

برنامج  
الأغذية  
العالمي



Programme  
Alimentaire  
Mondial

World  
Food  
Programme

Programa  
Mundial  
de Alimentos

**Executive Board  
Annual Session**

**Rome, 12–16 June 2006**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For approval*



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4 May 2006

ORIGINAL: ENGLISH

## **AUDITED BIENNIAL ACCOUNTS (2004–2005): SECTION II**

**Opinion of the External Auditor on the  
Audited Financial Statements (2004–2005)**

## 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 (CFO):	Ms G. Casar	tel.: 066513-2885
Deputy Director, Finance Division:	Mr E. Whiting	tel.: 066513-2701
Chief, General Accounts Branch:	Mr A. Diaz	tel.: 066513-2230

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).



UNITED NATIONS WORLD FOOD PROGRAMME  
FINANCIAL STATEMENTS 2004 - 2005

OPINION OF THE EXTERNAL AUDITOR

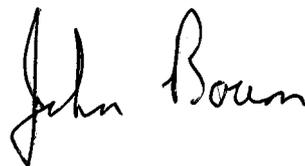
My staff audited the accompanying financial statements comprising Statements I to III and supporting Notes of the United Nations World Food Programme for the financial period ended 31 December 2005. These financial statements are the responsibility of the Executive Director of the United Nations World Food Programme. My responsibility is to express an opinion on these financial statements based on my audit.

The audit was conducted in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency and conforming to International Standards on Auditing. These standards require that the audit be planned and performed 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.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the World Food Programme at 31 December 2005 and the results of its operations and its cash flows for the period then ended in accordance with the United Nations System Accounting Standards.

Further, in my opinion, the transactions of the World Food Programme that my staff 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.



**Sir John Bourn**

Comptroller and Auditor General, United Kingdom  
External Auditor

National Audit Office  
London

April 2006





## World Food Programme

### Certification of Financial Statements 2004-2005 Biennium

- Statement I - Statement of Income and Expenditure and Changes in Reserves and Fund Balances for the Biennium Ended 31 December 2005
- Statement II - Statement of Assets, Liabilities and Reserves and Fund Balances as at 31 December 2005
- Statement III - Statement of Cash Flow for the Biennium Ended 31 December 2005

#### 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.

A handwritten signature in cursive script that reads "James Morris".

James T. Morris  
Executive Director

Rome, 31 March 2006



**STATEMENT I**  
**STATEMENT OF INCOME AND EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE BIENNIUM ENDED 31 DECEMBER 2005**  
**(US\$ thousand)**

	Notes	Programme Category Funds	General Fund and Special Accounts (Note 19)	Bilateral Operations and Trust Funds (Note 20)	Eliminations (Note 21)	Total WFP Fund	Prior Period 2002-2003 (Adjusted)
<b>INCOME</b>							
Commodity in-kind contributions	2E1a	955 605	-	13 484	-	969 089	1 087 680
Services-in-kind contributions	2E1b	35 421	12 612	22 149	-	70 182	51 357
Other contributions	2E1c	3 999 261	57 422	1 081 606	-	5 138 289	3 599 980
Contribution from Office of Iraq Programme	14	17 022	-	-	-	17 022	913 084
Government cash contributions for local costs	2E1d	-	3 242	-	-	3 242	2 589
Interest		-	52 531	2 254	-	54 785	82 314
Currency exchange adjustments		(29 890)	(8 105)	49	-	(37 946)	60 075
Miscellaneous income		8 387	138 403	29 778	(81 105)	95 463	6 420
Transfer of indirect support cost contributions to General Fund	2E1e	(321 081)	366 335	(45 254)	-	-	-
<b>TOTAL INCOME INCLUDING TRANSFER</b>		<b>4 664 725</b>	<b>622 440</b>	<b>1 104 066</b>	<b>(81 105)</b>	<b>6 310 126</b>	<b>5 803 499</b>
<b>EXPENDITURE</b>							
Commodities in-kind		962 298	-	16 620	-	978 918	1 707 646
Commodities purchased		1 185 382	62	627 949	-	1 813 393	1 012 110
Ocean transport and related costs		524 472	13	97 986	-	622 471	438 191
Landside transport storage and handling		1 240 205	33	72 879	(35 416)	1 277 701	946 942
Other direct operational costs		338 581	68 959	39 301	(19 441)	427 400	234 562
Direct support costs	15	474 703	130 307	93 384	(26 248)	672 146	509 943
Programme support and administration	15	-	385 122	-	-	385 122	232 203
<b>TOTAL EXPENDITURE</b>		<b>4 725 641</b>	<b>584 496</b>	<b>948 120</b>	<b>(81 105)</b>	<b>6 177 151</b>	<b>5 081 597</b>
<b>Excess (shortfall) of income over expenditure</b>		<b>(60 916)</b>	<b>37 944</b>	<b>155 947</b>	<b>-</b>	<b>132 975</b>	<b>721 902</b>
<b>Fund balances, beginning of period</b>							
Contribution adjustments	16	1 642 893	107 320	81 841	-	1 832 054	1 893 794
Write-off of accounts receivable		(402 738)	(57)	(42 838)	-	(445 633)	(497 034)
Prior period adjustments		-	(4 713)	-	-	(4 713)	(256)
Savings on cancellation of prior period obligations	17A	(79 428)	(7 068)	(2 659)	-	(89 155)	(54 734)
Transfers between funds and accounts	17B	-	1 004	-	-	1 004	2 184
Transfers to reserves	18A	(7 941)	(10 663)	18 604	-	-	-
	18B	10 521	37 692	-	-	48 213	(233 802)
<b>FUND BALANCES, END OF PERIOD</b>		<b>1 102 391</b>	<b>161 459</b>	<b>210 895</b>	<b>-</b>	<b>1 474 745</b>	<b>1 832 054</b>



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 2005**  
**(US\$ thousand)**

	Notes	Programme Category Funds	General Fund and Special Accounts	Bilateral Operations and Trust Funds	Eliminations (Note 21)	Total WFP Fund	Prior Period 2002-2003 (Adjusted)
<b>ASSETS</b>							
Cash and short-term investments	4	463 458	430 731	236 050	-	1 130 239	907 362
Cash held in trust in Country Offices	5	-	-	20 578	-	20 578	59 228
Accounts receivable	6	74 433	210 961	1 753	(68 088)	219 059	153 859
Contributions receivable	7	1 288 701	30 087	-	-	1 318 788	1 748 600
Long-term investments	8	-	56 788	-	-	56 788	62 220
<b>TOTAL ASSETS</b>		<b>1 826 592</b>	<b>728 567</b>	<b>258 381</b>	<b>(68 088)</b>	<b>2 745 452</b>	<b>2 931 269</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>							
Accounts payable	10	168 928	172 820	14 403	(68 088)	288 063	97 844
Outstanding obligations	2E2	555 273	28 935	12 505	-	596 713	500 448
Funds held in trust in Country Offices	5	-	-	20 578	-	20 578	58 539
Total Current Liabilities		724 201	201 755	47 486	(68 088)	905 354	656 831
<b>Long-Term Loan</b>	19G	-	106 000	-	-	106 000	106 000
<b>TOTAL LIABILITIES</b>		<b>724 201</b>	<b>307 755</b>	<b>47 486</b>	<b>(68 088)</b>	<b>1 011 354</b>	<b>762 831</b>
<b>RESERVES AND FUND BALANCES</b>							
Reserves	13	-	259 353	-	-	259 353	336 384
Fund balances		1 102 391	161 459	210 895	-	1 474 745	1 832 054
<b>TOTAL RESERVES AND FUND BALANCES</b>		<b>1 102 391</b>	<b>420 813</b>	<b>210 895</b>	<b>-</b>	<b>1 734 098</b>	<b>2 168 438</b>
<b>TOTAL LIABILITIES, RESERVES AND FUND BALANCES</b>		<b>1 826 592</b>	<b>728 568</b>	<b>258 381</b>	<b>(68 088)</b>	<b>2 745 452</b>	<b>2 931 269</b>

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



**STATEMENT III**  
**STATEMENT OF CASH FLOW**  
**FOR THE BIENNIUM ENDED 31 DECEMBER 2005**  
**(US\$ thousand)**

	Notes	WFP Fund	Prior Period 2002-2003 (Adjusted)
<b>Cash inflow (outflow) from operating activities:</b>			
Excess (shortfall) of income over expenditure (Statement I)		132 975	721 902
(Increase) decrease in cash held in trust in Country Offices	<b>5</b>	38 650	(2 152)
(Increase) in accounts receivable	<b>6</b>	(65 200)	(62 396)
(Increase) decrease in contribution receivable	<b>7</b>	429 812	(153 362)
Increase (decrease) in accounts payable	<b>10</b>	190 219	(21 417)
Increase in outstanding obligations		96 265	269 710
Increase (decrease) in funds held in trust in Country Offices	<b>5</b>	(37 961)	1 220
Subtotal		784 760	753 505
Less interest income		54 785	82 314
<b>Net cash inflow from operating activities</b>		<b>729 975</b>	<b>671 191</b>
<b>Cash from investing and financing activities:</b>			
Decrease in long-term investments	<b>8</b>	5 432	4 068
Add interest income		54 785	82 314
<b>Net cash from investing and financing activities</b>		<b>60 217</b>	<b>86 382</b>
<b>Cash inflow (outflow) from (to) other sources:</b>			
Contribution adjustments	<b>16</b>	(445 633)	(497 034)
Write-off of accounts receivable		(4 713)	(256)
Prior period adjustments	<b>17A</b>	(89 155)	(54 734)
Savings on cancellation of prior period obligations	<b>17B</b>	1 004	2 184
Transfers (from) to reserves	<b>18B</b>	48 213	(233 802)
Increase (decrease) in reserves		(77 031)	217 807
<b>Net cash inflow (outflow) from (to) other sources</b>		<b>(567 315)</b>	<b>(565 835)</b>
<b>Net increase (decrease) in cash and term deposits</b>		<b>222 877</b>	<b>191 738</b>
Cash and term deposits at beginning of period		907 362	715 624
<b>Cash and term deposits at end of period</b>	<b>4</b>	<b>1 130 239</b>	<b>907 362</b>

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



# NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2005

## 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 94 other offices: 77 country offices, six regional bureaux and 11 liaison offices around the world. Its policies and budget are determined and approved by the Executive Board, its governing body consisting of 36 members, of whom 18 are elected by the United Nations Economic and Social Council (ECOSOC) and 18 by the FAO Council. Decisions on requests for assistance to meet emergency needs that exceed the level of authority delegated to the Executive Director are made jointly by the Executive Director and the Director-General of FAO.



## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2A. Financial Period

5. The financial period of WFP is a biennium, starting on 1 January of each even-numbered year. These financial statements relate to the biennium ended 31 December 2005.

### 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 2005 in order to meet the Board requirements in performing their oversight functions.

### 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 Bilaterals 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 transactions under the following categories:
  - **Programme Support and Administrative (PSA) Costs** consists of PSA costs and income from indirect support cost (ISC), and ISC recoveries. Following the subsequent biennium, the fund balance under this category is transferred to the PSA Equalisation Account reserve (see Note 13D).
  - **Government Counterpart Cash Contribution (GCCC)** is recognized as income at the time of confirmation of the actual amount to be given by host governments based on agreements with WFP on the extent of their responsibilities towards their commitments for local costs. Under the joint directive of Finance Division and Office of Budget (FS2003/007 – OEDB2003/004), cash contributions received from least developed countries (LDC) are retained in the Country Office as additional support resources. Cash contributions received from non-LDCs are treated as revenue of the General Fund up to 50% of PSA-funded local costs and any excess is retained in the Country Office as additional support resource.



- **Capital Asset Fund (CAF)** was established by the Executive Board in October 2002 (2002/EB.3/5) to fund and account separately for capital expenditures relating to systems development and infrastructure enhancements. The CAF was initially funded by the remaining balance on the Financial Management Improvement Programme (FMIP) Special Account of US\$5,487,597 at 31 December 2001 and a reprogramming of US\$11,000,000 from funds made available from identified surpluses and fund balances.
  - **Multilateral and Unallocated Contributions (MUC)** are cash contributions that are not designated to a specific programme category or bilateral project.
  - **Private Sector In-kind Contributions** are in-kind contributions from the private-sector that are not designated to a specific programme category or bilateral project.
  - **Specific Capacity-Building Initiatives** are non-recurring PSA-related activities approved in the 2004–2005 Management Plan, namely Strengthening of Financial Management, Results-Based Management and Security Upgrade. Also included are staff safety and security costs through the Office of the UN Security Coordinator (UNSECOORD).
  - **Other General Fund** consists of interest income, currency exchange adjustments, miscellaneous income and non-PSA costs such as ex-gratia payments and bank charges.
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. The Bilaterals and other Trust Funds are identifiable subdivisions of the WFP Fund. These are established by the Executive Director under Financial Regulation 5.1 in order to account for contributions, the purpose, scope and reporting procedures of which have been agreed upon with the donor under specific trust fund agreements. The main trust funds are Bilateral Operations, the Junior Professional Officer Scheme, Airlift Activities-Operation Lifeline Sudan, and other trust funds.

## 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 equivalent paid to acquire them at the time of their acquisition. Investments are stated at market value except long-term investments that are held until maturity, which are stated at acquisition cost.
14. The cost of buildings and equipment is charged to expenditure at the time of purchase.
15. Liabilities are also recorded at historical cost at the amounts of cash or cash equivalent expected to be paid to satisfy the liability in the normal course of business.



⇒ 2D3. *Foreign Currency Translation*

16. At the end of the financial period, balances of assets and liabilities in currencies other than US dollars are translated to US dollars at the prevailing United Nations operational rate of exchange (the “United Nations rate”), which approximates the market rate. Resulting gains or losses are disclosed under the line “Currency exchange adjustments” in Statement I.
17. Transactions in currencies other than US dollars are translated into US dollars at the United Nations rate prevailing at the transaction date.
- a) **Receipt of confirmed contribution.** A confirmed contribution is recorded in US dollars at the prevailing United Nations rate at the time of recognizing the contribution. Upon receipt, the contribution fund is adjusted to reflect the amount actually received in US dollars. The difference between the US dollar value at time of recognition and the US dollar value at time of receipt is disclosed under the line “Currency exchange adjustments” in Statement I.
- b) **Expenditures and obligations.** Expenditures and obligations in currencies other than US dollars are recorded at the prevailing United Nations rates at the time of receipt of goods or services. Differences between the United Nations rates and the market rates at the time of actual payment are charged in the following manner:
- For projects and PSA, losses or gains on foreign exchange at the time of payment are charged or credited to the General Fund.
  - For trust funds and special accounts, losses or gains are charged or credited to the relevant trust fund or special account, as appropriate.
- c) **Sale and purchase of local currency.** Where there is a conversion of US dollars into another currency, or vice versa, the difference between the market rate and the United Nations rate is recorded as a loss or gain on exchange under the General Fund.

⇒ 2D4. *Forward Exchange Contracts*

18. The Programme did not enter into forward exchange contracts during the 2004–2005 biennium.

## 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 for the periods to which they relate.

⇒ 2E1. *Income*

a) **Commodity-in-kind Contributions**

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



b) Services-in-kind Contributions

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

c) Other Contributions

22. Other contributions consist of:

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

d) Government Cash Contributions for Local Costs

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

e) Contributions for ISC

24. Contributions for ISC are recorded as income under the Programme Category Funds, Bilaterals and Trust Funds, and are disclosed as transfers to the General Fund in Statement I. The Board approved an ISC recovery rate of 7% of programme contributions to fund the required income for the PSA budget in the 2004–2005 Management Plan. For bilateral contributions and trust funds, the ISC rates range from 3 to 7% of direct costs. In some cases, the ISC is waived by the Executive Director pursuant to General Rule XIII.4 (f). Under the full cost recovery principle, a service fee of 4% is generally charged against Third Party Agreements (TPA).

f) Income other than donor contributions

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

⇒ 2E2. Expenditures

26. 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 received. At the end of an accounting period, however, expenditures are accrued for all outstanding purchase orders, i.e. where the goods and services are not yet received but commitments have been made and funds have already been obligated. Expenditures incurred during the accounting period and not covered by purchase orders or paid such as payroll are also accrued. The increase in liability recorded by the accrual is referred to in the financial statements as outstanding obligations.



27. Stocks of commodities on hand as at 31 December 2005 are included among the commodity expenditures and not reflected as inventories.

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

28. Staff salaries and entitlements of international and headquarters-based staff are set according to a pre-determined scale of staff grades generally referred to as standard costs. Factored into the computation of the standard costs are full amounts for entitlements for which payments to staff may not be completed in the current biennium.
29. Both PSA and project-funded staff costs related to international and Headquarters-based staff are recorded at standard costs, consistent with the treatment in 2002–2003 biennium. This treatment was noted by the Board in its Annual Meeting in May 2004 (2004/EB.A/13). The Staff Cost Variance Equalization Account was set up to reflect variances between standard and actual staff costs (see also Note 13E).
30. Separation payments and compensation due to work-related death, injury or illness of general service staff and after-service medical benefits to general service and professional staff covered by the FAO Staff Rules are fully provided for. Other personnel-related liabilities such as repatriation costs, accrued leave and termination indemnities are disbursed against current funding sources (see also Note 12B).

## **2G. Third Party Agreement (TPA)**

31. 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**

32. Demurrage is cost incurred when the loading or discharging of goods takes longer than the agreed laytime and is added to the freight due to the shipowner. For purchased commodities with free on board terms, demurrage at load port is recoverable from the food vendor. On the other hand, demurrage incurred at discharge port is recoverable from the party that performed discharge operations, either the recipient government or the stevedoring subcontractor.
33. Despatch is the amount earned when the loading or discharging of goods is completed before the agreed laytime expires and is deducted from the freight due to the shipowner. 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.
34. Demurrage receivable is disclosed net of despatch payable to the same governments or subcontractor.



## **NOTE 3: SUMMARY OF CHANGES IN PRESENTATION AND ADJUSTMENTS**

### **3A. Cash Held in Trust in Country Offices**

35. Effective January 2005 WFP began a process of reclassifying all locally generated funds as described in Note 5 as Trust Funds or Third Party Agreements. The remaining balances of funds generated before January 2005 amounting to US\$20.6 million as at 31 December 2005 are still in the process of being converted.

### **3B. Staff Benefit Funds**

36. For 2004–2005, the financial position of the Staff Benefit Funds is presented in Note 12A. The excess of liabilities over assets is shown in WFP's financial statements as Due to Staff Benefit Funds (see Note 10). The comparative figures for 2002–2003 were adjusted to conform to this new presentation.

### **3C. Cargo Preference Transactions**

37. Under a service agreement concluded with a major donor in 2004, receipt and payment arrangement for cargo preference are treated as balance sheet accounts. Disbursements are treated as TPA receivables while receipts are treated as TPA payables. As at 31 December 2005, receivables and payables had balances of US\$62,748,798 and US\$68,900,517 respectively for a net payable position of US\$6,151,719 (see Note 10 under TPA payables). In 2002–2003, cargo preference was treated as contribution income for ocean transport but was not subjected to the ISC levy pursuant to the Board Decision in February 2004 (2004/EB1/9).

### **3D. Direct Support Cost Advance Facility (see also Note 13C)**

38. In previous biennia, the Direct Support Cost Advance Facility (DSCAF) was presented as a reserve in the financial statements at the amount of outstanding advances being guaranteed. As a guarantee mechanism, the DSCAF was required to maintain a balance equivalent to the amount being guaranteed. In the current biennium, the DSCAF is shown as a reserve at the authorized amount less the amount of outstanding advances, i.e. at the level of unused balance.

### **3E. Payable to Donors from Closed Projects**

39. With effect from 2005, unspent fund balances from financially closed projects are transferred out of the project funds through the refund account and set up as payables to donors. These are later paid to donors or reprogrammed depending on advice from donors. Previously, unspent fund balances remained in the fund balances of their respective Programme Categories until advice was received from donors to either refund or re-programme.



### **3F. Valuation of Investments**

40. In line with international accounting standards, investments are stated at market value with effect from the 2004–2005 biennium, except for long-term investments that are held until maturity. These will continue to be reflected at historical cost. Previously, investments were stated at the lower of acquisition cost or market value.

### **3G. Bank Charges**

41. In previous biennia, bank charges were offset against interest income. In 2004–2005, bank charges are shown as DSC expenditures within the General Fund.

### **3H. Offsetting of TPA Receivable and Payable Accounts**

42. TPA receivables and payables were previously shown at gross amounts in Statement II and in Notes 6 and 10. At 31 December 2005, the receivables and payables are offset against each other in order to reflect the net position with the third parties.

### **3I. Adjustment of 2002–2003 Financial Statements**

43. For comparative purposes, the following adjustments of 2002–2003 figures were made in order to conform to the changes in presentation:

#### **a) Statement I**

- Services in-kind contributions amounting to US\$51,357,011 is shown separately from Other Contributions.
- Bank charges of US\$2,742,471 were added to Interest Income and to Direct Support Costs.
- Write-off of Accounts Receivable amounting to US\$256,397 is shown as a separate line item and deducted from Direct Support Cost.

#### **b) Statement II**

- Long-Term Investments of US\$64,029,726 and Staff Benefit Funds under Long-Term Liabilities amounting to US\$67,362,598 are shown in Note 12A3. The difference of US\$3,332,872 is reflected under Accounts Payable as Due to Staff Benefit Fund (see Note 10).
- To show the net position of TPA accounts, the Accounts Receivable and Accounts Payable were reduced by US\$31,543,176.



## NOTE 4: CASH AND SHORT-TERM INVESTMENTS

44. Cash and short-term investments at 31 December 2005 consist of the following:

	(US\$ thousand)	
	31.12.05	31.12.03
<b>Bank and cash holdings at headquarters</b>		
Bank and money market accounts	194 232	100 303
Short-term investments	895 088	780 211
<b>Subtotal</b>	<b>1 089 320</b>	<b>880 514</b>
<b>Bank and cash holdings at country offices:</b>		
In convertible currencies	40 349	25 065
In non-convertible currencies	570	1 783
<b>Subtotal</b>	<b>40 919</b>	<b>26 848</b>
<b>TOTAL</b>	<b>1 130 239</b>	<b>907 362</b>

45. Short-term investments are stated at market value of the portfolios. In 2003, short-term investments were stated at the lower of market value or acquisition cost. The total market value of the short-term investment portfolios as at 31 December 2003 was US\$783,363,906.

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

47. The short-term investments consist of five actively managed portfolios entrusted to four 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 the biennium was AA. Fund managers also complied with WFP's investment guidelines, in particular refraining from making investments on behalf of WFP, in corporations which produce, manufacture or distribute landmines and other anti-personnel arms.



## NOTE 5: CASH HELD IN TRUST IN COUNTRY OFFICES

48. Certain locally generated funds received by WFP's regional and country offices are not contributions to projects within WFP's existing programme categories, but are held locally in trust by WFP. These funds may result from the sale of WFP commodities after delivery to the recipient government (monetized funds), sale of commodities unfit for human consumption, sale of packing materials and related items, and recoveries made from post delivery losses. Amounts presented in these financial statements reflect the assets (cash and short-term investments) and liabilities at 31 December 2005.
49. Based on agreements between WFP country offices and the local governments, the responsibility for the management of these monetized and other locally generated funds lies with WFP and these funds are therefore administered in accordance with WFP's Financial Regulations and Rules. Depending on the provisions in the trust agreements, the use of these funds is required to be audited by local external auditors selected and appointed by the relevant project management. The use of the funds is also audited by WFP's internal and external auditors in the course of their audit cycle.
50. Under Executive Director's Circular ED2005/003 dated 14 February 2005, all locally generated funds were to be accounted for either as trust funds or third party agreements by 31 December 2005. Not all of the locally generated funds were converted mainly due to ongoing negotiations for new agreements with recipient governments which are required to complete the conversions.
51. These funds held in trust in country offices at 31 December 2005 consist of the following:

	(US\$ thousand)	
	31.12.05	31.12.03
<b>ASSETS</b>		
Cash held in trust in country offices:		
In convertible currencies	20 463	54 765
In non-convertible currencies	115	4 463
<b>Total</b>	<b>20 578</b>	<b>59 228</b>
<b>LIABILITIES</b>		
Funds held in trust in country offices	20 578	58 539
Adjustment accounts*	-	689
<b>Total</b>	<b>20 578</b>	<b>59 228</b>

\* The adjustment accounts represent timing differences in recording interest income and other bank reconciliation items.



## NOTE 6: ACCOUNTS RECEIVABLE

52. Accounts receivable at 31 December 2005 consist of the following:

	(US\$ thousand)	
	31.12.05	31.12.03 (Adjusted)
TPA Receivable:		
Receivables from United Nations and other organizations	–	507
Demurrage receivable from recipient governments & suppliers	1 451	1 955
Advances to vendors	93 131	69 096
Interest receivable on Loan and Investment Special Account	47 495	33 049
Personnel advances	21 136	13 945
Country office receivables	10 019	5 495
Insurance claims receivables	23 657	8 478
Accrued interest	3 866	19 090
VAT receivable	4 059	–
Other receivables	8 189	2 244
Due from UNDP*	6 056	–
Advances to projects from Working Capital Financing	57 567	–
DSCAF receivable	10 521	15 934
<b>Subtotal</b>	<b>287 147</b>	<b>169 793</b>
Less eliminating entries:		
Advances to projects from Working Capital Financing	57 567	–
DSCAF	10 521	15 934
<b>TOTAL</b>	<b>219 059</b>	<b>153 859</b>

\*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. The amount due from UNDP represents the financial transactions provided by UNDP net of WFP advances to UNDP. Due to reporting problems encountered by UNDP in implementing a new Enterprise Resource Planning system, the balance of the account could not be reconciled with UNDP's records as at 31 December 2005. Efforts are being exerted by both parties to complete a full reconciliation and clearance of items in WFP's books.

## NOTE 7: CONTRIBUTIONS RECEIVABLE

53. Contributions receivable at 31 December 2005 consisted of the following transactions:



**CONTRIBUTIONS RECEIVABLE**  
**SUMMARY STATUS OF CONTRIBUTIONS AS AT 31 DECEMBER 2005**  
(US\$ thousand)

	Programme Category Funds			General Fund and Special Accounts			Total			Prior Biennium
	In-Kind	Others	Total	In-Kind	Others	Total	In-Kind	Others	Total	2002–2003
<b>Balance of contributions receivable as at 31 December 2003</b>	309 828	1 434 377	1 744 205	270	4 125	4 395	310 098	1 438 502	1 748 600	1 595 238
<b>Add (deduct):</b>										
New contributions	1 003 139	4 004 170	5 007 309	12 612	57 422	70 034	1 015 751	4 061 592	5 077 343	5 457 480
Receipts	(982 937)	(4 088 252)	(5 071 189)	(12 549)	(43 575)	(56 124)	(995 486)	(4 131 827)	(5 127 313)	(5 131 312)
Write-down of contribution receivable	(69 771)	(196 497)	(266 268)	–	(57)	(57)	(69 771)	(196 554)	(266 325)	(333 279)
Write-off of contribution receivable	–	(2 843)	(2 843)	–	–	–	–	(2 843)	(2 843)	(440)
Prior period adjustments (Note 17A)	(8 510)	(70 918)	(79 428)	127	(5 063)	(4 936)	(8 383)	(75 981)	(84 364)	–
Other adjustments	(7 149)	(35 936)	(43 085)	–	16 775	16 775	(7 149)	(19 161)	(26 310)	160 913
<b>Balance of contributions receivable as at 31 December 2005</b>	<b>244 600</b>	<b>1 044 101</b>	<b>1 288 701</b>	<b>460</b>	<b>29 627</b>	<b>30 087</b>	<b>245 060</b>	<b>1 073 728</b>	<b>1 318 788</b>	<b>1 748 600</b>



54. In terms of the years in which pledges were confirmed, 71.7% and 10.8% of contributions receivable are from 2005 and 2004 respectively and 17.5% is from 2003 and prior years as per the following aging schedule:

<b>AGING OF CONTRIBUTIONS RECEIVABLE</b>				
	<b>31.12.05</b>		<b>31.12.03</b>	
	<b>(US\$ million)</b>	<b>%</b>	<b>(US\$ million)</b>	<b>%</b>
Year of confirmation pledges:				
2005	946.0	71.7	–	–
2004	142.4	10.8	–	–
2003	144.0	10.9	1 212.5	69.3
2002	76.5	5.8	302.9	17.3
2001 and prior	9.9	0.8	233.2	13.4
<b>TOTAL</b>	<b>1 318.8</b>	<b>100.0</b>	<b>1 748.6</b>	<b>100.0</b>

## NOTE 8: LONG-TERM INVESTMENTS

55. The long-term investments consist of investments in US 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 2005 is US\$58,504,422 consisting of:

	<b>US\$</b>
Portion due to mature in May 2006 and included among the Short-Term Investments	1 716 013
Long-term portion due to mature beyond 2006	56 788 409
<b>TOTAL</b>	<b>58 504 422</b>

The total of market values at 31 December 2005 was US\$75,596,909 (US\$74,950,554 at 31 December 2003).

56. The US Treasury STRIPS are investment instruments of the United States Treasury that were acquired in September 2001 with maturities over a period of 30 years until 2032, designed to guarantee the payment of interest and principal of the commodity loan entered into with a government agency. See also Note 19G.



## NOTE 9: BUILDINGS AND EQUIPMENT, FURNITURE AND VEHICLES

57. The cost of buildings, equipment, furniture and vehicles are charged against expenditures and not capitalized (see Note 2.D.2). The total historical cost at 31 December 2005 is US\$201,136,285 (US\$147,598,289 at 31 December 2003).
58. During the biennium ended 31 December 2005, acquisitions totalled US\$74,996,388 while US\$21,458,393 was written off the inventory records mainly because the assets had been transferred to the recipient country or had become irreparable or obsolete. Among the acquisitions is the first time inclusion of heavy vehicles totalling US\$23,839,290.

## NOTE 10: ACCOUNTS PAYABLE

59. Accounts payable at 31 December 2005 consist of the following:

	(US\$ thousand)	
	31.12.05	31.12.03 (Adjusted)
Vendor payable	136 940	36 219
TPA payables:		
Payables to United Nations and other organizations	26 707	–
Cargo preference	6 152	–
Despatch to be offset by demurrage	130	4 957
Insurance recoveries payable to donors	21 794	6 476
Payable to donors from closed projects (see Note 3E)	40 769	–
Unrealized VAT – liability	4 107	–
Treasury clearing account	12 154	2 814
Other accounts payable	35 357	37 453
Due to UNDP (see Note 6)	–	6 593
Due to Staff Benefit Funds (see Note 12A3)	3 953	3 332
Advances to projects from Working Capital Financing	57 567	–
DSC advance to be recovered from project funds	10 521	15 934
<b>Subtotal</b>	<b>356 151</b>	<b>113 778</b>
Less eliminating entries:		
Advances to projects from Working Capital Financing	57 567	–
DSC advance to be recovered from project funds	10 521	15 934
<b>TOTAL</b>	<b>288 063</b>	<b>97 844</b>



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## NOTE 11: CERF LOAN

60. The Central Emergency Revolving Fund (CERF) is a cash-flow mechanism of the United Nations which is designed to bridge the gap between needs and available funding. The CERF is funded by donors and loan proceeds are released to UN operational agencies interest-free. The mechanism requires that agencies borrowing from the fund pay back the loan within one year.
61. During 2004, WFP used this facility for US\$5 million to finance PRRO operations in South Africa and repaid in full in 2005.

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## NOTE 12: STAFF LIABILITIES

### 12A. Staff Benefit Funds

62. Eligible WFP staff members are entitled to certain benefits upon separation from service. Three of these future benefits are funded, namely, the After-Service Medical Coverage Plan (ASMCP), the Separation Payments Scheme (SPS), and the Compensation Plan Reserve Fund (CPRF). An actuarial study was conducted in December 2005 using demographic assumptions that were specific to WFP to determine the actuarial valuation of the accrued liabilities as at 31 December 2005.

#### ⇒ 12A1. Definitions

63. The ASMCP is a plan that allows eligible retirees and their eligible family members to participate in the Basic Medical Insurance Plan (BMIP). The 2005 Actuarial Valuation Report concluded that the ASMCP accrued liability balance was US\$94,616,922 at 31 December 2005.
64. SPS is a plan for all general service staff at the duty station in Rome that funds severance pay upon separation from service. The 2005 Actuarial Valuation Report concluded that the SPS accrued liability balance was US\$13,650,471 at 31 December 2005.
65. 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 2005 Actuarial Valuation Report concluded that the CPRF accrued liability balance was US\$2,940,698 at 31 December 2005.

⇒ 12A2. *Statement of Income and Expenditures*

66. The Statement of Income and Expenditures of the three plans for the biennium ended 31 December 2005 is shown below:

	(US\$ thousand)	
	2004–2005	Prior Period 2002–2003
<b>INCOME</b>		
Investment income (net of investment fees)	12 330	6 371
Contribution from WFP	3 420	2 334
Revaluation gain/loss	(84)	149
<b>Total Income</b>	<b>15 666</b>	<b>8 854</b>
<b>EXPENDITURES</b>		
Benefit payments	3 411	2 389
Actuarial fees	67	56
<b>Total Expenditures</b>	<b>3 478</b>	<b>2 445</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURES</b>		
	12 188	6 409
Fund balance beginning of period	67 362	60 953
<b>FUND BALANCE END OF PERIOD</b>	<b>79 550</b>	<b>67 362</b>

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

67. The Statement of Assets and Fund Balance of the three plans for the biennium ended 31 December 2005 is shown below:

	(US\$ thousand)	
	31.12.05	31.12.03
<b>ASSETS</b>		
Due from WFP (see Note 10)	3 953	3 332
Investments:		
Bonds	42 549	38 907
Equities	33 048	25 123
Total investments	75 597	64 030
<b>Total Assets</b>	<b>79 550</b>	<b>67 362</b>
<b>FUND BALANCE</b>		
<b>Fund balance</b>	<b>79 550</b>	<b>67 362</b>



68. The Staff Benefit Funds are pooled and placed in long-term investment portfolios consisting of 60% bonds and 40% equities with two fund managers. The fund managers 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.
69. The investments are stated at market value. In previous biennia, the investments were stated at acquisition cost (US\$ 68,624,343 market value at 31 December 2003).

⇒ 12A4. *Excess of Actuarial Liabilities Over Assets*

70. As at 31 December 2005, the total value of assets of the staff benefit funds is less than the actuarial liabilities based on 2005 actuarial valuation by US\$31.7 million. The details are as follows:

	(US\$)
Total value of assets as at 31 December 2005	79 550 096
Less accrued liabilities based on 2003 actuarial valuation:	
ASMC	94 616 922
SPS	13 650 471
CPRF	2 940 698
	111 208 091
<b>Excess of actuarial liabilities over assets</b>	<b>31 657 995</b>

71. Income for annual service costs of SPS comes from contributions of WFP which are computed at 8% of net base salary of eligible staff. For CPRF, income comes from contributions of WFP which are computed at 0.129% and 0.266% of pensionable remunerations of eligible HQ staff and Country Office staff respectively. Income for the ASMCP is based on recommendations for annual service costs in the actuarial reports. The December 2005 actuarial study determined that due to a number of factors including changes in mortality rate assumption, increase in medical inflation, decrease in the discount rate and the impact of foreign exchange variation, there is an unrecognized liability of US\$31.7 million.
72. Based on the recommendations in the 2005 Actuarial Report, expense for the three plans will be combined assets are not segregated among the three plans. Accordingly, WFP will recognize an annual expense of US\$1.6 million for 15 years for the actuarial deficit and US\$8.5 million for the current service costs.

## 12B. Termination Benefits

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



74. At the 31 December 2005, the Programme's estimated liability to Professional and Rome-based General Service staff in respect of accrued annual leave and estimated termination indemnities is US\$16,798,747 (US\$10,804,655 at 31 December 2003). For the field staff administered by the United Nations Development Programme (UNDP), the estimated liability on termination indemnities and accrued leave is US\$21,742,734 (US\$24,196,058 at 31 December 2003). These contingent liabilities are not provided for in the accounts but are expensed when paid.

## 12C. United Nations Joint Staff Pension Fund

75. WFP is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The pension fund is a funded defined benefit plan. The financial obligation of the organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with a share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the fund as of the valuation date. At the time of this report, the United Nations General Assembly has not invoked this provision.

76. The consulting Actuary performed the latest actuarial valuation as at 31 December 2003 which showed an actuarial surplus amounting to 1.14% of pensionable remuneration.

## NOTE 13: RESERVES

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

	(US\$ thousand)		
	Note	31.12.05	31.12.03
Operational Reserve	13A	57 000	57 000
Immediate Response Account	13B	30 768	32 671
DSC Advance Facility	13C	49 479	15 934
PSA Equalization Account	13D	122 106	230 580
Staff Cost Variance Equalization Account	13E	–	55
United Nations Staff Safety and Security Account	13F	–	144
<b>TOTAL</b>		<b>259 353</b>	<b>336 384</b>



78. The net movements in reserves in 2004–2005 can be summarized as follows:

	(US\$ thousand)
Total Reserves at 1 January 2004	336 384
Reduction in reserves in 2004–2005:	
Net transfers from reserves (Note 18B)	(48 213)
Other movements in 2004–2005 (net)	(28 818)
Total net reduction	(77 031)
<b>Balance as at 31 December 2005</b>	<b>259 353</b>

### 13A. Operational Reserve and Working Capital Financing

79. 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.

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

81. In March 2004, the Board approved the use of the Operational Reserve to finance five pilot projects under the Business Process Review on the basis of forecast contributions (2004/EB.1/8). Advances were subsequently granted to the pilot projects but were fully repaid in 2005, which brought back the balance of the Operational Reserve to US\$57 million.

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

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

As at 31 December 2005, the total of advances to WFP projects from the Working Capital Financing amounted to US\$57,567,051. See also Notes 6 and 10.



### 13B. Immediate Response Account

83. The Immediate Response Account (IRA) was established by the CFA Committee on Food Aid Policies and Programmes in December 1991 as a cash account within the Programme Category Fund to act as a flexible resource facility to enable the Programme to respond quickly to emergency needs for the purchase and delivery of food aid. In November 1995, the Board decided to merge the Emergency Logistics Authorization Mechanism (ELA) with the IRA to also allow the IRA to be used for non-food related costs.
84. In October 2004, the Board approved an annual target level of a minimum of US\$70 million for the IRA (2004/EB.3/31). The Board also endorsed the following:
- The principle that IRA allocations may be made for food, non-food items or a combination of the two costs, whichever is most critical for a flexible, timely and efficient response in emergency situations, including those addressed through Special Operations;
  - The use of the IRA to prevent critical shortfalls in life-threatening situations; and
  - The use of the IRA for preparedness activities up to a limit of US\$2 million per year.
85. 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.
86. As at 31 December 2005, the IRA had a balance of US\$30,768,279 (US\$32,671,067 at 31 December 2003). The movements during 2004–2005 were as follows:

	(US\$ thousand)	
	2005	2003
Balance, 31 January	32 671	29 029
Add (deduct):		
Funding from PSA Equalization Account*	20 000	–
Replenishments – new contributions	43 472	19 803
Revolvements – recovered from projects	95 831	47 280
Used for projects	(161 206)	(63 441)
<b>Balance, 31 December</b>	<b>30 768</b>	<b>32 671</b>

\*In October 2003, the Board approved, on an exceptional basis, the reprogramming to IRA of US\$20 million from the PSA Equalization Account (2003/EB.3/6).

### 13C. Direct Support Cost Advance Facility

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



88. In approving the 2004–2005 Management Plan, the Board at its third regular session in October 2003, approved setting aside US\$60 million for the DSCAF (2003/EB.3/6). The Board, at its annual session in May 2004, approved the transfer of US\$20 million from the General Fund and US\$24.1 million from the PSA Equalization Account which together with the DSCAF balance of US\$15.9 million at the end of 2003 brought the DSCAF balance to US\$60 million (2004/EB.A/13).
89. The movements in the DSCAF during 2004–2005 are shown below (US\$ thousand):

	(US\$ thousand)
Balance beginning of biennium	15 934
Add (deduct):	
Transfer from General Fund	20 000
Transfer from PSA Equalization Account	24 065
Advances to projects – net of recoveries	(10 520)
<b>Balance end of biennium</b>	<b>49 479</b>

90. The net amounts transferred from the DSCAF are included in the Programme Category Funds. The amounts advanced and recovered during 2004–2005 are as follows:

	(US\$ thousand)	
	2005	2003
Balance, 31 January	15 934	13 453
Add advances made during the biennium	186 738	63 430
Less recoveries against advances	(192 152)	(60 949)
<b>Balance, 31 December</b>	<b>10 520</b>	<b>15 934</b>
<b>AGING PER YEAR:</b>		
2005	9 182	–
2004	1 300	–
2003 prior	38	15 934
<b>TOTAL</b>	<b>10 520</b>	<b>15 934</b>

### 13D. PSA Equalization Account

91. The PSA Equalization Account is a reserve that was set up in 2002 to record any gaps between actual ISC income and PSA expenditures. During 2004–2005, the movements in this account were as follows:

	(US\$ thousand)
Balance as at 31 December 2003	230 580
Less utilization:	
Approved in 2004–2005 Management Plan (2003/EB.3/6):	
Capital investments and capacity building--	
WINGS upgrade and related costs	(19 221)
Strengthening of financial management	(5 740)
Results-based management	(4 134)
Security upgrades	(20 000)
Transfer to IRA	(20 000)
Staff cost variance*	(58 627)
Approved by the Board in May 2004 (2001/EB.A/13):	
DSC Advance Facility	(24 065)
Prior period adjustments	(270)
Balance	78 523
Add transfer from current biennium PSA fund balance	43 583
<b>Balance as at 31 December 2005</b>	<b>122 106</b>

\* In the 2004–2005 Management Plan, the Board authorized funding for the foreign exchange impact of lower US dollar exchange rate variance on staff costs from the PSA Equalization Account.

### 13E. Staff Cost Variance Equalization Account

92. Staff costs are charged at standard costs during the budgetary process. At the end of an accounting period, all positive variances between the standard and actual costs are carried forward in the Staff Cost Variance Equalization Account under the General Fund in Statement II.
93. For the biennium ended 31 December 2005, actual staff costs were greater than standard costs by US\$79.2 million. As these represent additional staff costs incurred, the US\$79.2 million unfavourable staff cost variance is charged against PSA expenditures. As approved in the 2004–2005 Management Plan, the foreign exchange component amounting to US\$58.6 million was funded from the PSA Equalization Account.



94. Consequently, the Staff Cost Variance Equalization Account had a zero balance as at 31 December 2005 with the following movements:

	(US\$ thousand)
<b>Balance at 31 December 2003</b>	<b>55</b>
Add (deduct):	
Unfavourable variance in 2004–2005	(79 176)
Additional staff costs charged to expenditures	79 121
<b>Balance at 31 December 2005</b>	<b>–</b>

### 13F. Staff Safety and Security Account

95. In October 2001, the Board authorized the one-off use of the General Fund to fund WFP's share of the 2002–2003 Office of the United Nations Security Coordinator (UNSECOORD) budget, that is, 12.12 % of the overall UNSECOORD field-related security budget, for a total amount of US\$6,454,500 (2001/EB.3/39). A total of US\$6,310,556 was disbursed during 2002–2003 and the balance of US\$143,944 in 2004. The reserve account is now closed.
96. For 2004–2005, the Board authorized another one-off use of the General Fund up to US\$16 million as WFP's share in the staff safety and security budget of UNSECOORD (2005/EB.1/21). This fund is included under the column heading "Specific Capacity Building Initiatives" within the General Fund (see Note 19).

## NOTE 14: IRAQ OPERATIONS

97. In 2003, the Iraq operation for emergency assistance to the Public Distribution System (PDS) comprised an approved regional emergency operation funded partially by WFP donors and by the Office of Iraq Programme (OIP) whose funding came from the Oil for Food Programme (OFFP). The operation involved the delivery of 2.1 million metric tons of commodities over six months. From July 2003, WFP gradually shifted its role and operations under the OFFP to handing over responsibilities to the Iraqi government which was largely completed before the end of 2003. Based on an agreement with the Coalition Provision Authority in January 2004, WFP supported the continuation of the food pipeline in Iraq through the PDS and concluded the last dispatch towards the end of 2004.
98. For the 2004–2005 biennium, the total income for the Iraq operations for both emergency and bilateral operations (including contribution from the OIP of US\$17,022,258) was US\$941,659,914 and the total expenditure was US\$781,431,053 (US\$1,288,370,474 total income of which US\$913,084,131 came from OIP and US\$1,135,902,753 total expenditure during the 2002–2003 biennium).
99. WFP also provided services on renegotiation of food and non-food contracts which were treated as Third Party Agreements. The actual cost of services was US\$6.1 million and WFP refunded the excess fund of US\$14.2 million to OIP.



## NOTE 15: SUPPORT COSTS

100. The Direct Support Cost (DSC) and Programme Support and Administrative Cost (PSA) for the biennium ended 31 December 2005 consist of the following:

**SUPPORT COSTS: DSC AND PSA FOR THE BIENNIUM ENDED 31 DECEMBER 2005**  
(in US\$ thousand)

	Programme Category DSC	General Fund and Special Accounts			Bilateral and Trust Funds	Total	Prior Period 2002–2003 (Adjusted)
		PSA	DSC**	Total			
Staff costs*	336 099	325 144	43 319	368 463	64 632	769 194	540 856
Non-staff costs	138 604	59 978	60 740	120 718	28 752	288 074	201 290
<b>Total Support Costs</b>	<b>474 703</b>	<b>385 122</b>	<b>104 059</b>	<b>489 181</b>	<b>93 384</b>	<b>1 057 268</b>	<b>742 146</b>

### Analysis of total:

Direct support costs:

Programme Category DSC	474 703	
General Fund and Special Accounts	104 059	
Bilaterals and Trust Funds	93 384	672 146

Programme support and administration 385 122

**TOTAL** **1 057 268**

\* The term "Staff Costs" refers to the costs of WFP staff members, consultants and other short-term contract holders. Total staff costs including those in the Other Direct Operational Costs (ODOC) are as follows:

	(US\$ million)	
	2004–2005	2002–2003
Staff costs:		
ODOC	12.6	16.7
DSC	769.2	540.9
<b>TOTAL</b>	<b>781.8</b>	<b>557.6</b>

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 DSC under this column is net of US\$26,248 thousand (US\$5,394 in 2002–2003) eliminated entries from the DSC amount of US\$130,307 thousand (US\$59,168 in 2002–2003) shown in Statement I.



## NOTE 16: CONTRIBUTION ADJUSTMENTS

101. Contribution adjustments refer to transactions in the current biennium that are not treated as part of current income and expenditure. For the biennium ended 31 December 2005, these transactions consist of the following:

	(US\$ thousand)				
	Programme Category Funds	General Fund and Special Accounts	Bilaterals and Trust Funds	Total WFP Fund	Prior Period 2002–2003
Reprogramming of unused fund balances	69 469	–	9 725	79 194	99 915
Refunded amounts from unused fund balances	20 801	–	35 695	56 496	63 400
Refundable amounts from unused fund balances	43 357	–	(2 588)	40 769	–
Write-off of contribution receivables	2 843	–	–	2 843	440
Write-down of contribution receivables	266 268	57	6	266 331	333 279
<b>TOTAL</b>	<b>402 738</b>	<b>57</b>	<b>42 838</b>	<b>445 633</b>	<b>497 034</b>

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

103. Refunded and refundable amounts represent unspent funds from financially closed projects. Refunded amounts are funds that have been returned to donors while refundable amounts are funds that have been set up as payable to donors (see also Note 10 and Note 3E). Where donors have requested that funds be transferred to their bilateral general accounts, such transfers are treated as refunds.

104. 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.

105. Write-down is the reduction of contributions receivable where income was recognized in a prior biennium 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 17: PRIOR PERIOD TRANSACTIONS

### 17A. Prior Period Adjustments

106. 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 2004–2005, the following adjustments were made:

	(US\$ thousand)			
	Programme Category Funds	General Fund and Special Accounts	Bilaterals and Trust Funds	Total WFP Fund
Adjustments of contributions recorded as income in prior biennium but were meant to be income of current biennium	79 428	4 936	2 659	87 023
Others	–	2 132	–	2 132
<b>TOTAL</b>	<b>79 428</b>	<b>7 068</b>	<b>2 659</b>	<b>89 155</b>

### 17B. Savings on Cancellation of Prior Period Obligations

107. As provided for under Financial Regulation 9.9, unliquidated obligations of the PSA at the end of the 12-month period beyond the end of the biennium are recorded as savings under the General Fund. In 2004–2005, these savings amounted to US\$1,004,366 (US\$2,183,795 in 2002–2003).

108. The balances of non-PSA purchase orders obligated in prior periods but were not liquidated in 2004–2005 had residual values of US\$4,322,563. These were not reflected as savings but as reductions of project expenditures as the funds released may be available up to the life of the project or the expiry of the funding source.



## NOTE 18: TRANSFERS OF FUNDS

### 18A. Transfers between Funds and Accounts

109. During the biennium ended 31 December 2005, the following transfers were made between funds and accounts:

	(US\$)			
	Programme Category Funds	General Fund and Special Accounts	Bilaterals and Trust Funds	Total
<b>Funds transferred from:</b>				
Programme Category Funds (net transfers)--				
Emergency relief	8 932 029	-	-	8 932 029
Protracted relief and recovery	2 187 138	-	-	2 187 138
General Fund and Special Accounts--				
General Fund transfer out for staff safety and security costs	-	16 000 000	-	16 000 000
General Fund transfer out for contributions written off	-	2 876 706	-	2 876 706
Emerging donor matching fund to Programme Category	-	5 758 338	-	5 758 338
Multilateral and unallocated contributions to Programme Category	-	2 495 314	-	2 495 314
PSA 2005 funds	-	1 488 353	-	1 488 353
Capital asset fund to TC/IT standby equipment and services	-	1 200 000	-	1 200 000
Subtotal	11 119 167	29 818 711	-	40 937 878
<b>Funds transferred to:</b>				
Programme Category Funds--				
Development projects	3 152 040	-	-	3 152 040
Special operations	25 760	-	-	25 760
General Fund and Special Accounts--				
Staff safety and security costs c/o UNSECOORD (per Board decision 2005/EB.1/21)	-	16 000 000	-	16 000 000
Ending Child Hunger and Logistics Award special accounts	-	1 488 353	-	1 488 353
TC/IT standby equipment and services (Dubai) special account	-	1 200 000	-	1 200 000
General Fund transfer in Bilaterals and Trust Funds--				
Closed projects balances requested by donors to be transferred to their Bilateral accounts	-	-	18 604 392	18 604 392
Subtotal	3 177 800	19 155 686	18 604 392	40 937 878
<b>Net transfers between funds and accounts</b>	<b>(7 941 367)</b>	<b>(10 663 025)</b>	<b>18 604 392</b>	<b>-</b>

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



## 18B. Transfers to/from Reserves

110. The net transfers from reserves of US\$48,212,661 consisted of:

	(US\$)		
	Programme Category Funds	General Fund and Special Accounts	Total
<b>Transfers from reserves for:</b>			
DSCAF – from PSA Equalization Account	–	24 065 000	24 065 000
From DSCAF to projects – net	10 520 766	–	10 520 766
IRA – from PSA Equalization Account	–	20 000 000	20 000 000
Security upgrade	–	20 000 000	20 000 000
Results-based management	–	4 134 400	4 134 400
WINGS upgrade and related costs	–	19 220 605	19 220 605
Strengthening of financial management	–	5 740 000	5 740 000
Staff cost variance	–	58 627 000	58 627 000
Subtotal	10 520 766	151 787 005	162 307 771
<b>Transfer to reserves from:</b>			
PSA Equalization Account – transferred to DSCAF and IRA	–	(44 065 000)	(44 065 000)
From Self-Insurance Account	–	(6 447 474)	(6 447 474)
General Fund for DSC Advance Facility	–	(20 000 000)	(20 000 000)
From current biennium PSA fund balance to PSA Equalization Account	–	(43 582 636)	(43 582 636)
Subtotal	–	(114 095 110)	(114 095 110)
<b>Net transfers from reserves</b>	<b>10 520 766</b>	<b>37 691 895</b>	<b>48 212 661</b>

## NOTE 19: GENERAL FUND AND SPECIAL ACCOUNTS

111. The General Fund and special accounts for the year ended 31 December 2005 consist of the items shown in the following page.

112. Services-in-kind contributions from various donors for advertising and other public service announcements estimated at US\$57 million were excluded as the proper valuation to comply with the United Nations System Accounting Standards could not be obtained.



**GENERAL FUND AND SPECIAL ACCOUNTS - SPECIFICATION OF INCOME AND EXPENDITURE (Part 1) FOR THE BIENNIUM ENDED 31 DECEMBER 2005**  
(US\$ thousand)

	GENERAL FUND							Total General Fund
	Programme Support and Administrative Costs	Government Counterpart Cash Contributions	Capital Asset Fund	Multilateral & Unallocated Contributions	Private Sector In-Kind Contributions	Specific Capacity Building Initiatives	Other General Fund	
<b>INCOME</b>								
Commodity in-kind contributions	-	-	-	-	-	-	-	-
Services-in-kind contributions	-	-	-	155	12 587	-	(130)	12 612
Other contributions	-	-	-	33 708	-	-	699	34 407
Government cash contributions for local costs	810	2 432	-	-	-	-	-	3 242
Interest	-	-	-	-	-	-	37 669	37 669
Currency exchange adjustments	-	2	46	(463)	-	-	(7 678)	(8 093)
Miscellaneous income	-	31	-	-	-	-	8 998	9 029
Transfer of ISC contributions to General Fund	369 951	-	-	(2 192)	-	-	(699)	367 060
<b>Total Income</b>	<b>370 761</b>	<b>2 465</b>	<b>46</b>	<b>31 208</b>	<b>12 587</b>	<b>-</b>	<b>38 859</b>	<b>455 926</b>
<b>EXPENDITURE</b>								
Commodities in-kind	-	-	-	-	-	-	-	-
Commodities purchased	-	-	-	-	-	-	-	-
Ocean transport and related costs	-	-	-	-	-	-	-	-
Landside transport storage and handling	-	-	23	-	-	6	-	29
Other direct operational costs	-	-	-	-	-	44	-	44
Direct support costs	-	749	16 928	-	12 542	41 220	5 648	77 087
Programme support and administration	385 122	-	-	-	-	-	-	385 122
<b>Total Expenditure</b>	<b>385 122</b>	<b>749</b>	<b>16 951</b>	<b>-</b>	<b>12 542</b>	<b>41 270</b>	<b>5 648</b>	<b>462 282</b>
<b>EXCESS(SHORTFALL) OF INCOME OVER EXP</b>	<b>(14 361)</b>	<b>1 716</b>	<b>(16 905)</b>	<b>31 208</b>	<b>45</b>	<b>(41 270)</b>	<b>33 211</b>	<b>(6 356)</b>
<b>Fund balances beginning of period</b>	<b>-</b>	<b>-</b>	<b>4 189</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27 470</b>	<b>31 659</b>
Contribution adjustments	(57)	-	-	-	-	-	-	(57)
Write-off of accounts receivable	-	-	-	-	-	-	(4 713)	(4 713)
Prior period adjustments	(143)	-	-	343	-	-	(4 827)	(4 627)
Savings on cancellation of prior period obligation	1 004	-	-	-	-	-	-	1 004
Transfers between funds and accounts	(1 488)	-	(1 200)	(2 495)	-	16 000	(18 409)	(7 592)
Transfers to (from) reserves	15 045	-	19 221	-	-	29 873	(20 000)	44 139
<b>FUND BALANCES END OF PERIOD</b>	<b>-</b>	<b>1 716</b>	<b>5 305</b>	<b>29 056</b>	<b>45</b>	<b>4 603</b>	<b>12 732</b>	<b>53 457</b>
<b>Breakdown of contribution adjustments:</b>								
Write-off / write-down of contribution receivables	(57)	-	-	-	-	-	-	(57)
<b>Total</b>	<b>(57)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(57)</b>



GENERAL FUND AND SPECIAL ACCOUNTS – SPECIFICATION OF INCOME AND EXPENDITURE (Part 2) FOR THE BIENNIUM ENDED 31 DECEMBER 2005 (US\$ thousand)														
	SPECIAL ACCOUNTS													Total of General Fund & Special Account
	TC/IT Standby Equipment & Services (Note 19A)	UNHRD (Note 19B)	Aviation Special Account (Note 19C)	Self-Insurance Account (Note 19D)	Advocacy Special Account (Note 19E)	Emerging Donor Matching Fund (Note 19F)	Long Term Loan and Investment (Note 19G)	JPO Fees (Note 19H)	UN Joint Logistics (Note 19I)	Walk the World (Note 19J)	Ending Child Hunger & Undernutrition (Note 19K)	Logistics Award (Note 19L)	Total of Special Account	
<b>INCOME</b>														
Commodity in-kind contributions	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Services-in-kind contributions	–	–	–	–	–	–	–	–	–	–	–	–	–	12 612
Other contributions	–	14 700	–	–	5 709	–	–	1 085	1 521	–	–	–	23 015	57 422
Gov't cash contributions for local costs	–	–	–	–	–	–	–	–	–	–	–	–	–	3 242
Interest	321	192	–	1 154	10	2 628	10 549	–	8	–	–	–	14 862	52 531
Currency exchange adjustments	(50)	(145)	2	15	142	–	–	20	4	–	–	–	(12)	(8 105)
Miscellaneous income	41 018	626	69 528	17 908	198	–	–	–	62	21	–	13	129 374	138 403
Transfer of ISC contribution to Gen Fund	–	(831)	–	–	(64)	–	–	258	(88)	–	–	–	(725)	366 335
<b>Total Income</b>	<b>41 289</b>	<b>14 542</b>	<b>69 530</b>	<b>19 077</b>	<b>5 995</b>	<b>2 628</b>	<b>10 549</b>	<b>1 363</b>	<b>1 507</b>	<b>21</b>	<b>–</b>	<b>13</b>	<b>166 514</b>	<b>622 440</b>
<b>EXPENDITURE</b>														
Commodities in-kind	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Commodities purchased	–	62	–	–	–	–	–	–	–	–	–	–	62	62
Ocean transport and related costs	1	10	–	2	–	–	–	–	–	–	–	–	13	13
Landside transport storage and handling	3	1	–	–	–	–	–	–	–	–	–	–	4	33
Other direct operational costs	1 365	4 820	54 443	8 292	(5)	–	–	–	–	–	–	–	68 915	68 959
Direct support costs	33 410	3 390	3 877	1 050	5 833	104	4 240	734	580	–	–	2	53 220	130 307
Programme support and administration	–	–	–	–	–	–	–	–	–	–	–	–	–	385 122
<b>Total Expenditure</b>	<b>34 779</b>	<b>8 283</b>	<b>58 320</b>	<b>9 344</b>	<b>5 828</b>	<b>104</b>	<b>4 240</b>	<b>734</b>	<b>580</b>	<b>–</b>	<b>–</b>	<b>2</b>	<b>122 214</b>	<b>584 496</b>
<b>EXCESS OF INCOME OVER EXPENDITURE</b>	<b>6 510</b>	<b>6 259</b>	<b>11 210</b>	<b>9 733</b>	<b>167</b>	<b>2 524</b>	<b>6 309</b>	<b>629</b>	<b>927</b>	<b>21</b>	<b>–</b>	<b>11</b>	<b>44 300</b>	<b>37 944</b>
<b>Fund balances beginning of period</b>	<b>39</b>	<b>2 523</b>	<b>–</b>	<b>26 651</b>	<b>345</b>	<b>46 365</b>	<b>–</b>	<b>(262)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>75 661</b>	<b>107 320</b>
Contribution adjustment	–	–	–	–	–	–	–	–	–	–	–	–	–	(57)
Write-off of accounts receivable	–	–	–	–	–	–	–	–	–	–	–	–	–	(4 713)
Prior period adjustments	(4)	(120)	–	(385)	–	(1 932)	–	–	–	–	–	–	(2 441)	(7 068)
Savings on cancellation of prior period obl	–	–	–	–	–	–	–	–	–	–	–	–	–	1 004
Transfers between funds and accounts	1 200	–	–	–	–	(5 759)	–	–	–	–	1 475	13	(3 071)	(10 663)
Transfers to (from) reserves	–	–	–	(6 447)	–	–	–	–	–	–	–	–	(6 447)	37 692
<b>FUND BALANCES END OF PERIOD</b>	<b>7 745</b>	<b>8 662</b>	<b>11 210</b>	<b>29 552</b>	<b>512</b>	<b>41 198</b>	<b>6 309</b>	<b>367</b>	<b>927</b>	<b>21</b>	<b>1 475</b>	<b>24</b>	<b>108 002</b>	<b>161 459</b>



113. The Special Accounts are described below:

### **19A. TC/IT Standby Equipment and Services**

114. The telecommunications and information technology (TC/IT) Standby Equipment and Services Special Account was established by the Executive Director effective January 2000, to be used for financing stand-by equipment and services for rapid deployment in emergency situations and to enhance information and communication technology (ICT) support services worldwide. The services are provided through Fast Information Technology and Telecommunications Emergency Support Team (FITTEST), a small team consisting of highly qualified engineers and administrative and stock maintenance staff.

115. The TC/IT Special Account was funded in 2001 by way of a budget allocation of US\$1,979,000 from additional PSA funding in order to be used for the purchase of stocks of stand-by equipment and to fund initial services at the first stage of deployment. As per the accounting policy on valuation (see Note 2.D2), stocks of stand-by equipment that are on hand are already charged against expenditures. In 2004–2005, cost of equipment used and services totalling US\$27,091,178 rendered by FITTEST were recovered from projects through an internal invoicing mechanism (see also Note 20).

### **19B. United Nations Humanitarian Response Depot (UNHRD)**

116. The United Nations Humanitarian Resource Depot (UNHRD) Special Account was established to account for the transactions affecting the operations of this depot that was established on 1 June 2000, in Brindisi, Italy, and managed by WFP. The depot is operated for a consortium of United Nations humanitarian agencies and non-governmental organizations (NGOs) that provide services to other parties under separate contractual agreements.

117. 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.

### **19C. Aviation Special Account**

118. 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.



119. Through this Special Account, WFP also administers air transport services for humanitarian and other activities for UN agencies, funds and programmes and their NGO implementing partners, as agreed at the High Level Committee for Management (HLCM) meeting held in New York on 15 June 2003.
120. The Special Account is reimbursed by its users at cost. The users consist of Special Operations projects on air transport services and third parties such as NGOs and other UN organizations. To cover costs for maintaining an aviation management infrastructure, including safety and management quality assurance programmes, users are charged management cost recovery fees.
121. With effect from 01 January 2006, the balance of the trust fund Airlift Activities – Operation Lifeline Sudan as well as all its customer accounts will be transferred to the Aviation Special Account and the trust fund will be closed accordingly.

#### **19D. International Cargo Self-Insurance Account**

122. WFP has had a self-insurance scheme since 1 May 1994. The scheme covers pre-delivery and transit commodity losses involving international cargo. Each shipment is reinsured with an external company against losses exceeding US\$750,000 per consignment, or US\$1.5 million per vessel.
123. 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.

#### **19E. Advocacy Special Account**

124. The Advocacy Special Account (formerly Public Affairs Branch) 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.

#### **19F. Emerging Donor Matching Fund (EDMF)**

125. In October 2002, the Board approved the use of US\$39.7 million excess of loan proceeds (see Note 19G below) over expected repayments to fund in part the Executive Director's expenditure plan (2002/EB.3/5). The Executive Director established the EDMF account with these proceeds in June 2003 to provide matching funding only 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).

#### **19G. Long Term Loan and Investment**

126. 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, in December 2000 the donor gave a directed multilateral contribution in cash of US\$164,140,948, consisting of US\$106,000,000 to cover the costs of commodities and US\$58,140,948 for transport and other related costs. WFP then purchased commodities



against a long-term loan contract with a government agency in the donor country, amounting to US\$106,000,000.

127. The loan is payable over 30 years, with a ten-year grace period on the principal. Interest on the loan is at the rate of 2% per year for the first ten years, starting in June 2001, and 3% per year on the declining balance each year thereafter.
128. To ensure the repayment of the interest and principal, the US\$106,000,000 cash contribution for the commodity was invested in long-term United States Treasury STRIPS (with acquisition cost of US\$66,288,383, plus US\$ 16,572 commissions) and in short-term fixed-income securities (US\$39,695,045). Four of the STRIPS have matured over the last four years to pay off the annual interest due on the loan and the balance of the investment in STRIPS has been reduced to US\$58,504,422 as at 31 December 2005 (see also Note 8).
129. 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.

### **19H. Junior Professional Officer (JPO) Fees**

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

### **19I. UN Joint Logistics Centre (UNJLC)**

131. The UNJLC is an inter-agency humanitarian response mechanism that ensures the provision of logistics support for the movement of relief to and in the area of operations at the onset of an emergency regardless of location. In February 2001, this concept was endorsed by the Inter-Agency Standing Committee – Working Group (IASC-WG) of the UN and designated WFP as the pilot agency for developing the project.
132. 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.

### **19J. Walk the World**

133. The Walk the World special account was established in June 2005 to enable the Walk the World Division (FDW) of the Fundraising Department to account for local costs of supporting the Walk the World and related fundraising activities.
134. Funding for the local costs comes from 10% of funds raised locally by WFP through the Walk the World and related FDW-assisted activities. Any excess of funds held beyond the expected funding needs may be programmed to school feeding, maternal/child nutrition or other child-based projects.



### **19K. Ending Child Hunger and Undernutrition**

135. During its Second Regular Session in 2005, the Board took note of the concept paper on "Ending Child Hunger and Undernutrition Initiative" and of the Executive Director's intention to allocate up to US\$1.5 million from 2005 PSA to support WFP's participation in the development and launch of the Plan of Action for this initiative.
136. A special account was established in December 2005 as a mechanism to receive monies from a variety of sources, including direct contributions from donors who wish to support the initiative. The initial funding of US\$1,475,000 was transferred from the 2005 PSA.

### **19L. Logistics Award**

137. A private donor gave US\$13,000 to WFP, which was matched by WFP, for the purpose of providing an annual cash award to a deserving WFP staff for "Excellence in Humanitarian Logistics" or more specifically, for exceptional service in designing and carrying out effective delivery of food aid in humanitarian interventions.
138. The purpose of the special account, which was established in September 2005, is to provide an accounting mechanism for the capital and interest income of the fund as well as for the annual cash awards and other expenditures that may be incurred by the fund.

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## **NOTE 20: BILATERAL OPERATIONS AND TRUST FUNDS**

139. The Bilateral Operations and Trust Funds for the year ended 31 December 2005 consisted of the following:



**BILATERAL OPERATIONS AND TRUST FUNDS - SPECIFICATION OF INCOME AND EXPENDITURE FOR THE BIENNIUM ENDED 31 DECEMBER 2005**  
(US\$ thousand)

	<b>Bilateral Operations</b>	<b>Technical Support to Iraq's Public Distribution System*</b>	<b>Junior Professional Officer Programme</b>	<b>Airlift Activities – Operation Lifeline Sudan (Note 19C)</b>	<b>Other Trust Funds</b>	<b>Total</b>
<b>INCOME</b>						
Commodity In-kind contributions	–	13 484	–	–	–	13 484
Services-in-kind contributions	–	–	–	–	22 149	22 149
Other contributions	32 756	910 000	14 053	–	124 797	1 081 606
Government cash contributions for local costs	–	–	–	–	–	–
Interest	1 135	–	227	–	892	2 254
Currency exchange adjustments	101	–	2	–	(54)	49
Miscellaneous income	–	–	–	29 778	–	29 778
Transfer of Indirect Support Cost contributions to General Fund	(1 657)	(39 187)	(299)	(1 853)	(2 258)	(45 254)
<b>Total Income – Net of Transfer to General Fund</b>	<b>32 335</b>	<b>884 297</b>	<b>13 983</b>	<b>27 925</b>	<b>145 526</b>	<b>1 104 066</b>
<b>EXPENDITURE</b>						
Commodities in-kind	–	13 484	–	–	3 136	16 620
Commodities purchased	4 725	579 976	–	–	43 248	627 949
Ocean transport and related costs	2 727	94 828	–	–	431	97 986
Landside transport storage and handling	953	66 338	6	352	5 230	72 879
Other direct operational costs	7 186	–	–	28 456	3 659	39 301
Direct Support Costs	15 254	7 328	11 969	16	58 817	93 384
<b>Total expenditure</b>	<b>30 845</b>	<b>761 954</b>	<b>11 975</b>	<b>28 824</b>	<b>114 521</b>	<b>948 119</b>
<b>EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE</b>	<b>1 490</b>	<b>122 343</b>	<b>2 008</b>	<b>(898)</b>	<b>31 005</b>	<b>155 947</b>
<b>Fund balances beginning of period</b>	<b>50 836</b>	–	<b>6 352</b>	<b>3 917</b>	<b>20 736</b>	<b>81 841</b>
Contribution adjustments	(41 913)	–	(919)	–	(6)	(42 838)
Prior period adjustments	(2 914)	–	5	–	250	(2 659)
Transfers between funds and accounts	18 604	–	–	–	–	18 604
<b>RESERVES AND FUND BALANCES END OF PERIOD</b>	<b>26 103</b>	<b>122 343</b>	<b>7 446</b>	<b>3 018</b>	<b>51 985</b>	<b>210 895</b>

<b>Breakdown of contribution adjustments:</b>						
Reprogramming of unused fund balances	(9 723)	–	(1)	–	–	(9 724)
Refund of unused fund balances	(32 190)	–	(918)	–	–	(33 108)
Write-off & write-down of uncollectible accounts	–	–	–	–	(6)	(6)
<b>Total</b>	<b>(41 913)</b>	–	<b>(919)</b>	–	<b>(6)</b>	<b>(42 838)</b>

\* This project is kept open pending resolution of claims against transporters where WFP acted as agents for insurers.



## NOTE 21: ELIMINATIONS

140. Certain internal activities lead to accounting transactions that create inter-office balances in the financial statements. In order to more accurately present these financial statements, these balances are eliminated through consolidation, as shown in Statement I and Statement II. During 2004–2005, the activities that created such inter-office balances were:

Eliminations	US\$		
<b>A. Statement of Income and Expenditure and Changes in Reserves and Fund Balances</b>			
<u>Miscellaneous Income</u>		<u>Expenditure</u>	
TC/IT Special Account	27 091 178	ODOC Project expenditures	19 441 129
Aviation Special Account	42 499 776	LTSH Project expenditures	35 415 981
UNHRD	467 895	DSC Project expenditures	26 248 072
Self-Insurance Account	11 039 301		
Advocacy Special Account	7 031		
<b>Total amount eliminated</b>	<b>81 105 182</b>		<b>81 105 182</b>
<b>B. Statement of Assets, Liabilities, Reserves and Fund Balances</b>			
<u>Receivable of General Fund from Projects &amp; Payable of Projects to General Fund</u>			
DSCAF advances			10 520 766
Advances against Working Capital Financing			57 567 051
<b>Total amount eliminated</b>			<b>68 087 818</b>

## NOTE 22: CONTINGENT LIABILITIES

141. In addition to the estimated staff liabilities mentioned in note 12B, WFP has contingent liabilities representing the following:

- Interest and foreign exchange costs being claimed from WFP by a transport supplier who was successful in an arbitration case filed in 2003 against WFP for non-payment of invoices. WFP has settled the invoices totalling US\$1.6 million but the interest and foreign exchange costs thereon are still under negotiation.
- Instances of fraud uncovered in a regional bureau. The matter was reported to the local authorities who have commenced legal proceedings against the alleged perpetrators. The loss is estimated to be approximately us\$6 million, in respect of which some financial liabilities could arise in relation to third parties. Such contingent liabilities would be attenuated by the recovery of funds pursuant to asset forfeiture proceedings commenced by the local authorities against the alleged perpetrators. The amount of such recovery cannot be determined at this time with any degree of certainty.



## ACRONYMS USED IN THE DOCUMENT

ASA	Aviation Special Account
ASMCP	After-Service Medical Coverage Plan
CAF	Capital Asset Fund
CPRF	Compensation Plan Reserve Fund
DEV	development programme
DOC	direct operational costs
DSC	direct support cost
DSCAF	Direct Support Cost Advance Facility
EMOP	emergency operation
FAC	Food Aid Convention
FAO	Food and Agriculture Organization of the United Nations
FITTEST	Fast Information Technology & Telecommunications Emergency Support Team
FMIP	Financial Management Improvement Programme
GCCC	government counterpart cash contribution
ICT	Information and Communications Technology
IRA	Immediate Response Account
ISC	indirect support costs
JPO	junior professional officer
LTSH	landside transport, storage and handling
NGO	non-governmental organization
ODOC	other direct operational costs
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative (budget)
SO	special operation
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
UNHRD	United Nations Humanitarian Response Depot
UNICEF	United Nations International Children's Fund
UNJLC	United Nations Joint Logistics Centre
UNJSPF	United Nations Joint Staff Pension Fund
UNSECOORD	Office of the United Nations Security Coordinator
WINGS	WFP Information Network and Global System