**	-	**2 062 758**	**2 317 031**
Contribution adjustments	**15**	(242 247)	(1 156)	(55 739)	-	(299 142)	(445 633)
Write-off of accounts receivable		-	(4 509)	-	-	(4 509)	(4 713)
Prior period adjustments	**16**	5 236	752	(5 006)	-	982	(89 155)
Savings on cancellation of prior period obligations		-	-	-	-	-	1 004
Unfunded staff liability	**12C**	-	(108 372)	-	-	(108 372)	-
Transfers between funds and accounts	**17A**	3 394	(9 408)	6 014	-	-	-
Transfers from reserves	**17B**	4 250	105 692	-	-	109 942	48 213
FUND BALANCES, END OF PERIOD		**1 553 166**	**115 583**	**212 390**	-	**1 881 139**	**2 062 758**

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

STATEMENT II
STATEMENT OF ASSETS, LIABILITIES AND RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2007
(US$ thousand)

	Note	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Eliminations (Note 20)	Total WFP Fund	Prior Period 2004-2005 (Adjusted) (Note 3D)
ASSETS							
Cash and short-term investments	**4**	641 452	350 757	229 064	-	1 221 273	1 130 239
Cash held in trust in country offices	**3A**	-	-	-	-	-	20 578
Accounts receivable	**5**	60 595	226 385	1 325	(75 259)	213 046	219 059
Contributions receivable	**6**	1 247 961	82 212	-	-	1 330 173	1 318 788
Long-term investments	**7**	-	53 641	-	-	53 641	56 788
TOTAL ASSETS		**1 950 008**	**712 995**	**230 389**	**(75 259)**	**2 818 133**	**2 745 452**
LIABILITIES							
Current Liabilities							
Accounts payable	**9**	162 660	219 220	11 003	(75 259)	317 624	214 899
Accrued expenditures	**10**	170 978	44 625	6 996	-	222 599	81 864
Funds held in trust in country offices	**3A**	-	-	-	-	-	20 578
Total Current Liabilities		**333 638**	**263 845**	**17 999**	**(75 259)**	**540 223**	**317 341**
Deferred Contributions	**2E1d)/11**	63 204	87 430	-	-	150 634	-
Long-Term Loan	**18G**	-	106 000	-	-	106 000	106 000
TOTAL LIABILITIES		**396 842**	**457 275**	**17 999**	**(75 259)**	**796 857**	**423 341**
RESERVES AND FUND BALANCES							
Reserves	**13**	-	140 137	-	-	140 137	259 353
Fund balances		1 553 166	115 583	212 390	-	1 881 139	2 062 758
TOTAL RESERVES AND FUND BALANCES		**1 553 166**	**255 720**	**212 390**	-	**2 021 276**	**2 322 111**
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		**1 950 008**	**712 995**	**230 389**	**(75 259)**	**2 818 133**	**2 745 452**

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

STATEMENT III
STATEMENT OF CASH FLOW
FOR THE BIENNIUM ENDED 31 DECEMBER 2007
(US$ thousand)

	Notes	WFP Fund	Prior Period 2004–2005 (Adjusted)
Cash inflow (outflow) from operating activities:			
Excess of income over expenditure (Statement I)		119 480	236 013
Decrease in cash held in trust in country offices	**4**	20 578	38 650
Decrease in accounts receivable	**5**	6 013	(65 200)
(Increase) in contribution receivable	**6**	(11 385)	429 813
Increase in accounts payable	**9/3D**	102 725	117 054
(Decrease) in funds held in trust in country offices	**3A**	(20 578)	(37 961)
Increase in accrued expenditures	**10**	140 735	66 393
Increase in deferred contributions	**11**	150 634	-
Subtotal		508 201	784 761
Less interest income		94 849	54 785
Net cash inflow from operating activities		413 352	729 977
Cash from investing and financing activities:			
Decrease in long-term investments	**7**	3 147	5 432
Add interest income		94 849	54 785
Net cash from investing and financing activities		97 996	60 216
Cash inflow (outflow) from (to) other sources:			
Contribution adjustments	**15**	(299 142)	(445 633)
Write-off of accounts receivable		(4 509)	(4 713)
Prior period adjustments	**16**	982	(89 156)
Savings on cancellation of prior period obligations		-	1 004
Unfunded Staff Liabilities	**12C**	(108 372)	-
Transfers from reserves	**17B**	109 942	48 213
Decrease in reserves		(119 216)	(77 031)
Net cash inflow (outflow) from (to) other sources		(420 315)	(567 316)
Net increase (decrease) in cash and term deposits		91 034	222 877
Cash and term deposits at beginning of period		1 130 239	907 362
Cash and term deposits at end of period	**4**	**1 221 273**	**1 130 239**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE BIENNIUM ENDED 31 DECEMBER 2007

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 96 offices around the world: 77 country offices, 7 regional bureaux, and 12 liaison offices. 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 Economic and Social Council of the United Nations (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 1 January of each even-numbered year. These financial statements relate to the biennium ended 31 December 2007.

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 biennium ended 31 December 2007.

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** is 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:

   a) **Programme Support and Administrative (PSA)** costs consist of 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 in support of projects and activities that cannot be directly linked with their implementation. The surplus or deficit under this category is transferred to the PSA Equalization Account reserve at the end of the biennium.

   b) **Government Counterpart Cash Contributions (GCCC)** are recognized as income at the time of confirmation of the actual amount to be contributed 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.

c) **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. For the 2006–2007 biennium, the Board 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 and US$5 million was allocated for the acquisition of property, plant and equipment. Of the US$5 million that was originally allocated for fixed asset acquisition, the Board subsequently authorized the reduction of this amount to US$4 million (2007/EB.1/5 (iii)).

d) **Multilateral and Unallocated Contributions (MUC)** are cash contributions not designated to a specific programme category or bilateral project.

e) **Private-Sector In-Kind Contributions** are in-kind contributions from the private sector not designated to a specific programme category or bilateral project.

f) **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.

g) **IPSAS Implementation Project's** allotment of up to US$3.7 million was authorized by the Board in June 2006 (2006/EB.A/16 c)) to cover the cost of introducing International Public-Sector Accounting Standards with effect from the 2008 Financial Period.

h) **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 and other 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 also 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 at the time of their acquisition. Investments are stated at market value, except for long-term for 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. 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 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 exchange exposure incurred on budgeted PSA staff costs in the Euro zone (primarily in Headquarters). WFP entered into a total of 23 forward exchange contracts and purchased forward 4.1 million each month during the period February 2006 to December 2007 (total value of the contracts US$115.4 million). The objective of the hedging strategy was to significantly reduce the uncertainty of the US$ value of the PSA staff costs versus the approved Management Plan 2006–2007. When the forward exchange contracts matured (one per month during the period February 2006–December 2007), the

exchange gain/loss on such contracts versus the applicable United Nations Operational Rate of Exchange was recognized in the financial statements. Total exchange gain for the period February 2006 to December 2007 amounted to US$8.8 million.

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) Cash contributions

20. Cash contributions comprise:

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

b) Commodity-in-kind contributions

21. 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.

c) Services-in-kind contributions

22. 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.

d) Deferred contributions

23. Deferred contributions are multi-year cash contributions whereby donors stipulate that contributions are to be utilized in future years. At the time of confirmation of such contributions, that portion pertaining to the current financial period is recognized as income for that period while those portions specifically earmarked for future years is recorded as deferred income (See Note 11).

e) Government counterpart cash contributions

24. Government counterpart cash contributions 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.

f) Contributions for ISC

25. 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 percent 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 percent to 7 percent of direct costs while a service fee of 4 percent is generally charged against third-party agreements (TPA). In some cases, the ISC is waived by the Executive Director pursuant to General Rule XIII.4. For the biennium ended 31 December 2007, ISC amounting to US$1.7 million was waived.

g) Income other than donor contributions

26. 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*

27. With effect from the 2006–2007 biennium, a change in accounting policy in respect of expenditure recognition was introduced.

28. In the report to the Board in November 2005 on the introduction of International Accounting Standards (WFP/EB.2/2005/5-C/1), the Secretariat informed the Board that with effect from 2006, all expenditures are recorded on the delivery principle rather than on the basis of obligation through purchase orders.

29. Stocks of commodities on hand as at 31 December 2007 are included among the commodity expenditures and not reflected as inventories.

30. 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.

31. Liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier are classified as payables. Liabilities for goods or services that have been received or supplied but have not been invoiced or formally agreed with the supplier are classified as accrued expenditures.

32. 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 2007, outstanding commitments are valued at US$415 million (US$588 million at 31 December 2005).

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

33. Staff salaries and entitlements of international and Headquarters-based general service staff are set according to a predetermined 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 the 2004–2005 biennium and prior. The Staff Cost Variance Equalization Account was set up to reflect variances between standard and actual staff costs.

2G. Third-Party Agreement

35. 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.

2H. Demurrage and Despatch

36. 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. Demurrage incurred at discharge port is recoverable from the party that performed discharge operations, either the recipient government or the stevedoring subcontractor.

37. 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.

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

2I. After-Service and Other Staff Liabilities

39. In a memorandum dated 27 March 2007, the Assistant Secretary-General and Controller of the United Nations informed other United Nations agencies of the decision taken by the United Nations to accrue end of service liabilities and sought the commitment of other United Nations agencies in reflecting the same in the 31 December 2007 financial statements.

40. In its report to the Board (WFP/EB.1/2008/6-B/1), WFP has indicated that it is recognizing all liabilities for after-service benefits and other staff liabilities with effect from the 2006–2007 biennium.

41. The liabilities for after-service and other liabilities are determined by professional actuaries or calculated by WFP based on personnel data and past payment experience.

42. Staff liabilities as at 31 December 2007 for separation payments benefits to general service staff based in Headquarters, compensation due to work-related death, injury or

illness, after-service medical benefits, death grant and annual leave to general service and professional staff covered by the FAO Staff Rules and United Nations staff rules as well as repatriation grant, education grant and home leave travel for international professional staff covered by the FAO Staff Rules are recognized. Other personnel-related liabilities such as repatriation travel and removal and termination indemnities are disbursed against current funding sources.

NOTE 3: SUMMARY OF CHANGES IN PRESENTATION AND ADJUSTMENTS

3A. Cash Held in Trust in Country Offices

43. Since January 2005, WFP has been reclassifying locally generated funds as Trust Funds or TPA. All locally generated funds generated before January 2005 have been converted to trust funds as at 31 December 2007.

3B. Accrued Expenditures

44. Accrued expenditures represent liabilities to pay for goods or services that have been received or supplied but have not been invoiced or formally agreed with the supplier. Accrued expenditures are presented in the financial statements separately from accounts payable.

3C. Direct Support Cost Advance Facility

45. The Direct Support Cost Advance Facility (DSCAF) is shown as a reserve at the authorized amount less the amount of outstanding advances.

46. With effect from the 2006–2007 biennium, the eliminating internal receivable and payable accounts are no longer utilized or shown in the financial statements.

3D. Adjustment of 2004–2005 Financial Statements

47. 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 on the basis of goods and services received at the end of the financial period.

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

	(US$ thousand)		
	Prior Period 2004–2005	**Adjustment Increase/(Decrease)**	**Prior period 2004–2005 (Adjusted)**
INCOME			
Cash contributions	5 138 289	-	5 138 289
Contributions from Office of Iraq Programme	17 022	-	17 022
Commodity-in-kind contributions	969 089	-	969 089
Services-in-kind contributions	70 182	-	70 182
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 purchased	1 813 393	(40 049)	1 773 344
Commodities inkind	978 918	11 976	990 894
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 administrative (costs)	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**

48. 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 as at 31 December 2003 relating to the 2002–2003 and prior biennia.

b) Statement II and Statement III

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

50. Fund balances were increased by the same amount of US$588 million as reflected above.

51. The remaining obligations at 31 December 2005 of US$8.7 million represent accrued expenditures disbursed in 2006. These amounts together with accrued expenditures that were reported as part of vendor payable at 31 December 2005 in the amount of US$73.2 million (US$81.9 million in total) are now reported separately as accrued expenditures under Statement II.

3E. Reclassification of the "Airlift Activities – Operation Lifeline Sudan"

52. Effective 01 January 2006, the balance US$3 million of the trust fund Airlift Activities – Operation Lifeline Sudan was 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".

3F. Office of Iraq Programme

53. No transactions were recorded under the Office of Iraq Programme during the biennium ended 31 December 2007. The income disclosed separately in 2004–2005 financial statements in the amount of US$17 million has been included under "Cash Contributions" under Statement I.

3G. Summary of Changes

54. The impact on the 31 December 2005 fund balances by category was as follows.

	(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	456 335	23 165	5 477	484 977
Fund balances transferred from Trust Funds to General Fund and Special Account	-	3 019	(3 019)	-
FUND BALANCES, END OF PERIOD ADJUSTED	**1 656 591**	**185 901**	**220 266**	**2 062 758**

NOTE 4: CASH AND SHORT-TERM INVESTMENTS

55. Cash and short-term investments at 31 December consist of the following.

	(US$ thousand)	
	2007	**2005**
Bank and cash holdings at Headquarters		
Bank and money market accounts	275 566	194 232
Short-term investments	893 370	895 088
Subtotal	**1 168 936**	**1 089 320**
Bank and cash holdings at country offices:		
In convertible currencies	51 383	40 349
In non-convertible currencies	954	570
Subtotal	**52 337**	**40 919**
TOTAL	**1 221 273**	**1 130 239**

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

57. The main considerations for investment management in the order of priority are: security of principal, liquidity and return. The short-term investment portfolio is divided in three tranches with three distinct investment horizons in order to better utilize WFP's risk-bearing capacity. Each tranche has a specific risk tolerance budget and 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 and asset-backed securities.

58. The short-term investments consist of five 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 2006–2007 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 or use systematic and forced or compulsory or child labour.

NOTE 5: ACCOUNTS RECEIVABLE

59. Accounts receivable as at 31 December consist of the following.

	(US$ thousand)	
	2007	**2005**
Advances to vendors	48 731	93 131
TPA receivables:		
Receivable from United Nations and other organizations	17 266	-
Cargo preference	8 096	-
Demurrage receivable from recipient governments and suppliers	2 338	1 451
Interest receivable on Loan and Investment Special Account	50 832	47 495
Personnel advances	19 627	21 136
Country office receivables	6 017	10 019
Insurance claims receivables	8 978	23 657
Accrued interest	4 173	3 866
VAT receivable	30 175	4 059
Other receivables	11 211	8 189
Advance to UNDP*	5 602	6 056
Advances to projects from Working Capital Financing	75 259	57 567
DSCAF receivable	-	10 521
Subtotal	**288 305**	**287 147**
Less eliminating entries		
Advances to projects from Working Capital Financing	75 259	57 567
DSCAF	-	10 521
TOTAL	**213 046**	**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.

60. With effect from the 2006–2007 biennium, the DSCAF advances and recoveries to/from projects are recorded directly as a transfer to/from Reserves.

NOTE 6: CONTRIBUTIONS RECEIVABLE

61. Contributions receivable at 31 December 2007 consisted of the following transactions.

CONTRIBUTIONS RECEIVABLE
AS AT 31 DECEMBER 2007
(US$ thousand)

	Programme Category Funds			General Funds and Special Accounts			Total			Prior Biennium
	In-Kind	**Others**	**Total**	**In-Kind**	**Others**	**Total**	**In-Kind**	**Others**	**Total**	**2004–2005**
Balance of contributions receivable as at 1 January 2006	**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	847 212	4 408 254	**5 255 466**	985	37 568	**38 553**	848 197	4 445 822	**5 294 019**	**5 077 343**
Deferred Contributions	-	63 204	**63 204**	-	87 430	**87 430**	-	150 634	**150 634**	-
Receipts	(882 016)	(4 234 146)	**(5 116 162)**	(1 185)	(93 472)	**(94 657)**	(883 201)	(4 327 618)	**(5 210 819)**	**(5 127 313)**
Write-down of contribution receivable	(34 871)	(142 686)	**(177 557)**	(261)	(895)	**(1 156)**	(35 132)	(143 581)	**(178 713)**	**(266 325)**
Write-off of contribution receivable	-	(10)	**(10)**	-	-	**-**	-	(10)	**(10)**	**(2 843)**
Prior period adjustments	263	(1 040)	**(777)**	-	154	**154**	263	(886)	**(623)**	**(84 364)**
Other adjustments	(6 563)	(58 341)	**(64 903)**	1	21 800	**21 801**	(6 562)	(36 540)	**(43 103)**	**(26 310)**
Balance of contributions receivable as at 31 December 2007	**168 625**	**1 079 336**	**1 247 961**	-	**82 212**	**82 212**	**168 625**	**1 161 548**	**1 330 173**	**1 318 788**

62. In terms of the years in which pledges were confirmed, 84.4 percent and 10.4 percent of contributions receivable are from 2007 and 2006, respectively, and 5.2 percent is from 2005 and prior years as per the following aging schedule.

AGING OF CONTRIBUTIONS RECEIVABLE

	2007		2005	
	(US$ thousand)	%	*(US$ thousand)*	%
Year of confirmation:				
2007	1 122 055	84.4	-	-
2006	138 807	10.4	-	-
2005	53 339	4.0	945 723	71.7
2004	2 840	0.2	142 381	10.8
2003 and prior	13 132	1.0	230 684	17.5
Total	**1 330 173**	**100**	**1 318 788**	**100**

NOTE 7: LONG-TERM INVESTMENTS

63. 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 cost of the remaining STRIPS as at 31 December 2007 was US$55.2 million which consists of short-term and long-term portions of the investments. The market value of these STRIPS as at 31 December 2007 was US$88.9 million (US$75.6 million at 31 December 2005).

64. 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.

65. As at 31 December, the cost of the STRIPS are broken down as follows.

	(US$ thousand)
	2007
Cost of STRIPS at 31 December 2007	55 168
Less: Portion due to mature in less than 12 months and included as Short-Term Investments	1 527
Total Long-Term Investments, 31 December 2007	**53 641**

NOTE 8: BUILDINGS AND EQUIPMENT, FURNITURE AND VEHICLES

66. The cost of buildings, equipment, furniture and light and heavy vehicles are charged against expenditures and not capitalized. The total historical cost at 31 December 2007 is US$225 million (US$201.1 million at 31 December 2005).

67. During the biennium ended 31 December 2007, asset acquisitions amounted to US$65.1 million while assets disposed/written off totaled US$41.2 million (US$75 million and US$21.5 million, respectively, at 31 December 2005).

NOTE 9: ACCOUNTS PAYABLE

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

	(US$ thousand)	
	2007	**2005**
Vendor payable [a)]	96 839	63 776
TPA payables:		
Payables to United Nations and other organizations	-	26 707
Cargo preference	-	6 152
Despatch to be offset by demurrage	-	130
Insurance recoveries payable to donors	26 072	21 794
Payable to donors from closed projects	50 446	40 769
Unrealized VAT - liability	30 503	4 107
Treasury clearing account	1 533	12 154
Other accounts payable	19 307	35 357
Due to Staff Benefit Fund (see Note 12A3)	10 211	3 953
Unfunded Staff Liabilities [b)] (see Note 12C)	82 713	
Advances to projects from Working Capital Financing	75 259	57 567
DSC advance to be recovered from project funds	-	10 521
Subtotal	**392 883**	**282 987**
Less eliminating entries:		
Advances to projects from working capital financing	75 259	57 567
DSC advance to be recovered from project funds	-	10 521
Total	**317 624**	**214 899**

[a)] US$73.2 representing accrued expenditures that were reported as part of vendor payable at 31 December 2005 is now reported separately as accrued expenditures under Statement II.

[b)] Staff liabilities will be disclosed as “Provisions” under IPSAS.

69. With effect from the 2006–2007 biennium, DSCAF advances and recoveries to/from projects are recorded directly as a transfer to/from Reserves.

NOTE 10: ACCRUED EXPENDITURES

70. With effect from the 2006–2007 biennium, accrued expenditures are presented as a separate category under Current Liabilities under Statement II. In prior biennia, accrued expenditures were reported under Accounts Payable and Outstanding Obligations.

71. Total accrued expenditures at 31 December 2007 are broken down as follows.

	(US$ thousand)	
	2007	**2005**
Goods and services received	196 940	73 164
Staff benefit liabilities (Note 12C)	25 659	-
Other accruals	-	8 700
Total	**222 599**	**81 864**

NOTE 11: DEFERRED CONTRIBUTIONS

72. During the 2006–2007 biennium, some donors stipulated that multi-year contributions confirmed in 2006–2007 are to be utilized in future years. For the biennium ended 31 December 2007, such deferred contributions totaled US$150.6 million (see Note 2E1d).

NOTE 12: STAFF LIABILITIES

73. As reported under Note 2I and in line with the decision taken by the United Nations to accrue end-of-service liabilities, WFP has adopted an accounting policy of recognizing all staff liabilities for after-service and other staff benefits with effect from the 2006–2007 biennium. This is also in accordance with the information provided by WFP to the Board (WFP/EB.1/2008/6-B/1) that such liabilities would be accrued as at 31 December 2007, in advance of full implementation of IPSAS in 2008. These liabilities are presented under the Staff Benefit Funds (see Note 12A), consistent with prior biennium presentation, and under Other Staff Liabilities.

12A. Staff Benefit Funds

74. Eligible WFP staff members are entitled to certain benefits upon separation from service. The Staff Benefit Funds (SBF) comprises the After-Service Medical Coverage Plan (ASMCP), the Separation Payments Scheme (SPS), and the Compensation Plan Reserve Fund (CPRF). WFP liabilities arising from staff being entitled to these benefits were determined by consulting professional actuaries using economic and demographic assumptions that were specific to WFP to determine the value of these after-service liabilities.

⇒ *12A1. Definitions*

75. The ASMCP is a plan that allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP). The 2007 Actuarial Valuation Report concluded that the ASMCP accrued liability balance as at 31 December 2007 was US$150.5 million.

76. SPS is a plan for all general service staff at the Rome duty station that funds severance pay upon separation from service. The 2007 Actuarial Valuation Report concluded that the SPS accrued liability balance as at 31 December 2007 was US$19.7 million.

77. 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 2007 Actuarial Valuation Report concluded that the CPRF accrued liability balance as at 31 December 2007 was US$3 million.

⇒ *12A2. Statement of Income and Expenditures*

78. The Statement of Income and Expenditures of the SBF for the three plans (ASMCP, SPS, and CPRF) at 31 December is shown below.

	(US$ thousand)	
	2007	**2005**
INCOME		
Investment income (net of investment fees)	16 440	12 330
Contribution from WFP		
Funded	20 298	3 420
Unfunded	62 327	-
Revaluation gain (loss)	497	(84)
Total Income	**99 562**	**15 666**
EXPENDITURES		
Benefit payments	5 824	3 411
Actuarial fees	85	67
Total Expenditures	**5 909**	**3 478**
EXCESS OF INCOME OVER EXPENDITURES	93 653	12 188
Fund balance, beginning of period	79 550	67 362
FUND BALANCE, END OF PERIOD	**173 203**	**79 550**

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

79. The Statement of Assets and Fund Balance of the three plans at 31 December is shown below.

	(US$ thousand)	
	2007	**2005**
ASSETS		
Due from WFP (see Note 9)		
Funded	10 211	3 953
Unfunded	62 327	-
Investments		
Bonds	53 533	42 549
Equities	47 132	33 048
	100 665	75 597
Total Assets	**173 203**	**79 550**
FUND BALANCE		
Fund balance	**173 203**	**79 550**

80. Investments for the SBF are made based on an asset-liability study with 60 percent of the portfolio invested in global fixed income securities and 40 percent invested in global equities. The SBF is managed by two external investment fund managers under mandates that reflect the long-term nature of the liabilities for which the investments are made.

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

⇒ *12A4. Staff Benefit Funds Assets and Actuarial Liabilities*

82. As at 31 December 2007, the total value of assets of the SBF is equal to the actuarial liabilities reflecting the change in accounting policy that all liabilities for after-service and other employee benefits shall be accrued at the end of the financial period. The details are as follows.

	(US$ thousand)	
	2007	**2005**
Total assets at 31 December	**173 203**	**79 550**
Less actuarial valuation of liabilities:		
After-Service Medical Plan	150 501	94 617
Separation Payments Scheme	19 683	13 650
Staff Compensation Plan	3 019	2 941
Total liabilities	**173 203**	**111 208**
Excess of actuarial liabilities over assets	**-**	**31 658**

83. Past service liability has increased to US$173.2 million as at 31 December 2007 (US$111.2 million at 31 December 2005). For the After-Service Medical Plan, past service liability has increased due to several factors, including: (i) additional service accruals for active participants; (ii) projected future mortality rate improvements; (iii) an increase in the rate at which claims are assumed to increase with age; (iv) increases in medical claim costs; (v) liability for post-retirement benefits for currently active staff members being attributed over a shorter period; and (vi) expected medical claims being based on a two-year average of costs of medical claims and adjusted to reflect current exchange rates.

84. With respect to the Separation Payments Scheme, the increase in past service liability was mainly due to higher-than-expected pay increases for General Service staff members based in Rome, the strengthening of the Euro relative to the United States dollar and increase in the active headcount and average service.

85. The Staff Compensation Plan liability has remained at a similar level to the 2005 valuation.

86. The 2007 Actuarial Valuation Report estimated that the 2008 service cost for the SBF is US$11 million.

12B. Other Staff Liabilities

87. Other staff liabilities consist of other separation-related benefits (such as accrued leave, death grant and repatriation grant) and other liabilities (such as education grant, home leave travel, accrued leave and other field staff liabilities). Other separation-related liabilities arise as a result of termination of employment, either voluntarily or involuntarily, such as death, while other liabilities comprise those benefits that are availed of by employees while in service. As at 31 December 2007, other staff liabilities totaled US$46 million, of which US$20 million were calculated by professional actuaries and US$26 million calculated by WFP based on personnel data and past payment experience.

88. The 2007 Actuarial Valuation Report estimated that the 2008 service cost for other separation-related benefits is US$2 million.

12C. Summary of Accrued Staff Liabilities

89. As at 31 December 2007, after service benefits and other employee benefits liabilities totaled US$219.2 million. Of this amount, US$108.4 million is unfunded. Details of these accrued staff liabilities are as follows.

	(US$ thousand)				
	Actuarial Valuation	**WFP Valuation**	**Total Staff Liability**	**Funded Liability**	**Unfunded Liability**
Staff Benefit Funds					
After-Service Medical	150 501	-	150 501	90 654	59 847
Separation Payments Scheme	19 683	-	19 683	19 683	-
Staff Compensation Plan	3 019	-	3 019	539	2 480
Total	**173 203**	**-**	**173 203**	**110 876**	**62 327**
Other Staff Liabilities					
a) Other separation-related benefits					
Accrued Leave [a)]	3 720	-	3 720	-	3 720
Death Grant	1 537	107	1 644	-	1 644
Repatriation Grant	14 829	-	14 829	-	14 829
Other Field Staff Liabilities	-	193	193	-	193
Subtotal	**20 086**	**300**	**20 386**	**-**	**20 386**
b) Other Liabilities					
Accrued Leave [b)]	-	16 615	16 615	-	16 615
Education Grant	-	4 138	4 138	-	4 138
Home Leave Travel	-	4 906	4 906	-	4 906
Subtotal	**-**	**25 659**	**25 659**	**-**	**25 659**
Total	**20 086**	**25 959**	**46 045**	**-**	**46 045**
Total Staff Liabilities	**193 289**	**25 959**	**219 248**	**110 876**	**108 372**

Breakdown of Unfunded Staff Liabilities:		
After-service and other separation-related liabilities reported under Accounts Payable (see Note 9)		
Staff Benefit Funds	**62 327**	
Other separation-related benefits	**20 386**	**82 713**
Staff liabilities relating to current benefits and reported under Accrued Expenditures (see Note 10)		**25 659**
Total		**108 372**

[a)] Value of accrued leave due to staff due on separation.

[b)] Value of accrued leave for WFP staff including fixed-term national staff while in service.

12D. United Nations Joint Staff Pension Fund

90. 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 had not invoked this provision.

NOTE 13: RESERVES

91. 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	**2007**	**2005**
Operational Reserve	13A	51 089	57 000
Immediate Response Account	13B	41 495	30 768
DSC Advance Facility	13C	38 964	49 479
PSA Equalization Account	13D	8 589	122 106
Staff Cost Variance Equalization Account	13E	-	-
Total		**140 137**	**259 353**

92. The net movements in reserves in 2006–2007 are summarized as follows.

		(US$ thousand)
Balance, 01 January 2006		**259 353**
Reduction in reserves in 2006–2007:		
Net transfers from reserves (Note 17B)	(109 942)	
IRA movements in 2006–2007 (net)	(9 274)	
Total net reduction		(119 216)
Balance, 31 December 2007		**140 137**

13A. Operational Reserve and Working Capital Financing

93. 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.

94. At its Thirty-Eighth Session in 1994, the Board (formerly the Committee of Food Aid Policies and Programmes (CFA)), 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.

95. In February 2005, the Board approved (2005/EB.1/7) the 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 and the use of the Operational Reserve to cover cases where a working capital advance is made but the forecasted contribution used as collateral for the advance does not materialize.

96. During the 2006–2007 biennium, the Executive Director approved the write-off of outstanding working capital financing granted to one of the 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 a 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.

97. 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.

98. For the biennium ended 31 December 2007, the balance of advances made to WFP projects from the Working Capital Financing (WCF) amounted to US$75.3 million, as detailed below.

	(US$ thousand)	
Balance, 01 January 2006		**57 567**
Add (deduct):		
Advances during the biennium	121 996	
Recoveries from projects	(98 379)	
DRC WCF loan repayment from the Operational Reserve	(5 925)	17 692
Balance, 31 December 2007		**75 259**

13B. Immediate Response Account

99. The Immediate Response Account (IRA) was established by the CFA in December 1991 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).

100. 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.

101. The movements during the biennium ended 31 December were as follows.

	(US$ thousand)	
	2007	**2005**
Opening balance	**30 768**	**32 671**
Add (deduct):		
Funding from PSA Equalization Account [a)]	20 000	20 000
Replenishments – new contributions	59 741	43 472
Revolved – recovered from projects	214 541	95 831
Used for projects	(283 555)	(161 206)
Balance, 31 December	**41 495**	**30 768**

[a)] For the 2006–2007 biennium, 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

102. In January 1999, the Board approved the use of the General Fund as a guarantee mechanism to advance DSC as the need arises, to enable the Executive Director to ensure continued financing of DSC pending the confirmation of contributions. The DSCAF with an approved level of US$60 million is the guarantee mechanism to implement projects that are awaiting DSC contributions (2003/EB.3/6).

103. As reported to the Board in 2005 (WFP/EB.A/2005/6-E/1), the scope of the usage of DSCAF was expanded to include ODOC.

104. The movements in the DSCAF during the biennium ending 31 December 2007 are shown below.

	(US$ thousand)
Balance, 01 January 2006	**49 479**
Less:	
Advances to projects and Special Accounts – net of recoveries	(10 515)
Balance, 31 December 2007	**38 964**

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

	(US$ thousand)	
	2007	**2005**
Opening balance	**10 520**	**15 934**
Add advances made during the biennium	111 677	186 738
Less recoveries against advances	(101 162)	(192 152)
Balance, 31 December	**21 035**	**10 520**
AGING PER YEAR:		
2007	19 551	-
2006	955	-
2005	529	9 182
2004 and prior	**-**	1 338
Total	**21 035**	**10 520**

13D. Programme Support and Administrative Cost Equalization Account

106. 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 2006–2007, the movements in this account were as follows.

		(US$ thousand)
Balance, 01 January 2006		**122 106**
Approved utilization by the Board:		
IPSAS implementation Project [a)]	(3 700)	
Transfer to IRA [a)]	(20 000)	
WINGS II Project [b)]	(15 000)	
Other Capital Asset Fund [b)]	(4 000)	
Results Based Management [c)]	(3 500)	
Strengthening Financial Management [c)]	(2 000)	
Staff Costs Variances [d)]	(45 481)	
		(93 681)
Transfer from current biennium PSA fund balance [e)]		(19 836)
Balance, 31 December 2007		**8 589**

a) 2006/EB.A/16
b) 2005/EB.2/9 (v)
c) 2005/EB.2/9 (vi)
d) 2007/EB.1/5 (i)
e) 2005/EB.2/9 (ii)

13E. Staff Cost Variance Equalization Account

107. Staff costs are charged at standard costs during the financial period. All variances between the standard and actual costs are transferred to the Staff Cost Variance Equalization Account.

108. During the biennium ended 31 December 2007, actual staff costs were greater than standard costs by US$83.2 million (staff costs variance for the 2004–2005 biennium was US$79.2 million). This variance is attributable to the following factors: (i) changes to the salary scale for both professional and general service staff (the general service salary scale increased by more than 12 percent following a cost of living survey); (ii) changes to the amount, timing and number of staff allowances, the main change of which was the introduction of the SOLA (special operations living allowance); (iii) changes to the average step in grade for a given grade; (iv) changes in the number and cost of staff reassignments; (v) exchange rate fluctuations which increased the post adjustment in the majority of duty stations; and (vi) current service costs for staff benefit funds.

109. As these represent additional staff costs incurred, the US$83.2 million unfavourable staff cost variance was charged as expenditures under the PSA and the General Fund in the amounts of US$45.5 million and US$37.7 million, respectively.

NOTE 14: SUPPORT COSTS

110. The DSC and PSA for the biennium ended 31 December 2007 consist of the following.

SUPPORT COSTS – DSC AND PSA
FOR THE BIENNIUM ENDED 31 DECEMBER 2007
(US$ thousand)

	Programme Category DSC	General Fund and Special Accounts			Bilateral Operations and Trust Funds	Total	Prior Biennium 2004–2005 (Adjusted)
		PSA	DSC	Total			
Staff costs*	438 086	363 122	97 789	460 911	66 493	965 490	769 194
Non-staff costs	130 218	60 518	72 448	132 966	12 557	275 741	278 326
Total Support Costs	**568 304**	**423 640**	**170 237**	**593 877**	**79 050**	**1 241 231**	**1 047 520**

***** 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$14.9 million for the biennium ended 31 December 2007 (US$12.6 million in 2004–2005) which were incurred and disclosed within the ODOC cost element. Total staff cost for the biennium ended 31 December 2007 amounted to US$980.4 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$22.2 million (US$26.2 million in 2004–2005) eliminated entries from the support cost amount of US$1241.2 million (US$1047.5 million in 2004–2005) shown in Statement I.

Analysis of total:				(US$ thousand)
Direct support costs:	Total	Less: Elimination	Balance	
Programme Category DSC	586 084	17 780	568 304	
General Fund and Special Accounts	172 290	2 053	170 237	
Bilateral Operations and Trust Funds	79 519	469	79 050	817 591
Programme support and administration	425 513	1 873		423 640
TOTAL	**1 263 406**	**22 175**		**1 241 231**

NOTE 15: CONTRIBUTION ADJUSTMENTS

111. Contribution adjustments refer to transactions during the 2006–2007 biennium that are not treated as part of current income and expenditure. For the biennium ended 31 December 2007, 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	39 278	-	-	39 278	79 194
Unused fund balances –refunded	15 396	-	55 739	71 135	56 496
Unused fund balances – refundable	10 006	-	-	10 006	40 769
Write-off of contribution receivables	10	-	-	10	2 843
Write-down of contribution receivables	177 557	1 156	-	178 713	266 331
Total	**242 247**	**1 156**	**55 739**	**299 142**	**445 633**

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

113. 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. Where donors have requested that funds be transferred to their bilateral general accounts, such transfers are treated as refunds.

114. 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.

115. 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 ADJUSTMENTS

116. 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 2006–2007, 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	777	(154)	(767)	(145)
Clearing of GR/IR and other invalid payables	(6)	(5 294)	-	(5 300)
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	-	6 309
Adjustment of 2005 interest income on long-term investment that should be recorded in the General Fund	-	(6 309)	-	(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	1,352	1 131	(2 483)	-
Others	7	(80)	-	(73)
Total	**(5 236)**	**(752)**	**5 006**	**(982)**

NOTE 17: TRANSFERS OF FUNDS

17A. Transfers Between Funds and Accounts

117. During the biennium ended 31 December 2007, the following transfers were made between funds and accounts.

	(US$ thousand)			
	Programme Category Funds	**General Fund and Special Accounts**	**Bilateral and Trust Funds**	**Total**
Funds transferred from:				
Programme Category Funds				
Development projects	3 281	-	-	3 281
Protracted Relief and Recovery	2 035	-	-	2 035
Emergency Relief	3 953	-	-	3 953
Special Operation	20	-	-	20
General Fund and Special Accounts				
Allocation from the General Fund (EB decisions)	-	56 891	-	56 891
Other General Fund transfer	-	343	-	343
Emergency Donor matching fund	-	7 106	-	7 106
Multilateral and unallocated contributions used by projects	-	3 578	-	3 578
Global Logistics Cluster	-	425	-	425
Self-Insurance Account	-	15 000	-	15 000
Allocation from PSA	-	40	-	40
Subtotals	**9 289**	**83 383**	**-**	**92 672**
Fund transferred to:				
Programme Category Funds				
Development Projects	3 327	-	-	3 327
Protracted Relief and Recovery	4 787	-	-	4 787
Emergency Relief	4 374	-	-	4 374
Special Operations	195	-	-	195
General Fund and Special Accounts				
PSA	-	1 425	-	1 425
UN Dept Safety & Security	-	20 604	-	20 604
WINGS II	-	33 644	-	33 644
Separation scheme	-	15 000	-	15 000
Walk the World	-	2 643	-	2 643
Ending Child Hunger	-	40	-	40
ICT Special Account	-	194	-	194
UN Interagency Global Fleet Forum	-	3	-	3
UN Joint Logistics	-	422	-	422
Fund balances transferred to the Donors Bilateral Accounts	-	-	6 014	6 014
Subtotals	**12 683**	**73 975**	**6 014**	**92 672**
Net transfers between fund and accounts	**3 394**	**(9 408)**	**6 014**	**-**

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

17B. Transfers to/from Reserves

119. The net transfers from reserves of US$ 109.9 million consisted of:

	(US$ thousand)		
	Programme Category Funds	**General Fund and Special Accounts**	**Total**
Transfers from reserves for:			
From DSCAF			
From DSCAF to projects – net of recoveries	(1 661)	-	(1 661)
Ending Child Hunger	-	390	390
Global Vehicle Leasing Project	-	10 178	10 178
Local Staff Insurance S/A	-	1 608	1 608
From PSA Equalization Account to:			
IRA [a)]	-	20 000	20 000
IPSAS implementation project [b)]	-	3 700	3 700
WINGS II Project [c)]	-	15 000	15 000
Other Capital Asset Fund [c)]	-	4 000	4 000
Results Based Management [d)]	-	3 500	3 500
Strengthening Financial Management [d)]	-	2 000	2 000
Staff Costs Variance [e)]	-	45 480	45 480
WCF Loan – Operational Reserve	5 911	-	5 911
Subtotal	**4 250**	**105 856**	**110 106**
Transfer to reserves from:			
PSA Equalization Account – transfer of PSA deficit [f)]	-	19 836	19 836
PSA Equalization Account – transferred to IRA [a)]	-	(20 000)	(20 000)
Subtotal	**-**	**(164)**	**(164)**
Net transfers from reserves	**4 250**	**105 692**	**109 942**

[a)] 2006/EB.A/16 (b)
[b)] 2006/EB.A/16 (c)
[c)] 2005/EB.2/9 (v)
[d)] 2005/EB.2/9 (vi)
[e)] 2007/EB.1/5 (i)
[f)] 2005/EB.2/9 (ii)

NOTE 18: GENERAL FUND AND SPECIAL ACCOUNTS

120. The General Fund and Special Accounts for the biennium ended 31 December 2007 consist of the items shown in the following pages.

121. 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 BIENNIUM ENDED 31 DECEMBER 2007
(US$ thousand)

	Programme Support and Administrative Costs	Government Counterpart Cash Contribution	Capital Asset Fund	IPSAS Project	Private Sector Contributions in Kind	Multilateral and Unallocated Contributions	Unfunded Staff Liabilities	Other General Fund	Total General Fund	Total Special Accounts	TOTAL WFP Fund
INCOME											
Cash contributions	-	-	-	-	-	1 777	-	409	2 186	31 735	33 921
Services-in-kind contributions	-	-	-	-	923	(155)	-	-	768	217	985
Government cash contributions for local cost	-	3 647	-	-	-	-	-	-	3 647	-	3 647
Interest	-	-	-	-	-	-	-	74 233	74 233	12 723	86 956
Currency exchange adjustments	13 837	(2)	(183)	(6)	-	737	-	11 058	25 441	147	25 587
Miscellaneous income	-	-	-	-	-	-	-	30 992	30 992	148 686	179 677
Transfer of ISC contributions to General Fund	327 677	-	-	-	-	(210)	-	(409)	327 058	(1 665)	325 392
TOTAL INCOME	**341 513**	**3 645**	**(183)**	**(6)**	**923**	**2 149**	**-**	**116 283**	**464 325**	**191 842**	**656 166**
EXPENDITURE											
Commodities purchased								-	-	239	239
Ocean transport and related costs								-	-	25	25
Landside transport, storage and handling	-	4	-	-	-	-	-	130	134	218	353
Other direct operational costs	-	-	-	-	-	-	-	170	170	110 893	111 063
Direct support costs	-	1 816	22 454	1 258	967	-	-	50 492	76 988	95 303	172 289
Programme support and administration	425 513	-	-	-	-	-	-	-	425 513	-	425 513
TOTAL EXPENDITURE	**425 513**	**1 820**	**22 454**	**1 258**	**967**	**-**	**-**	**50 791**	**502 805**	**206 679**	**709 483**
Excess/(shortfall) of income over expenditures	**(84 000)**	**1 826**	**(22 637)**	**(1 265)**	**(44)**	**2 149**	**-**	**65 492**	**(38 480)**	**(14 837)**	**(53 317)**
Fund balances, beginning of period	11 169	1 770	9 321	-	44	29 056	-	19 348	70 708	115 193	185 901
Contributions adjustments	-	-	-	-	-	(644)	-	(1)	(645)	(511)	(1 156)
Write-off of accounts receivable	-	-	-	-	-	-	-	(4 509)	(4 509)	-	(4 509)
Prior period adjustments	2 630	(850)	(2 935)	-	-	(11)	-	12 694	11 528	(10 776)	752
Unfunded staff liability	-	-	-	-	-	-	(108 372)	-	(108 372)	-	(108 372)
Transfers between funds and accounts	1 385	-	-	-	-	(3 578)	-	(42 233)	(44 426)	35 019	(9 408)
Transfers from reserves	68 817	-	19 000	3 700	-	-	-	2 000	93 517	12 175	105 692
FUND BALANCES, END OF PERIOD	-	**2 745**	**2 749**	**2 435**	-	**26 972**	**(108 372)**	**52 791**	**(20 680)**	**136 263**	**115 583**

SPECIAL ACCOUNTS
SPECIFICATION OF INCOME AND EXPENDITURES
FOR THE BIENNIUM ENDED 31 DECEMBER 2007
(US$ thousand)

	Notes	Fund balances, beginning of period (Adjusted)	Income	Expenditures	Prior period and other adjustments [a]	Fund balances, end of period
TC/IT Standby Equipment and Services	18A	10 261	40 855	(39 267)	(4 336)	7 513
UNHRD	18B	9 731	18 463	(13 988)	(256)	13 951
Aviation Special Account	18C	14 420	75 939	(80 536)	(2)	9 822
Self-Insurance Account	18D	29 671	19 976	(14 532)	(14 938)	20 177
Advocacy Special Account [b]	18E	715	3 128	(5 138)	2 643	1 347
Emerging Donors Matching Fund	18F	41 199	4 171	(66)	(7 106)	38 198
Long-Term Loan and Investment	18G	6 309	4 240	(4 240)	(6 309)	-
JPO Fees	18H	370	1 316	(1 182)	-	504
UN Joint Logistic Centre	18I	1 016	1 327	(2 162)	172	352
Ending Child Hunger and Undernutrition	18J	1 475	241	(2 108)	430	38
Logistics Award	18K	24	2	(1)	-	25
Local SC/SSA Staff Insurance	18L	-	8 203	(3 351)	1 608	6 460
Inter-Agency Global Fleet Forum	18M	-	811	(300)	3	514
UN Dept Safety & Security	18N	-	-	(20 551)	20 604	53
Global Logistics Cluster	18O	-	8 628	(3 054)	(425)	5 149
Global Vehicle Leasing Programme	18P	-	3 658	(9 466)	10 177	4 370
Private Donor Relations	18Q	-	527	-	-	527
WINGS II Project	18 R	-	357	(6 737)	33 643	27 263
TOTAL SPECIAL ACCOUNTS		**115 193**	**191 842**	**(206 679)**	**35 908**	**136 263**

[a] Includes transfers, contribution adjustments and transfers between funds and accounts
[b] Walk the World Special Account is now part of the Advocacy Special Account

122. The Special Accounts are described below.

18A. TC/IT Standby Equipment and Services

123. The Telecommunications and Information Technology (TC/IT) Special Account Standby Equipment and Services Special Account was established by the Executive Director effective January 2000, to be used for financing standby 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 Information and Communications Technology Division, Administration Department (ADI) in Rome and through the Fast Information Technology and Telecommunications Emergency Support Team (FITTEST) in Dubai.

124. Effective 2006, the Dubai office is now called Field Emergency and Support Office (FESO). It 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 Response Depot

125. The United Nations Humanitarian Resource Depot (UNHRD) Special Account was established to account for the transactions affecting the operations of UNHRDs. The depots are operated for a consortium of United Nations humanitarian agencies and NGOs that provide services to other parties under separate contractual agreements.

126. 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

127. 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.

128. Through this Special Account, WFP also administers air transport services for humanitarian and other activities for United Nations 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.

129. 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 1 January 2006. Accordingly, the balance of the trust fund has been transferred to the Aviation Special Account.

18D. International Cargo Self-Insurance Account

130. 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$0.8 million per consignment, or US$1.5 million per vessel.

131. 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

132. 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.

133. During the 2006–2007 biennium, the Walk the World Special Account was incorporated under the Advocacy Special Account.

18F. Emerging Donor Matching Fund

134. In October 2002, the Board approved the use of US$39.7 million excess of loan proceeds over expected repayments to fund in part the Executive Director's expenditure plan (2002/EB.3/5). The Executive Director established the Emerging Donor Matching Fund (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. Long-Term Loan and Investment

135. 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$164.1 million, of which US$106 million would be used to cover the costs of commodities and US$58.1 million for transport and other related costs. WFP then purchased commodities valued at US$106 million against a long-term loan contract with a government agency of the donor country. The loan is payable over 30 years and interest on the loan is at the rate of 2 percent per year for the first ten years and 3 percent per year on the declining balance each year thereafter.

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 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 JPO Fees Special Account 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. United Nations Joint Logistics Centre

138. The United Nations Joint Logistics Centre (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 United Nations 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. Ending Child Hunger and Undernutrition

140. During its Second Regular Session in 2005, the Board took note of the concept paper on the "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 the initiative (2005/EB.2/2 (i)).

141. The Ending Child Hunger 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.

18K. Logistics Award

142. A private donor provided funds to WFP, which was matched by WFP, for the purpose of providing an annual cash award to a deserving WFP staff for "Excellence in Humanitarian Logistics" or more specifically, for exceptional service in designing and carrying out effective delivery of food aid in humanitarian interventions.

143. The purpose of the Logistics Award 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.

18L. Local SC/SSA Staff Insurance

144. 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.

145. The purposes of this Special Account 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; and
- to provide death grants for staff who die as a result of causes not covered by the AGF-Vanbreda policy

18M. Inter-Agency Global Fleet Forum

146. The Fleet Forum is a joint initiative taken by the International Federation of the Red Cross, WFP and World Vision International. In addition, one of WFP's partners from the private sector is involved in the Fleet forum, providing funds for the position of the

Fleet Forum Coordinator and various projects initiated by the Fleet Forum and the annual Fleet Forum Conference.

147. 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.

18N. Department of Safety and Security

148. This Special Account was established through Executive Director Circular ED2006/002 dated 13 March 2006 to serve as a funding mechanism to bring the cost of security and funding to the attention of Member States and to foster their support in the General Assembly for future central funding through the United Nations Regular Budget.

149. The Special Account will be funded from directed donor cash contributions, approved transfers from donor funds or other funds and interest income on funds retained in the Special Account. When funding is not secured from the aforementioned sources, WFP may utilize approved allocation from the General Fund following Board approval or from DSC contributions based on headcount or agreed standard rate.

18O. Global Logistics Cluster

150. 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.

18P. Global Vehicle Leasing Pool and Self-Insurance Scheme

151. The Global Vehicle Leasing Programme (GVLP) and Self-Insurance Scheme (SIS) were established in March 2007 to streamline WFP's vehicle procurement, reduce administration and country office costs and provide flexibility in managing the vehicle fleet. With respect to the SIS, country offices are required to purchase comprehensive and global third party insurance for light vehicles through SIS.

152. Funding for GVLP to pre-finance its activities will be advanced by the DSCAF in an amount not exceeding US$20 million and spread over four years starting in 2007, recoveries of which will commence on the sixth year or when GVLP has sufficient income from leasing contracts to cover ongoing costs, restock the fleet and obtain spare parts. As at 31 December 2007, the amount advanced was US$10.2 million.

18Q. Private Donor Relations

153. The Private Donor Relations Special Account was established in 2007 to account for a certain percentage of private donations that have been set aside to offset the costs of raising resources from private donors. Funds generated will be used to support human resources and private-sector fundraising efforts.

18R. WINGS II Project

154. The WINGS II project is the coordinated upgrade of WFP's work processes and information systems to support WFP management capabilities. A Special Account was established in 2007 to account for allocations and contributions from donors as well as expenditures relating to the project.

NOTE 19: BILATERAL OPERATIONS AND TRUST FUNDS

155. The Bilateral Operations and Trust Funds for the biennium ended 31 December 2007 consisted of the following.

BILATERAL OPERATIONS AND TRUST FUNDS
SPECIFICATION OF INCOME AND EXPENDITURES
FOR THE BIENNIUM ENDED 31 DECEMBER 2007
(US$ thousand)

	Bilateral Operations*	Trust Funds	Bilateral Operations and Trust Funds
INCOME			
Cash contributions	3 282	290 972	294 254
Interest	1 965	5 927	7 892
Currency exchange adjustments	(409)	(201)	(610)
Transfer of indirect support cost contributions to General Fund	(1 147)	(5 206)	(6 353)
TOTAL INCOME INCLUDING TRANSFER	**3 691**	**291 492**	**295 183**
EXPENDITURE			
Commodities purchased	7 175	114 110	121 285
Commodities in-kind	-	2 585	2 585
Ocean transport and related costs	1 496	1 480	2 976
Landside transport, storage and handling	1 716	10 033	11 749
Other direct operational costs	5 285	24 929	30 214
Direct support costs	5 771	73 748	79 519
TOTAL EXPENDITURE	**21 443**	**226 886**	**248 328**
Excess (shortfall) of income over expenditure	**(17 752)**	**64 606**	**46 854**
Fund balances, beginning of period (adjusted)	150 516	69 750	220 266
Contribution adjustments	(54 251)	(1 488)	(55 739)
Prior period adjustments	(4 923)	(83)	(5 006)
Transfers between funds and accounts	6 014	-	6 014
FUND BALANCES, END OF PERIOD	**79 604**	**132 785**	**212 390**

* The Project Technical Support to the 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.

157. During the biennium ended 31 December 2007, the activities that created such inter-office balances were the following.

ELIMINATIONS
(US$ thousand)

A. Statement of Income and Expenditure and Changes in Reserves and Fund Balances

Income		**Expenditure**	
TC/IT Standby Equipment and Services Special Account	13 842	ODOC Project expenditures	27 277
Aviation Special Account	22 490	LTSH Project expenditures	14 490
UNHRD Special Account	4 183	DSC Project expenditures	20 302
Self-Insurance Account	9 714	PSA Expenditures	1 873
Advocacy Special Account	125		
Special Operations –Air Ops	3 755		
Health Insurance for Local Staff (SC/SSA)	6 649		
Global Vehicle Leasing Pool	3 184		
Total amount eliminated	63 942		**63 942**

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	75 259
Total amount eliminated	**75 259**

NOTE 21: COMMODITY LOANS AND BORROWINGS

158. 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.

159. 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).

160. 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, 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.

161. For the biennium ended 31 December 2007, commodity loans and borrowings totaled 104,518 mt valued at US$40.1 million using the latest indicative free on board (FOB) prices for WFP-supplied commodities as prescribed under Chief Financial Officer (CFO) Directive CFO2007/003 dated 25 September 2007. These loans and borrowings are between programme categories, between countries as well as between WFP and other United Nations agencies and cooperating partners.

NOTE 22: SEIZURE OF COMMODITIES AND OTHER ASSETS

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

163. In his letter of October 2006, the Executive Director informed the Government that its action was in violation of the Basic Agreement dated May 2000 and subsequent Letters of Understanding. The Executive Director also informed the Executive Board during its Second Regular Session in November 2006 of the integration of WFP commodities into the Government's cash-for-work programme.

164. In December 2006, WFP sent a letter to the Government demanding the restitution of food aid, either in cash or in kind. No such restitution was made by the Government.

165. WFP is reviewing the merits of the limited alternatives of both arbitration and continued negotiations so that this claim can move towards a practical and substantial resolution.

NOTE 23: LEGAL OR CONTINGENT OBLIGATION

166. In the 2004–2005 Financial Statements, instances of fraud in a Regional Bureau were reported. The loss is estimated at US$6 million, in respect of which some financial liabilities could arise in relation to third parties. Such contingent liabilities may 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.

167. WFP is also in dispute with a transporter who has submitted claims which are considered by WFP to be exaggerated and largely unsubstantiated. The offer of settlement by WFP was refused by the transporter. On the basis of the advice from external lawyers, the potential WFP liability is limited and would be covered by funds retained by WFP.

168. 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

ADI	Information and Communications Technology Division, Administration Department
AGF	*Assurances Générales de France*
ASMCP	After-Service Medical Coverage Plan
BMIP	Basic Medical Insurance Plan
CAF	Capital Asset Fund
CFA	Committee on Food Aid Policies and Programmes
CFO	Chief Financial Officer
CLC	cash in lieu of commodities
CPRF	Compensation Plan Reserve Fund
DRC	International Development Research Centre
DSC	direct support costs
DSCAF	Direct Support Cost Advance Facility
ECOSOC	Economic and Social Council of the United Nations
ED	Executive Director
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
FESO	Field Emergency and Support Office
FITTEST	Fast Information Technology and Telecommunications Emergency Support Team
FOB	free on board
GCCC	government counterpart cash contribution
GR/IR	good receipts/invoice receipts
GVLP	Global Vehicle Leasing Program
HLCM	High-Level Committee on Management
IASC	Inter-Agency Standing Committee
IASC-WG	Inter-Agency Standing Committee-Working Group
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
ODOC	other direct operational cost
ODT	Transport Division, Operations Department
PO	purchase order
PSA	Programme Support and Administrative (costs)
RBM	results-based management
SBF	Staff Benefit Funds
SC/SSA	service contract/special service agreement
SIA	Self-Insurance Account
SIS	self-insurance scheme
SOLA	special operations living allowance
SPS	separation payment 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
UNJLC	United Nations Joint Logistics Centre
UNJSPF	United Nations Joint Staff Pension Fund
VAT	value-added tax
WCF	working capital financing
WINGS	WFP Information Network and Global System