General Assembly
Official Records
Seventieth Session
Supplement No. 5B

A/70/5/Add.2

United Nations Capital Development Fund

Financial report and audited financial statements

for the year ended 31 December 2014

and

Report of the Board of Auditors

United Nations • New York, 2015

Note

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

ISSN 0251-8317

[26 June 2015]

Contents

Letters of transmittal and certification

Letter dated 30 April 2015 from the Managing Director and the Executive Secretary of the United Nations Capital Development Fund and the Assistant Administrator and Director and the Chief Finance Officer/Comptroller of the Bureau of Management of the United Nations Development Programme addressed to the Chair of the Board of Auditors

Pursuant to financial regulation 26.01, we have the honour to submit the financial statements of the United Nations Capital Development Fund (UNCDF) for the year ended 31 December 2014, which we hereby approve.

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

We, the undersigned, acknowledge that:

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

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

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

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

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

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

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

(*Signed*) Judith **Karl**
Executive Secretary, United Nations Capital Development Fund

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

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

Letter dated 30 June 2015 from the Chair of the Board of Auditors to the President of the General Assembly

I have the honour of transmitting to you the report of the Board of Auditors on the financial statements of the United Nations Capital Development Fund for the financial year ended 31 December 2014.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors
Lead Auditor

Chapter I

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

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Capital Development Fund (UNCDF) for the year ended 31 December 2014, which comprise the statement of financial position (statement I) as at 31 December 2014, the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the cash flow statement (statement IV), the statement of comparison of budget and actual amounts (statement V) and the notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Audit opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of United Nations Capital Development Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards.

Report on other legal and regulatory requirements

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

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

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors
Lead Auditor

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General
of the United Kingdom of Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2015

Chapter II
Long-form report of the Board of Auditors

Summary

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

The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2014. The audit was carried out through field visits to a country office, a project office and a regional office, as well as a review of the Fund's financial transactions and operations at UNCDF headquarters in New York.

Scope of the report

The present report covers matters that in the opinion of the Board should be brought to the attention of General Assembly and have been discussed with UNCDF management, whose views have been duly reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCDF as at 31 December 2014 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNCDF operations under financial regulation 7.5 of the United Nations. This requires the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of UNCDF operations. The present report includes comments on the status of implementation of previous recommendations.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements of UNCDF for the period under review, as reflected in chapter I of the present report.

Overall conclusion

The Board did not identify material misstatements that would have affected its opinion on the UNCDF financial statements. It noted continued improvements made

by UNCDF in terms of the preparation and presentation of the financial statements since the adoption of IPSAS in 2012. The improvements included, for example, increasing the assets capitalization threshold for the proper recording of assets and bringing the policy into congruence with that of other United Nations organizations. Some immaterial control deficiencies were noted in relation to project management. The Board also noted the ongoing initiatives for the realignment of UNCDF business processes. It urges UNCDF management to continue making improvements in the processes and procedures in order to achieve the realignment in an efficient and effective manner.

Furthermore, the Board noted that UNCDF continued to accumulate operating reserves at a rate of 20 per cent of its project commitments,[a] in line with the 1979 decision of the Governing Council (now the Executive Board) of the United Nations Development Programme (UNDP). The Board is concerned, however, that there is no justification provided for the basis used to estimate project commitments and that such computation has no connection with the risk management framework.

Key findings

The Board highlights the key findings set out below.

Performance management and development

From the performance management and development records for 2014 reviewed at UNCDF headquarters, the Board found the following deficiencies: (a) 57 (52 per cent) out of 110 total staff had completed neither their performance plans nor their midyear reviews; (b) the performance plans for 31 staff (28 per cent) were in progress; and (c) the performance plans had not been submitted for review and approval by managers and the results of their assessments had not been used for the intended purpose. The performance management and development tools were introduced to assist management in assessing staff in areas such as competency domains and capacity and in ensuring recognition of staff for delivery of best services. The Board is concerned that the noted deficiencies limit UNCDF in achieving its goals of integrating key aspects of staff performance into talent management and the assessment of results, competency domains and staff capacity. Furthermore, there is ineffective oversight to ensure that UNCDF achieves the benefits of the new performance management and development tools.

Reserve calculations and assumptions

UNCDF has an operating reserve of $14.42 million, which is 20 per cent of its project commitments, set aside in line with the percentage established in the above-mentioned decision. The Board is concerned, however, that the estimated project commitments is taken as $10 million per annum over four years but the basis for the assumptions made for those estimations was not made clear or justified or supported by the risk management framework and strategy. Furthermore, the Board noted that, although there are risks associated with income for non-core resources, UNCDF reserves do not cover non-core resources risks, such as expenditure-related risks and structural risks, which should be mitigated through prudent financial management by the establishment of a financial reserve. The Board considers that the current method for calculating the operating reserve may not fully address the financial and operating risks to UNCDF as expected.

Inadequate procurement planning

Project life cycle and the Programme and Operations Policies and Procedures require UNCDF headquarters, country offices, project offices and regional offices to identify all relevant activities for the subsequent year and submit their plans to headquarters by January each year. The Board noted that a number of offices had not prepared procurement requisition plans for the financial year 2014, which were to be consolidated and updated in an electronic SharePoint system to ensure that they were in line with the approved standards and timelines and to enable the Procurement Support Office of UNDP to manage the procurement needs of the organization. Inadequacies in procurement planning limit UNCDF from maximizing the use of procurement resources in terms of economies of scale and through analysis of its procurement needs to obtain the best value for money.

Recommendations

The Board has made a number of recommendations based on its audit that are contained in the main body of the present report. The main recommendations are that UNCDF:

Performance management and development

(a) **Put in place an oversight mechanism to ensure that performance management development plans and assessments are completed in a timely manner, reviewed and approved by managers;**

(b) **Develop a clear action plan to ensure that performance management and development tools are used in talent management and the assessment of results, competency domains and staff capacity;**

Reserve calculation

(c) **Perform analysis to substantiate the reserve amount in terms of percentage and in a manner consistent with the risk mitigation strategy and framework;**

Inadequate procurement planning

(d) **Ensure that all offices prepare procurement requisition plans and that they are consolidated in line with the Programme and Operations Policies and Procedures.**

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[a] The term "commitments" refers to the amounts at which donors agree to fund future projects. For reserve computation management, an estimated amount of $10 million per annum for the period of four years is used as a commitment amount.

Key facts	
$89.06 million	Total revenue
$57.97 million	Total expenses
$31.09 million	Total surplus for 2014
$14.26 million	Approved budget (core resources)
$14.16 million	Revenue (core resources)
$74.907 million	Revenue (non-core resources, investments and other revenue items)
$11.63 million	Actual expenses (core resources)[a]
$38.00 million	Approved budget for grants and transfers
$26.11 million	Actual expenses for grants and transfers

[a] Only core resources are budgeted and approved by the Executive Board. Other resources (non-core) are not budgeted.

A. Mandate, scope and methodology

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

2. The Board of Auditors has audited the financial statements and reviewed the operations of UNCDF for the financial year ended 31 December 2014, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations (ST/SGB/2003/7 and Amend.1), as well as the International Standards on Auditing. Those standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNCDF as at 31 December 2014 and its financial performance and cash flows for the financial year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the financial regulations and rules of the United Nations Development Programme (UNDP) (applicable to

UNCDF). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

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

5. The Board coordinates with the Office of Audit and Investigations in the planning of its audits to avoid duplication of efforts and to determine the extent of reliance that can be placed on the work of the Office. The present report relates to audits performed at the Fiji regional office of UNDP, where UNCDF is implementing a joint programme; the Papua New Guinea country office; the Myanmar project office; and UNCDF headquarters in New York.

6. The Board's observations and conclusions were discussed with UNCDF management, and, where appropriate, their views have been reflected in the present report. The Board considers that its recommendations may have wider application across all UNCDF locations.

B. Findings and recommendations

1. Follow-up of previous recommendations

7. The Board noted that, of the 11 recommendations made as at 31 December 2013, six (55 per cent) had been fully implemented, four (36 per cent) were under implementation and one (9 per cent) had not been implemented. The outstanding recommendation required UNCDF to maintain liaison with UNDP to ensure that UNCDF impaired the overdue loans and recognized interest accrued as set out in the approved loan policy. The loan policy was approved on 26 June 2015, and UNCDF will begin implementing it in 2015. The Board considers that UNCDF needs to exert more effort to ensure that the remaining recommendation is implemented. Details on the status of implementation of these recommendations are contained in the annex to the present report.

2. Financial overview

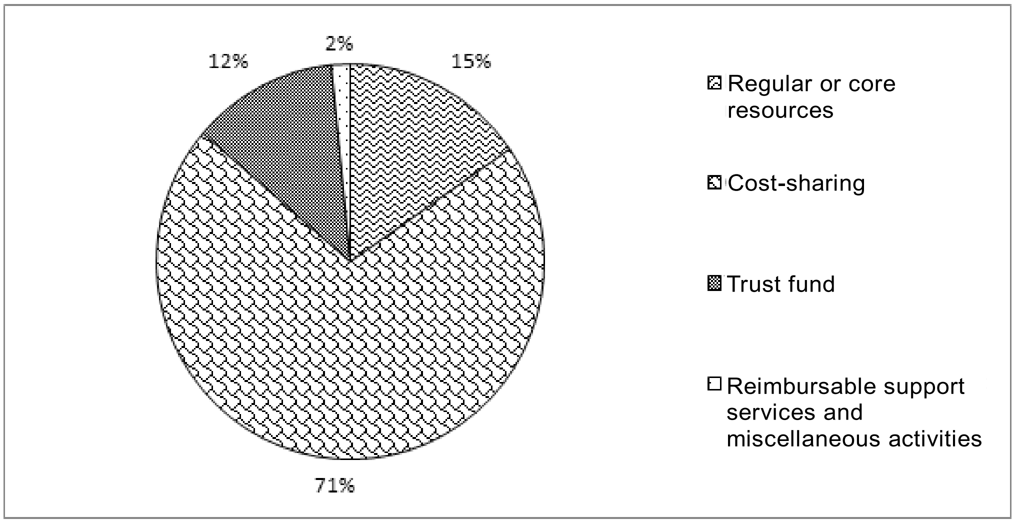
Revenue and expenses

8. UNCDF revenue includes voluntary contributions, investment revenue and other revenue. During the year 2014, total revenue amounted to $89.06 million (2013: $66.24 million) and total expenses amounted to $57.97 million (2013: $59.91 million), resulting in a surplus of $31.09 million (2013: $6.32 million). During 2014, total voluntary contributions to the Fund were $88.17 million, equivalent to 99 per cent of total revenue (net of returns to donors for unused contributions).

9. Voluntary contributions increased by $23 million (35 per cent) compared with 2013 contributions of $65.17 million, reflecting increased donor support for projects. The amount of voluntary contributions comprised regular or core resources

of $13.53 million (15 per cent), cost-sharing of $62.53 million (71 per cent), trust funds amounting to $10.72 million (12 per cent) and reimbursable support services and miscellaneous activities amounting to $1.39 million (2 per cent). These contribution levels are shown in figure II.1.

Figure II.1
Comparative contributions for regular and other resources

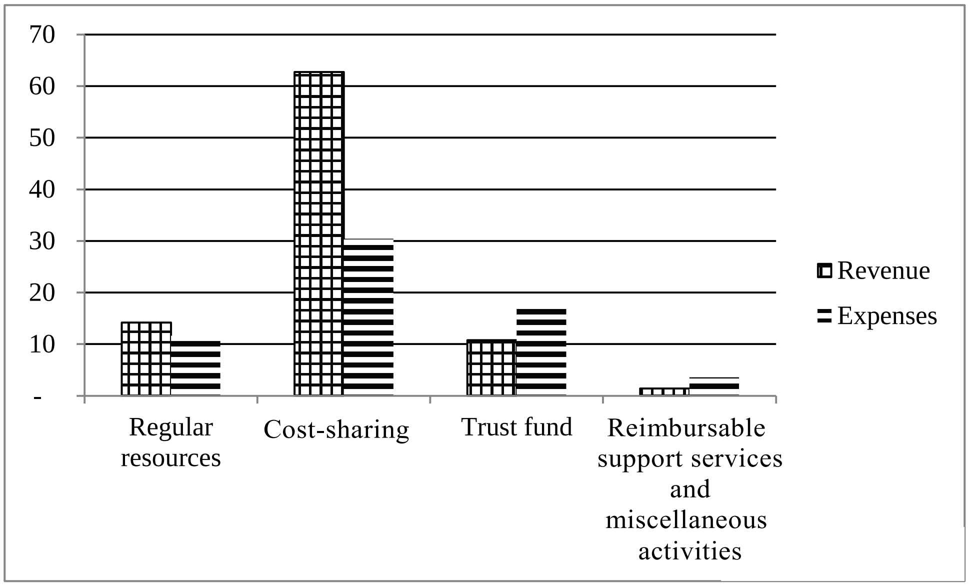


Source: Board's analysis of UNCDF 2014 financial statements.

10. Expenses during the reporting period, as reported in the statement of financial performance (statement II), amounted to $57.97 million. The breakdown by segment was as follows: expenses related to cost-sharing, $30.40 million (51 per cent); expenses for regular resources, $11.63 million (20 per cent); and expenses for trust funds, $17.05 million (29 per cent). The breakdown of expenses by segment also takes into account $3.56 million from reimbursable support services and miscellaneous, less the recovery cost of $4.67 million.

11. The classification of expenses by nature indicates that $26.11 million (45 per cent) was spent for grants and other transfers; $15.15 million (26 per cent) for staff costs; $7.82 million (14 per cent) for general operating expenses, net of $4.67 million for cost recovery; $7.71 million (13 per cent) for contractual services; and $1.18 million (2 per cent) for supplies and consumables, other expenses, depreciation and finance cost. Comparative revenues and expenses by segment are shown in figure II.2.

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



Source: Board's analysis of UNCDF 2014 financial statements.

Ratio analysis

12. An analysis of the Fund's main financial ratios shows that it had higher liquidity ratios in 2014 compared with 2013. With the exception of the current ratio, the liquidity ratios have improved, which implies a stronger liquidity position. The slight decrease in the ratio in 2014 is the result of a strategy to invest in more long-term investments in the current year compared with 2013, as shown in table II.1.

Table II.1
Ratio analysis

Description of ratio	*31 December 2014*	*31 December 2013 (restated)*
Current ratio[a]		
Current assets: current liabilities	22.5	30.2
Total assets: total liabilities[b]		
Assets: liabilities	7.6	6.9
Cash ratio[c]		
Cash + investments: current liabilities	17.3	24.1
Quick ratio[d]		
Cash + investments + accounts receivable: current liabilities	22.0	28.5

Source: Board's analysis of UNCDF 2014 financial statements.

[a] A high ratio, defined as greater than 1:1, indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio, because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

13. UNCDF accumulated operating reserves of $14.42 million (2013: $14.62 million) and cash and investments of $111.8 million (2013: $78.67 million) continued to provide an adequate level of liquidity. The reserve is maintained in accordance with the financial regulations and rules of UNDP (applicable to UNCDF), which require the Fund to hold in reserve an amount equivalent to at least 20 per cent of its project commitments. The amount held as at 31 December 2014 was slightly lower than the amount held as at 31 December 2013.

Assets and liabilities

14. The current assets of UNCDF as at 31 December 2014 were $61.28 million, more than 22 times the current liabilities of $2.7 million, indicating the Fund's strong ability to meet short-term obligations. Similarly, total assets of $126.47 million comfortably exceeded total liabilities of $16.59 million, revealing a healthy financial position.

3. International Public Sector Accounting Standards post-implementation

15. For the third year, UNCDF is reporting under IPSAS, and the Board noted that it is progressing well, as no material IPSAS-related deficiencies were noted. Over that period, UNCDF used the experience gained to improve its financial statements. For example, with effect from 1 January 2014, the asset capitalization threshold was increased from $500 to $2,500. The change was aimed at bringing UNCDF accounting policy into line with other United Nations agencies as well as enhancing the recording of assets in compliance with IPSAS. The change was applied retroactively, and the 2013 comparative information was restated.

4. Corporate tools for planning, monitoring and reporting

Non-utilization of corporate tools for planning, monitoring and reporting

16. UNCDF corporate tools for the planning, monitoring and reporting of its activities and programmes are hosted on UNDP platforms. The Board noted that, whereas the Programme and Operations Policies and Procedures require that such tools, which include the enhanced balanced score cards and the integrated workplans, be used in overseeing and monitoring UNCDF programmes and operations, they were not made available to UNCDF. As a result, UNCDF used only spreadsheets and e-mails for its planning, monitoring and reporting requirements.

17. UNCDF explained that access to the tools and the platforms required guidance and training, as well as communication with UNDP. UNCDF stated that it had requested support from UNDP for assistance in fully utilizing the systems tools for planning, monitoring and reporting to enhance financial and performance management.

18. The Board considers that UNCDF needs to intensify its follow-up efforts with UNDP to ensure that it has secure access to and use of the platform and tools. The use of spreadsheets is prone to errors and might therefore impair decision-making. Non-utilization of the developed tools and platforms undermines their intended purpose in effective strategic planning, monitoring and reporting and impedes the attainment of benefits from their use.

19. **UNCDF agreed with the Board's recommendation that it work closely with UNDP to gain access to the tools and platforms and effectively utilize them for the strategic planning, monitoring and reporting of its programmes and activities in order to deliver better results.**

5. Procurement and contract management

Inadequate procurement planning

20. The Programme and Operations Policies and Procedures require UNCDF headquarters, country offices, project offices and regional offices to identify all relevant activities for the subsequent year and to submit plans for those activities to headquarters by January each year.

21. The Board noted that UNCDF headquarters, the direct implementation modality project, one regional office and one country office, which had a total procurement value of $946,294, had not prepared procurement requisition plans for 2014. Plans should be updated and consolidated in the SharePoint system for control purposes, to ensure that they are in line with the approved standards and timelines and to enable the Procurement Support Office to manage the procurement needs of the organization.

22. UNCDF management stated that the regional office had not prepared the plan because it was relocating from one country to another. In addition, UNCDF was developing an online tool for offices to use when uploading its consolidated procurement plans. The Board is concerned that the lack of procurement plans inhibits senior management oversight of procurement activities and the effective use of the tool, as well as the timely submission of plans in accordance with the Programme and Operations Policies and Procedures. It also reduces the ability of

UNCDF to maximize the use of procurement resources to achieve economies of scale and value for money through improved analysis of procurement needs.

23. **UNCDF agreed with the Board's recommendation that it ensure that all offices prepare procurement requisition plans, and that the plans are consolidated in line with the Programme and Operations Policies and Procedures.**

6. Human resources management

Performance management and development

24. UNCDF introduced performance management and development arrangements that replaced the results and competency assessments. The performance management and development arrangements are aimed at facilitating a strategic integration of the individual performance planning and assessment, improving the triangular relationship between planned results, competency domains and staff capacity, and ensuring the review of talent management and the recognition of staff for delivery of best services. According to the performance management and development guidance note, issued in April 2013 by UNCDF management, the year-end performance assessments for the previous year and the performance plans for the following year must be completed by January/February of each year. The midyear review and feedback must be completed for all three stages by June/July of the respective year.

25. The Board reviewed the status summary for performance management and development for 2014 in Atlas and noted that 57 (52 per cent) out of 110 total staff had completed neither their performance plans nor their midyear reviews for 2014. As for the remaining 53 staff, 22 (20 per cent) had completed their performance plans, whereas the performance management and development plans of 31 (28 per cent) were in progress. In addition, the completed plans had not been submitted to managers for review and approval, and the results of the assessment had not been used for talent management and the assessment of competency domains and staff capacity. A comparison with the previous year's position showed that in 2013, out of the total of 94 staff available, only 49 (52 per cent) had completed their performance management and development plans, whereas the plans of 45 (48 per cent) were in progress.

26. Subsequently, UNCDF introduced monitoring and oversight mechanisms and thus improved the performance management and development plan completion rate by 80 per cent, as verified by the Board in May 2015. It also clarified that talent management was handled under the auspices of UNDP. The Board considers, however, that UNCDF needs to improve the management of the performance management and development process to ensure that its objectives are achieved efficiently in the areas of talent management and the assessment of results, competency domains and staff capacity.

27. **UNCDF agreed with the Board's recommendations that it: (a) continue strengthening the oversight mechanism to ensure that performance management and development plans and assessments are completed in a timely manner and reviewed and approved by managers; and (b) develop a clear action plan in collaboration with UNDP to ensure that the performance management and development process is used in talent management and the assessment of results, competency domains and staff capacity.**

7. Programme and project management

Operational closure of projects and initiating of new projects

28. The Board found that all five sampled projects under phase I of the Pacific Financial Inclusion Programme, which had been operationally closed as at 30 June 2014, were still open in the Atlas system as of November 2014. The project donor agreed to roll over the projects' balances, which amounted to $1.1 million, to phase II of the Pacific Financial Inclusion Programme in Fiji, which was to be implemented from July 2014 to December 2018. Contrary to the donor agreement, however, the regional office charged a total of $548,075 intended for phase II to phase I during the period from July to October 2014, given that phase II had not begun until November 2014.

29. UNCDF stated that it had delayed the creation of phase II projects in the system because it was awaiting a decision on its internal arrangement to split funds between UNDP and UNCDF, which was reached in October 2014 and presented to the investment committee in November 2014. Furthermore, the Multi-Partner Trust Fund Office, as the new recipient for phase II funds, could not approve the budget without the approval of the investment committee, UNCDF and UNDP. After the procedural requirements were fulfilled, the expenditure for 1 July 2014 to 31 October 2014 would have been shifted to the phase II projects.

30. Acknowledging management's explanation for the delayed start of the phase II projects, the Board considers that project funds should not be charged against expired projects. Charging expenses to an incorrect project phase weakens internal controls designed to ensure proper utilization and reporting of project funds. In addition, delays in closing projects in Atlas affects the timely determination and settlement of final financial obligations related to projects.

31. **UNCDF agreed with the recommendation of the Board that: (a) it expedite the process of operational closure for all projects based on their end dates and review the project status in Atlas in a timely manner to comply with Programme and Operations Policies and Procedures; and (b) the investment committee, UNDP and UNCDF accelerate the process of approving budgets at project inception to allow swifter budget approval by the Multi-Partner Trust Fund Office to facilitate the implementation of phase II projects.**

Inactive and non-closed projects

32. UNDP Programme and Operations Policies and Procedures on trust funds (applicable to UNCDF) require trust fund managers to identify and authorize closure of inactive trust funds annually. Furthermore, the financial regulations and rules of UNDP (applicable to UNCDF) provide for the disposal of unexpended trust funds after the related programme activities have been financially completed.

33. The Board found, however, that 22 (69 per cent) out of 32 trust funds in the financial statements had no expenses during 2014 and had been inactive since 2004. The trust funds had balances amounting to $1.3 million as at 31 December 2014. UNCDF explained that it was seeking guidance from donors on how to dispose of the inactive balances.

34. Moreover, the Programme and Operations Policies and Procedures and the financial regulations and rules require financial closure of project within 12 months

of operational closure. However, 285 (59 per cent) out of 484 projects that should have been financially closed between 2004 and 2014 remained open in Atlas in May 2015, some of them representing delays of up to 10 years. UNCDF attributed the delays to the late finalization of transactions and the longer time required to clear or reconcile outstanding transactions of some projects.

35. Nevertheless, the Board noted that the delays were due mainly to the lack of regular review of the status of the projects, which would have provided the basis for coordinating project managers to initiate their financial closure. Proper evaluation of the use of project funds cannot commence until a project or trust fund is closed. The delay therefore limits opportunities to learn lessons from the project implementation and increases the risks of incorrectly charged expenditure or commitments.

36. **UNCDF agreed with the Board's recommendation that it: (a) maintain liaison with donors to agree on mechanisms for disposing of any remaining balances to include in future trust fund agreements; (b) establish timelines and take all measures necessary to refund or reprogramme the $1.3 million from 22 inactive trust funds; and (c) expedite the process of financial closure of all long-outstanding operationally closed projects and review in a timely manner project status in Atlas to comply with policies and procedures in the operational and financial closure of projects.**

8. Grants and loans management

Grants follow-up

37. The Board's review of the Fund's provisioning of grants to key beneficiaries identified the following deficiencies:

(a) *Grants budget performance*: capital development financing through grants and loans is one of the primary activities of UNCDF. For 2014, a total of $38 million was budgeted for grants. As of November 2014, however, only $18.7 million (49 per cent) had been disbursed as grants to microfinance institutions. UNCDF management explained that grants were performance-based and therefore low disbursement reflected the failure of grantees to meet milestones in the grant agreements. Whereas UNCDF expected that the pace of grant issuance would increase in the last quarter of 2014, the Board considers that with adequate management follow-up, the grant recipients would have attained a satisfactory amount of milestones. A low rate of grants provision limits UNCDF in achieving grant budget objectives;

(b) *Grants disbursement and microfinance institution licence*: in one of its three field visits, the Board found that the Myanmar project office had engaged a microfinance institution to provide funding of $1.8 million in five tranches from 2013 to 2017. As a prerequisite for receiving the first tranche of the grant, the microfinance institution was to obtain a licence to conduct microfinance business in the host country by June 2013. However, the project office disbursed a total of $500,000 as grant to the microfinance institution upon the signing of the contract in 2013, when the microfinance institution had not fulfilled the legal requirements. In addition, the project office did not report the grant in the schedule of grants disbursements, and until the time of the field visit in November 2014, the microfinance institution had not secured the licence. As microfinance institution licence compliance was a prerequisite during the microfinance institution engagement, the failure to secure the licence even after engagement should have been the basis for seeking a refund from the microfinance institution, but appropriate actions were not taken.

38. UNCDF stated that the initial grant disbursed upon the signing of the agreement was intended to help the organization start operations. Prior to receiving the grant, the microfinance institution did not have any operations in the host country. The issue was discussed during regular calls with the lead microfinance adviser to UNCDF in New York and the decision was made not to request a refund, which would have essentially ended the project, but to continue working with them.

39. The Board is of the view that the disbursement of grants to a microfinance institution that has not fulfilled the legal requirements of the host country exposes UNCDF to the risk of loss and reputational damage owing to the conduct of unlawful operations of the institution. In addition, UNCDF did not consider inviting and extending further competitive procedures to find other microfinance institutions that had already been registered to replace the microfinance institution.

40. **UNCDF agreed with the Board's recommendation that it: (a) enhance follow-up on grantees to ensure that they meet milestones and that budgeted grants are issued in a timely manner; (b) ensure that no microfinance institution is approved to carry out UNCDF operations and to receive grants without possessing valid licences and fulfilling host country operational requirements; (c) adhere to the signed financing agreements and disbursement conditions; and (d) promptly collect funds from grantees who fail to meet the agreed conditions.**

9. Budget and budgetary process

Results-based budgeting for the Pacific Inclusion Financial Programme in Fiji

41. The Board's review of the annual workplans of the Pacific Inclusion Financial Programme noted that: (a) there were no supporting documents for baselines, performance indicators or the targets set in their project documents in the regional annual workplans for each country office as stipulated in the administrators' handbook for planning, monitoring and evaluating for development results (results-based budget); and (b) all annual workplans for 2012, 2013 and 2014 lacked annual targets for each output, and none of the plans were signed or dated.

42. In the absence of baseline information, performance indicators and targets at the country office level, measuring actual results against planned results by country office will be difficult. This indicates that the programme impact was not based on the results-based budget, since it could not incorporate each country's priorities and baseline information for establishing the indicators and targets for the whole regional programme outcomes and impact. UNCDF stated that the deficiencies were due mainly to the fact that the inclusion of targets had not been discussed at the country level. The Pacific Financial Inclusion Programme is a regional programme and has regional investors who request aggregated numbers. In addition, the new risk management framework has yet to be approved by the investment committee, and, upon its approval, UNCDF may take it into consideration when setting country-specific targets.

43. Nevertheless, the Board considers that the inclusion of the noted parameters is a requirement of the Programme and Operations Policies and Procedures and should be complied with at all times. Furthermore, although UNCDF management explained that the omission of signatures and dates had been an oversight, implementing the annual workplans without signing and dating them limits senior management's visibility with regard to when the plan was prepared and authorized before commencing activities. It is also contrary to the requirements of the investment committee, which has made it mandatory that the investment committee Chair sign annual workplans no later than four weeks after the start of the calendar year.

44. **UNCDF agreed with the Board's recommendation that the Fiji regional office comply with the Programme and Operations Policies and Procedures to ensure that: (a) performance indicators, baseline information and targets are established at each country office for each output of the projects so as to assess the regional impact, outcome, baseline information, indicators and targets; (b) the annual output targets are included in the annual workplans of projects to serve as the reference points in the corporate results monitoring systems; and (c) all annual workplans are prepared, signed and dated, as well as approved by the investment committee.**

Project Budget Performance

45. Atlas records for the period from January to December 2014 showed that UNCDF had 168 projects with a total budget of $82 million and expenditure of $62.14 million, representing an overall delivery rate of 76 per cent. Further analysis of the system records showed that the delivery rates were low for each single donor co-financing a programme. For example, 43 of those projects, with a budget of $22.6 million, could not spend a total of 58 per cent of the budgeted funds ($13 million), representing project underdelivery rates ranging between 30 and 100 per cent. The low levels of project delivery arose mainly as a result of project revisions by the project appraisal committee, delaying the official launch of the projects; recruitment procedures delaying the recruitment of project staff; and the absence of management for the supervision of projects. Other reasons included delays in the signing of project documents and security concerns in some project locations.

46. UNCDF considers that the analysis should be carried out at the overall programme level, rather than for each donor co-financing a programme. Atlas has been configured to analyse delivery by donors for reporting purposes, whereas the set-up for other United Nations agencies is for analysis at the programme level. The Board considers, however, that delivery rates need to be proactively analysed, regardless of the level at which the analysis is undertaken. Low or delayed project implementation and delivery increase the risk that UNCDF will not achieve its objectives or make full use of its resources.

47. **The Board recommends that UNCDF align the activities involved in project budgeting and execution to ensure efficient and timely delivery of targeted project budget performance.**

10. Financial management

Reserve calculations and assumptions

48. UNCDF reported in its financial statements a reserve balance of $14.4 million as at 31 December 2014. The Board noted the following deficiencies:

(a) The reserve is created on the basis of future project commitments. In establishing the commitment related to projected costs for existing and anticipated new projects, UNCDF applied $10 million per annum for the four-year period from 2015 to 2018, on the basis of management assumptions. UNCDF was unable, however, to provide the basis for those assumptions or to produce evidence showing the management decision that set the projection at $10 million per annum;

(b) Although there are risks associated with income for non-core resources, the UNCDF reserve does not cover non-core resource risks such as expenditure-related risks and structural risks, which should be mitigated through prudent financial management by the establishment of a financial reserve;

(c) The reserve amount of $14.4 million included $2 million for reimbursable support services and miscellaneous activities, which was approved at the management level;

(d) Risk parameters in the UNCDF risk mitigation strategy or framework have not been linked to the amounts charged to the reserve and the outstanding commitments. The computed operating reserve is therefore not properly supported by any known financial and operating risk components.

49. The Board is of the view that the assumptions used for the determination of commitments by UNCDF management were not valid, given that the 1979 decision of the Governing Council (now the Executive Board) was for an experimental period, not to continue beyond the regular session of the Council in 1981, and based on the proposed $52 million in commitments in 1979. The Board considers that the current method for calculating the operating reserve may not fully address the financial and operating risks to UNCDF as expected.

50. **UNCDF agreed with the Board's recommendation that it perform analysis: (a) to substantiate the reserve amount in terms of percentage, to establish its reserve in line with the risk mitigation strategy or framework component; and (b) to establish the method for the calculation of reserves to mitigate risks associated with cost-sharing and trust funds with respect to expenditure-related risks, structural risks and liability risks, and submit it to the Executive Board for approval.**

C. Disclosures by management

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

51. There were no write-off losses or ex gratia payments disclosed for the period under review.

2. Cases of fraud and presumptive fraud and ex gratia payments

52. In accordance with the International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements so that it has a reasonable

expectation of identifying material misstatements and irregularity, including those resulting from fraud. The Board's audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with UNCDF management.

53. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or that have been brought to its attention. The Board also enquires as to whether management has any knowledge of any actual, suspected or alleged fraud; this includes enquiries of the Office of Audit and Investigations. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

54. In 2014, the Board did not identify any cases of fraud or presumptive fraud. Based on the disclosure made by UNCDF, nothing came to the attention of management that would constitute fraud or presumptive fraud, and there were no ex gratia payments made during the reporting period.

D. Acknowledgement

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

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors
Lead Auditor

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the United Kingdom of
Great Britain and Northern Ireland

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2015

Annex

Status of implementation of recommendations for the year ended 31 December 2013

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
1.	A/68/5/Add.14	18	UNCDF should (a) assign responsibility for realizing IPSAS benefits as a specific function of the accounting unit; and (b) ensure that the procedures of processing information across the organization for the preparation of financial statements are improved to avoid recurrence of the noted deficiencies	A UNCDF finance specialist has been working closely with UNDP to ensure that financial statements are prepared in compliance with IPSAS.	Implemented	✓				
2.	A/68/5/Add.14	28	UNCDF agreed with the Board's recommendation that it improve the monitoring and oversight of the procurement process to ensure full compliance with the procurement rules and regulations, including procurement training for all staff and access to procurement support on demand, online and/or through the Management Support Unit	In order to respond to the recommendation, a new position of Operations Specialist with terms of reference fully oriented towards procurement support was created and advertised. The new specialist took up the post on 1 February 2014 and a set of actions were taken or are in progress, namely, the development of new procurement standard operating procedures; the introduction of new information technology procurement tools and use of the ATLAS e-tendering module to allow for increased transparency in the	There is sufficient evidence on management's actions to strengthen the procurement procedures.	✓				

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
				procurement process; the use of regional advisory committees for procurement cases, up to a threshold to be determined by the new internal control framework and pending the conclusion of the UNDP structural review process; the update of UNCDF roster of consultants; and the training of procurement support staff in the regional offices.						
3.	A/68/5/Add.14	23	UNCDF agreed with the Board's recommendations that it: (a) liaise with UNDP and agree on the urgent clearance of the loan policy, which is the instrument governing UNCDF loans provisions; (b) appropriately impair all overdue loans following the approval of the loan policy; and (c) disclose in the financial statements the interest accrued of $113,000 for adjustment after the reporting date	With regard to part (a), the loan policy has already been submitted to UNDP for clearance and UNCDF management is closely following the matter; (b) once the loan policy is approved, overdue loans will be impaired; and (c) following the approval of the loan policy, appropriate disclosure will be made to reflect the interest accrued.	Part (a) of the recommendation has been implemented. Parts (b) and (c) are in progress because impairment of overdue loans has yet to be done and disclosure to reflect interest accrued has yet to be made. Parts (b) and (c) of the recommendation were dependent upon part (a), the availability of an approved loan policy. The Board expects that UNCDF will implement parts (b) and (c) in 2015.		✓			

						Status after verification				
No.	*Report*	*Paragraph reference*	*Board's summary of recommendations*	*UNCDF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
4.	A/68/5/Add.14	27	UNCDF agreed with the Board's recommendations that it re-examine the procurement process followed to establish the rationale of the evaluation team accepting the additional clarification and the substantial changes of the original proposal and evaluation scores	UNCDF senior management approached the Office of Audit and Investigations with a request to re-examine the procurement process. As a result, an investigation process was launched to determine the level of involvement of UNCDF staff with the company selected during the procurement process. The investigation has been completed and the case (No. 2013 0080) has been closed. No further information from the Office has been received and therefore UNCDF considers the staff cleared and the process correct. UNCDF also contacted the Procurement Support Office of UNDP to request their advice for the launch of a new process for requests for proposal. At the time of reporting, UNCDF are working on the preparation of the new solicitation documents terms of reference and request for proposal.	Considered resolved based on the confirmation of 26 May 2015 from OAI to the BoA, that the case was assessed by OAI and closed on the ground that there was insufficient evidence to indicate wrongdoing.	✓				

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
5.	A/69/5/Add.2	19	UNCDF should adopt and fully implement an enterprise-wide risk management process for the planning, monitoring and evaluating stages of its programmes and operational activities in line with its enterprise risk management framework	This specific issue, which is also reflected in the 2014 report of the Board, has been identified as a priority by the newly appointed UNCDF senior management team. On 23 September 2014, the Executive Secretary sent an official request to the Bureau of Management of UNDP to express the Fund's strong interest in integrating the strategic planning, programme monitoring and financial reporting systems of UNDP. The consolidated request, entitled "Statement of work for UNCDF programme oversight and monitoring tools" was recently sent to the Office of Information Systems and Technology of UNDP to establish all the proposed systems during the first quarter of 2015 and to pave the way for the full alignment with UNDP planning and reporting tools.	The Board acknowledges the efforts by UNCDF to address the recommendation with UNDP and their using an internal tool as a short term solution. Since its implementation is in progress, the Board will re-assess the item in future.		✓			

						Status after verification				
No.	*Report*	*Paragraph reference*	*Board's summary of recommendations*	*UNCDF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
6.	A/69/5/Add.2	24	UNCDF agreed with the Board's recommendation that it require all its country offices to prepare combined delivery reports and ensure that they are signed by counterparts in a timely manner, in accordance with the requirements of the Programme and Operations Policies and Procedures	UNCDF noted the audit recommendation and agreed to comply with generating the combined delivery report as soon as a quarter is closed and finalized and with having the relevant responsible persons sign the combined delivery report. A note to all staff is being sent to ensure that the combined delivery reports are produced and signed on time, and the finance unit at headquarters will follow up with all offices. In 2014, for the cases of Myanmar and Fiji, which are part of the direct implementation modality project, there is no need for counterparts to sign the combined delivery reports. The same is reflected in the two countries' management responses.	Implemented after assessment	✓				

						Status after verification				
No.	*Report*	*Paragraph reference*	*Board's summary of recommendations*	*UNCDF response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
7.	A/69/5/Add.2	33	UNCDF agreed with the Board's recommendation that it should improve its assurance of financial information by auditing any project that entails cumulative expenses of $300,000 during a particular year in accordance with the requirements of the Programme and Operations Policies and Procedures	UNCDF headquarters has submitted the list of national implementation modality projects to the regional office for the national implementation modality audit for 2014 for coordination with UNDP in the respective country offices so they may be audited together with UNDP projects. The entire project, with a cumulative budget of $300,000, has been audited.	Implemented per action plan	✓				
8.	A/69/5/Add.2	37	UNCDF agreed with the Board's recommendations that it: (a) ensure that, wherever the posts of Programme Officers have been abolished, an appropriate handover mechanism is established to ensure that their responsibilities are assigned to other designated officers for proper project delivery; (b) perform final project evaluations that were supposed to be completed in 2013; and (c) sign a memorandum of understanding with UNDP for monitoring and management of the two remaining global projects scheduled to be finalized in 2017	During 2014, UNCDF did not close any offices or abolish any programme posts and do not expect to in 2015.	Despite an absence of abolished posts (Programme Officers) in 2014, the recommendation has not been implemented, namely parts (b) and (c). Part (a) was overtaken by events.			✓		

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification				
						Implemented	Under implementation	Not implemented	Overtaken by events	Reiterated
9.	A/69/5/Add.2	41	UNCDF agreed with the Board's recommendation that it prepare complete annual workplans with performance indicators, baseline information and targets to conform with the results-based budgeting framework as required by the Programme and Operations Policies and Procedures	On 23 September 2014, the Executive Secretary sent an official request to the Bureau of Management of UNDP to express the Fund's strong interest in integrating the strategic planning, programme monitoring and financial reporting systems of UNDP. The consolidated request, entitled "Statement of work for UNCDF programme oversight and monitoring tools" was recently sent to the Office of Information Systems and Technology of UNDP to establish all the proposed systems during the first quarter of 2015 and to pave the way for the full alignment with UNDP planning and reporting tools.	The Board appreciates the Fund's progressive efforts to implement the recommendation. The Board will re-assess the status in the next quarter, given that the revised implementation date is 6 July 2015.		✓			

No.	Report	Paragraph reference	Board's summary of recommendations	UNCDF response	Board's assessment	Status after verification				
						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*	*Reiterated*
10.	A/69/5/Add.2	30	UNCDF agreed with the Board's recommendation that it: (a) ensure that its completed projects are closed in a timely manner, as stated in the Programme and Operations Policies and Procedures; (b) obtain from the beneficiaries duly certified receipts for the transferred assets to avoid any risk that losses will occur without detection by management; and (c) comply with the requirements of the Programme and Operations Policies and Procedures by refunding the balance or seeking the consent of the donor with respect to applying the funds to other unearmarked activities	UNCDF will endeavour: (a) to close projects on a timely basis in line with project end dates; and (b) to approve budgets in line with project start dates. Furthermore, it is requesting access from UNDP to the newly launched project closure system, which will facilitate a thorough review and closure of inactive projects. Upon being granted access to the project closure system, UNCDF will initiate a project closure exercise for the 182 inactive projects. The exercise should be completed during the first quarter of 2015.	The Board notes the Fund's responses. The Board will re-assess the implementation in future. UNDP and UNCDF must however accelerate the process of granting access to UNCDF to the project closure system to ensure that all 182 inactive projects are closed. Furthermore, evidence has to be provided with regard to the transferred assets to beneficiaries and the refund of balances to donors after project closure, as recommended.		✓			
11.	A/69/5/Add.2	44	UNCDF agreed with the Board's recommendation that it monitor its budget performance closely and ensure that any emerging challenges to budget implementation are addressed in a timely manner	UNCDF has planned and uploaded the annual project planning templates for 2015.	Implemented after re-assessment	✓				
	Total					**6**	**4**	**1**	–	–
	Percentage					**55**	**36**	**9**	–	–

Chapter III
Financial report for the year ended 31 December 2014

A. Introduction

1. In accordance with financial regulation 26.01 of the United Nations Capital Development Fund (UNCDF) financial regulations and rules (which comprise the United Nations Development Programme (UNDP) Financial Regulations and Rules and annex 1 thereto, which is applicable to UNCDF), the UNDP Administrator hereby submits the financial statements of UNCDF for the year ended 31 December 2014.

2. The report of the United Nations Board of Auditors, together with their opinion on the financial statements, and the comments of UNCDF on the substantive observations are submitted in accordance with financial regulation 4.04.

3. The original UNCDF mandate from the General Assembly is to "assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans" (see resolution 2186 (XXI) of 13 December 1966). The mandate was complemented in 1973 to serve, first and foremost but not exclusively, the least developed countries. UNCDF has a unique financial mandate within the United Nations system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing, in the form of grants, loans and credit enhancement, and technical expertise in preparing portfolios of sustainable and resilient capacity-building and infrastructure projects, makes its mandate complementary to those of other United Nations agencies. It also positions UNCDF as an early-stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and, increasingly, by philanthropic foundations and private sector investors.

B. Financial performance

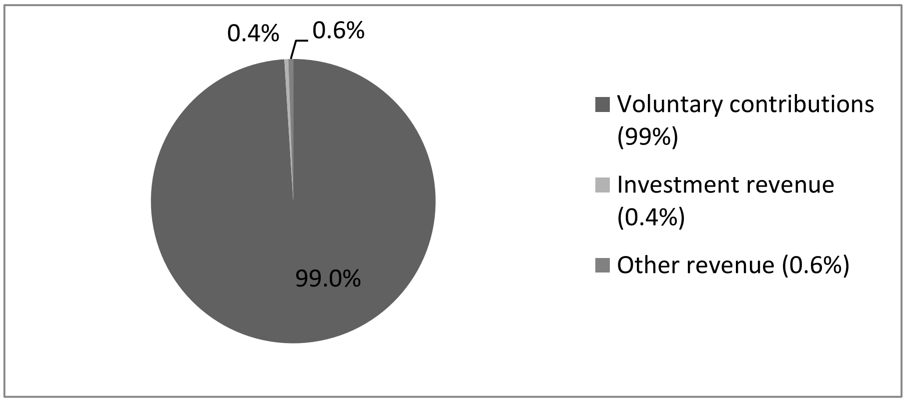
4. The total revenue for UNCDF for 2014 (contributions, investment and other revenue) was $89.1 million (2013 (restated): $66.2 million), compared with total expenses of $57.9 million (2013 (restated): $59.9 million), resulting in a surplus of $31.1 million (2013 (restated): $6.3 million).

Revenue analysis

Revenue by nature

5. The total revenue for UNCDF in 2014 was $89.1 million, of which $88.2 million (99.0 per cent) was from voluntary contributions, a net amount of $0.4 million (0.4 per cent) was from investment revenue such as interest from loans and interest earned from cash investments, and $0.5 million (0.6 per cent) was from other revenue.

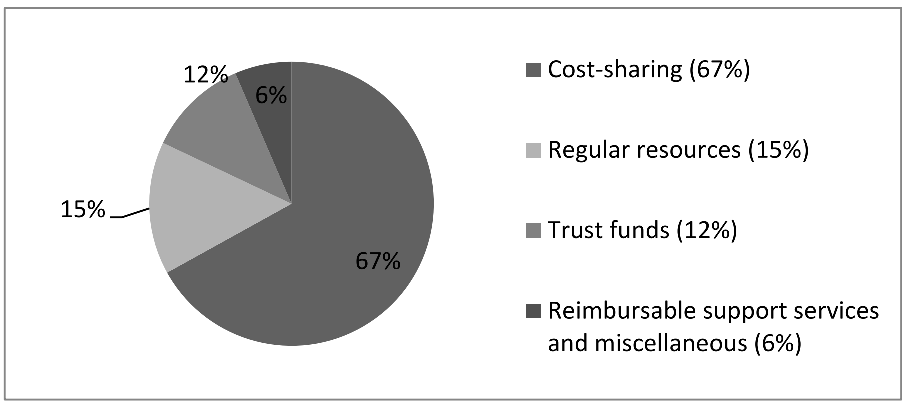
Figure III.I
Composition of total revenue in 2014, by nature



Revenue by segment

6. Analysis of revenue[1] by segment shows that cost-sharing is the largest revenue source, providing 67 per cent of the Fund's revenue in 2014, followed by regular resources (15 per cent), trust funds (12 per cent) and reimbursable support services and miscellaneous activities (6 per cent).

Figure III.II
Composition of total revenue in 2014, by segment



7. Total revenue increased by 35 per cent in 2014 to $89.1 million from $66.2 million in 2013. The increase in revenue was evident in two segments: cost-sharing (100 per cent) and reimbursable support services (81 per cent), while revenue from trust funds decreased by 37 per cent and from regular resources by 16 per cent).

Expenses analysis

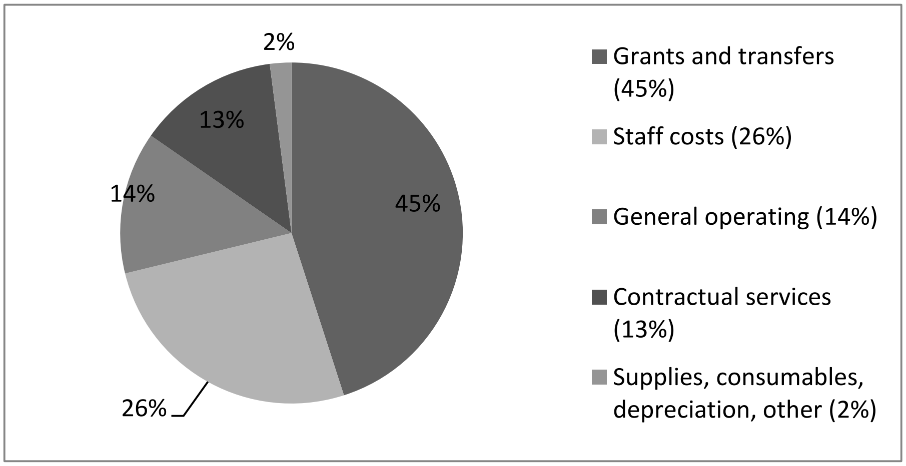
Expenses by nature

8. The Fund's expenses in 2014 were $58.0 million. As shown in figure III.III, the largest expense category by nature was grants and other transfers ($26.1 million,

[1] Excludes elimination for inter-fund transactions.

or 45 per cent). The remaining categories were staff costs ($15.1 million, or 26 per cent), general operating expenses ($7.9 million, or 14 per cent), contractual services with individuals and companies ($7.7 million, or 13 per cent) and supplies, consumables, depreciation and other expenses ($1.2 million, or 2 per cent).

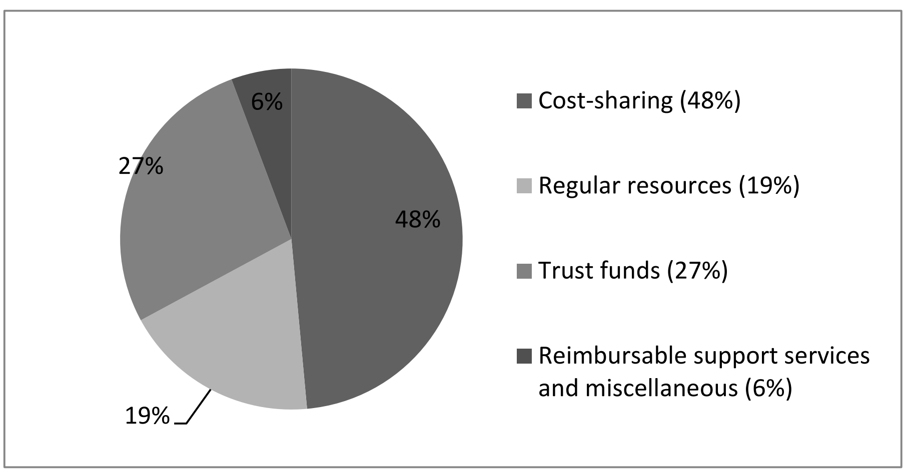
Figure III.III
Composition of total expenses in 2014, by nature



Expenses by segment

9. Of total expenses,[1] 19 per cent related to regular resources, 48 per cent to cost-sharing, 27 per cent to trust funds and 6 per cent to reimbursable support services and miscellaneous activities (see figure III.IV).

Figure III.IV
Composition of total expenses in 2014, by segment

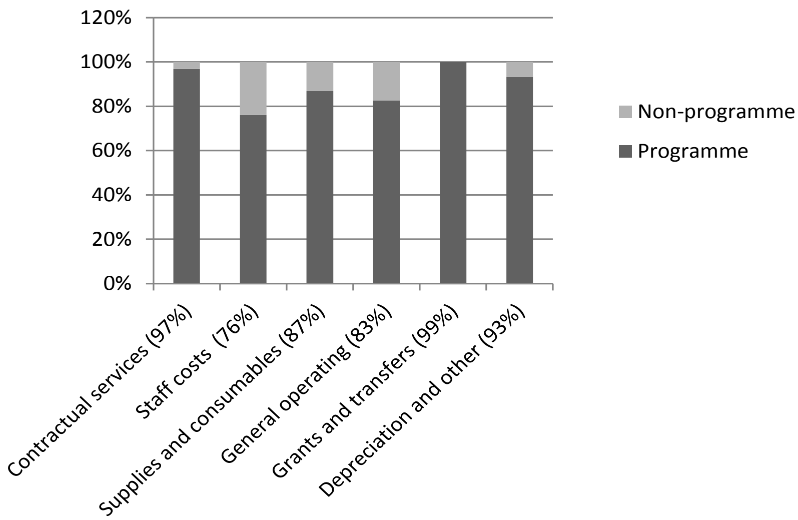


Expenses relating to programme

10. Of the total expenses of $58.0 million for 2014, $57.3 million comprised programme expenses, reflecting the development nature of the Fund’s operations.

By expense category, programme expenses made up 97 per cent of total contractual services with individuals and companies, 76 per cent of staff costs, 87 per cent of supplies and consumables, 82 per cent[1] of general operating expenses, 99.9 per cent of grants and other transfers, and 93 per cent of depreciation and other expenses.

Figure III.V
Proportion of programme expenses to total expenses, by nature



Financial performance by segment

11. Regular resources, cost-sharing and reimbursable support services and miscellaneous activities had surpluses of $2.5 million, $32.3 million and $2.5 million, respectively, for the year 2014, while trust funds had a deficit of $6.3 million. Financial performance by segment is summarized in table III.1.

Table III.1
Summary of financial performance by segment in 2014
(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Inter-fund elimination*	*Total*
Total revenue	14.2	62.7	10.7	6.1	(4.6)	89.1
Total expenses	11.6	30.4	17.0	3.6	(4.6)	58.0
Surplus/(deficit) for the year	**2.6**	**32.3**	**(6.3)**	**2.5**	–	**31.1**
Total net assets	**19.4**	**74.0**	**8.3**	**8.2**	–	**109.9**

Summary of financial performance by segment in 2013

(Millions of United States dollars)

	Regular resources	*Cost-sharing*	*Trust funds*	*Reimbursable support services and miscellaneous activities*	*Inter-fund elimination*	*Total*
Total revenue	16.9	31.3	17.2	3.3	(2.5)	66.2
Total expenses	18.5	25.6	15.0	3.3	(2.5)	59.9
Surplus/(deficit) for the year	**(1.6)**	**5.7**	**2.2**	**–**	**–**	**6.3**
Total net assets	**18.0**	**42.0**	**14.6**	**5.9**	**–**	**80.5**

C. Budgetary performance

12. The Fund's budget continues to be prepared on a modified cash basis, as presented in financial statement V and note 7. In order to facilitate a comparison between the budget and the financial statements prepared under the International Public Sector Accounting Standards (IPSAS), a reconciliation of the budget to the cash flow statement is also included in note 7.

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

Table III.2

Budget utilization rates for 2014

Budget component	*Annualized approved budget (millions of United States dollars)*	*Actual utilization rate (percentage)*
Development activities	11	76
Management activities	3	86
Total	**14**	**78**

D. Financial position

Assets

14. The Fund's current assets of $61.2 million (2013 (restated): $82.9 million) comprise largely investments ($35.2 million), cash and cash equivalents ($12.1 million) and receivables for exchange and non-exchange transactions ($12.8 million). These items represent $60.1 million, or 98.2 per cent, of total current assets. Non-current assets of $65.2 million (2013 (restated): $11.1 million) are primarily investments ($64.5 million) and property, plant and equipment

($0.4 million), which combined represent $64.9 million, or 99.5 per cent, of non-current assets.

Cash, cash equivalents and investments

15. At 31 December 2014, UNCDF held cash, cash equivalents and investments of $111.8 million (2013 (restated): $78.7 million). The Fund's investment revenue was $0.4 million in 2014.

Receivables

16. At 31 December 2014, UNCDF had non-exchange and exchange receivables of $12.8 million (2013 (restated): $12.6 million), which include contributions receivable from UNDP, contributions not received from donors for which contribution agreements have been signed, and advances provided to implementing partners that need to be prorated and allocated to their respective projects.

Advances issued

17. In fulfilling its mandate, UNCDF transfers cash to executing entities/ implementing partners as cash advances. Advances issued are recognized as assets and converted to expenses when the goods are delivered or the services are rendered by the executing entities/implementing partners and confirmed by receipt by UNCDF of certified expense reports. Once these certified expense reports are received, UNCDF recognizes expenses in its statement of financial performance. Data may be obtained from the entities' audited statements or, when such statements are not available at the reporting period, either from the entities' statements as submitted for audit or from the entities' unaudited statements.

18. At 31 December 2014, UNCDF had outstanding advances of $0.78 million (2013 (restated): $1 million). This consists of $0.36 million in advances to government counterparts; the remaining $0.42 million comprises primarily advances to staff.

Property, plant and equipment and intangible assets

19. At 31 December 2014, UNCDF held property, plant and equipment of $0.41 million (2013 (restated): $0.48 million). Of total property, plant and equipment, $0.30 million represents vehicles, $0.07 million represents fixtures and furniture and the remaining amount consists of communications and information technology equipment, heavy machinery and other equipment. All management assets and project assets that UNCDF controls are capitalized by UNCDF. Project assets that are not controlled by UNCDF are expensed as incurred.

Liabilities

20. The Fund's current liabilities of $2.7 million (2013: $2.8 million) are primarily employee benefits ($2.2 million) and accrued liabilities ($0.5 million). Employee benefits include annual leave ($1.4 million), home leave ($0.4 million) and repatriation entitlements ($0.3 million). Non-current liabilities of $13.9 million (2013: $10.7 million) consist primarily of $10.8 million (78 per cent) in after-service health insurance liabilities, $1.8 million (13 per cent) in repatriation entitlements and $1.2 million (9 per cent) in other employee benefits.

21. The liabilities arising from post-employment benefits and other long-term employee benefits are determined by independent actuaries and are established in accordance with the Staff Rules and Staff Regulations of the United Nations. Liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by an actuarial valuation conducted as at 31 December 2014.

Employee benefits

22. IPSAS requires recording (but not necessarily full funding) of all accumulated employee benefits liabilities in the financial statements, although the disbursements for these benefits will occur over several decades. The principal liability is after-service health insurance, valued at $10.9 million.

Accumulated surplus

23. At 31 December 2014, the Fund's accumulated surplus and reserves were $109.9 million, reflecting an increase of 37 per cent compared with $80.5 million at 31 December 2013.

Financial position by segment

24. The statement of financial position for each business segment indicates differing states of health and reflects the history of cross-subsidization between business segments that was not transparent prior to the adoption of IPSAS. For example, the regular resources business segment currently holds 26 per cent of the Fund's total assets but carries 78 per cent of its total liabilities, which results in a share of its total net assets/equity of 18 per cent. Conversely, the cost-sharing business segment currently holds 60 per cent of the Fund's total assets but carries 10 per cent of its total liabilities, which results in a share of its total net assets/equity of 67 per cent. The Fund's financial position by fund is summarized in table III.3.

Table III.3
Summary of financial position, by segment

	Assets		*Liabilities*		*Net assets/equity*	
	Millions of United States dollars	*Percentage of total assets*	*Millions of United States dollars*	*Percentage of total liabilities*	*Millions of United States dollars*	*Percentage of total net assets/equity*
As at 31 December 2014						
Regular resources	32.3	26	13.0	78	19.4	18
Cost-sharing	75.6	60	1.6	10	74.0	67
Trust funds	9.2	7	1.0	6	8.3	8
Reimbursable support services	9.2	7	1.0	6	8.2	7
Total	**126.3**	**100**	**16.6**	**100**	**109.9**	**100**
As at 31 December 2013						
Regular resources	28.3	30	10.2	76	18.0	23
Cost-sharing	43.4	46	1.5	11	42.0	52

	Assets		Liabilities		Net assets/equity	
	Millions of United States dollars	*Percentage of total assets*	*Millions of United States dollars*	*Percentage of total liabilities*	*Millions of United States dollars*	*Percentage of total net assets/equity*
Trust funds	15.7	17	1.0	7	14.6	18
Reimbursable support services	6.7	7	0.8	6	5.9	7
Total	**94.1**	**100**	**13.5**	**100**	**80.5**	**100**

E. Risk management

25. The Fund's risk management policies are aimed at minimizing potential adverse effects on the resources available to UNCDF to fund its activities. The principal objectives of the Fund's risk management approach are: (a) safety: preservation of capital, provided through investing in high-quality fixed-revenue securities emphasizing the creditworthiness of the issuers; (b) liquidity: flexibility to meet cash requirements through investments in highly marketable fixed-revenue securities and through structuring maturities to align with liquidity requirements; and (c) revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

26. UNCDF investments have been managed by UNDP, which has an Investment Committee comprising senior management that meets quarterly to review the Fund's investment portfolio performance and ensure that investment decisions are in compliance with established investment guidelines.

F. Corporate realignment

27. UNCDF is in the midst of a corporate realignment exercise started in 2014. The significant implementation activities will occur in 2015. The realignment was designed to achieve six broad objectives:

(a) Reinvest in country presence in the least developed countries where UNCDF should be engaged, which should number 40 countries according to the strategic framework (compared with the current 33);

(b) Clarify delegations of authority, accountabilities, standard procedures and systems (in response to audit findings);

(c) Invest in cross-practice synergies and knowledge management;

(d) Ensure the organization's financial sustainability;

(e) Improve operational efficiency and drive delivery commensurate with the growth in the non-core resources;

(f) Maximize results on the ground.

Chapter IV

Financial statements for the year ended 31 December 2014

United Nations Capital Development Fund

I. Statement of financial position as at 31 December 2014

(Thousands of United States dollars)

	Reference	*31 December 2014*	*31 December 2013 (restated)*
Assets			
Current assets			
Cash and cash equivalents	Note 8	12 063	16 515
Investments	Note 9	35 174	52 059
Receivables (non-exchange transactions)	Note 10	5 883	3 698
Receivables (exchange transactions)	Note 10	6 914	8 876
Advance issued, net	Note 11	720	1 031
Loans to financial service providers	Note 12	523	783
Inventories	Note 13	3	2
Total current assets		**61 280**	**82 964**
Non-current assets			
Investments	Note 9	64 530	10 099
Loans to financial service providers	Note 12	251	547
Property, plant and equipment	Note 14	406	478
Total non-current assets		**65 187**	**11 124**
Total assets		**126 467**	**94 088**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 15	522	735
Employee benefits	Note 16	2 201	2 110
Total current liabilities		**2 723**	**2 845**
Non-current liabilities			
Employee benefits	Note 16	13 874	10 718
Total non-current liabilities		**13 874**	**10 718**
Total liabilities		**16 597**	**13 563**
Net assets			
Reserves	Note 17	14 420	14 618
Accumulated surpluses	Note 18	95 450	65 907
Total net assets/equity		**109 870**	**80 525**
Total liabilities and net assets/equity		**126 467**	**94 088**

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

United Nations Capital Development Fund

II. Statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Reference	*2014*	*2013 (restated)*
Revenue			
Voluntary contributions, net[a]	Note 19	88 173	65 169
Investment revenue	Note 20	392	426
Other revenue	Note 21	499	642
Total revenue		**89 064**	**66 237**
Expenses			
Contractual services	Note 22	7 708	7 512
Staff costs	Note 22	15 154	18 240
Supplies and consumables used	Note 22	624	583
General operating expenses	Note 22	7 821	7 926
Grants and other transfers	Note 22	26 113	24 787
Other expenses	Note 22	383	784
Depreciation	Note 22	54	58
Finance costs	Note 22	114	23
Total expenses		**57 971**	**59 913**
Surplus for the period		**31 093**	**6 324**

[a] Voluntary contributions are net of returns to donors of unused contributions.

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

United Nations Capital Development Fund

III. Statement of changes in net assets/equity for the year ended 31 December 2014

(Thousands of United States dollars)

	Reserves	*Accumulated surplus*	*Total net assets/equity*
Balance at 31 December 2013	**14 618**	**65 954**	**80 572**
Prior-period adjustment (note 5)	–	160	160
Change in accounting policy (note 5)	–	(207)	(207)
Balance at 31 December 2013 (restated)	**14 618**	**65 907**	**80 525**
Changes in net assets/equity			
Operational reserve transfer to accumulated surplus	(198)	198	–
Funds with specific purposes (note 18)	–	556	556
Actuarial loss, net	–	(2 304)	(2 304)
Surplus for the period	–	31 093	31 093
Total revenue and expense recognized directly in net assets/equity	**(198)**	**29 543**	**29 345**
Balance at 31 December 2014	**14 420**	**95 450**	**109 870**

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

United Nations Capital Development Fund

IV. Cash flow statement for the year ended 31 December 2014

(Thousands of United States dollars)

	2014	*2013 (restated)*
Cash flows from operating activities		
Surplus for the period	31 093	6 324
Adjustments to reconcile deficit for the period to net cash flows:		
Depreciation	54	58
Impairment, net	40	16
Amortization of bond premium	1 218	1 044
(Gains) on bonds	–	(2)
(Gains)/losses on disposal of property, plant and equipment	22	144
Changes in assets		
(Increase)/decrease in receivables (non-exchange transactions)	(2 185)	(3 698)
(Increase)/decrease in receivables (exchange transactions)	510	(9 937)
Interest received on loans	36	42
(Increase)/decrease in advances issued	271	160
(Increase)/decrease in inventories	(1)	(2)
(Increase)/decrease in loans to financial service providers	556	278
(Increase)/decrease in other assets	–	178
Changes in liabilities/net assets		
Increase/(decrease) in accounts payable and accrued liabilities	(213)	(7 453)
Increase/(decrease) in employee benefits	943	1 445
Increase/(decrease) in other liabilities	–	(26)
Increase/(decrease) in funds with specific purposes	556	920
Net cash flows from operating activities	**32 900**	**(10 509)**
Cash flows from investing activities		
Purchases of investments	(120 684)	(51 819)
Maturities of investments	81 920	40 762
Interest received	1 416	1 298
Purchases of property, plant and equipment	(4)	(377)
Proceeds from disposal of fixed assets	–	1
Net cash flows from investing activities	**(37 352)**	**(10 135)**
Cash flows from financing activities	–	–
Net (decrease)/increase in cash and cash equivalents	**(4 452)**	**(20 644)**
Cash and cash equivalents at beginning of the period	**16 515**	**37 159**
Cash and cash equivalents at end of the period (note 8)	**12 063**	**16 515**

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

United Nations Capital Development Fund

V. Statement of comparison of budget and actual amounts (regular resources) for the year ended 31 December 2014

(Thousands of United States dollars)

	Approved budget		*Actual expenditure on comparable basis (note 7)*	*Difference between final approved budget and actual expenditure*
	Original	*Final*		
Development activities				
Programme	8 143	8 143	6 637	1 506
Development effectiveness	3 267	3 267	2 081	1 186
Subtotal	**11 410**	**11 410**	**8 718**	**2 692**
Management activities	2 847	2 847	2 444	403
Total	**14 257**	**14 257**	**11 162**	**3 095**

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

United Nations Capital Development Fund
Notes to the 2014 financial statements

Note 1
Reporting entity

The original UNCDF mandate from the General Assembly is to "assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans" (see resolution 2186 (XXI) of 13 December 1966). The mandate was complemented in 1973 to serve, first and foremost but not exclusively, the least developed countries.

UNCDF has a unique financial mandate within the United Nations system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing, in the form of grants, loans and credit enhancement, and technical expertise in preparing portfolios of sustainable and resilient capacity-building and infrastructure projects, makes its mandate complementary to those of other United Nations agencies. It also positions UNCDF as an early-stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and, increasingly, by philanthropic foundations and private sector investors.

UNCDF is headquartered in New York and is on the ground in 32 countries and territories.

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

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

The Fund's financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

Note 3
Basis of preparation and authorization to submit financial statements for audit

(a) Basis of measurement

These financial statements have been prepared on an accrual basis of accounting in accordance with IPSAS and the UNDP Financial Regulations and Rules and annex 1 thereto, which is applicable to UNCDF (hereinafter "UNCDF financial regulations and rules").

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

(b) Foreign currency

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

Foreign currency transactions are translated at the date of the transaction into United States dollars at the United Nations operational rate of exchange, which approximates market/spot rates.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date and the exchange differences are recognized in the statement of financial performance.

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

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognized in the statement of financial performance.

(c) Critical accounting estimates

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

(d) Authorization to submit financial statements for audit

The present financial statements are approved and certified by the Administrator of UNDP and Managing Director of UNCDF, the Executive Secretary of UNCDF, the Assistant Administrator and Director of the Bureau of Management of UNDP and the Chief Finance Officer and Comptroller of UNDP. In accordance with the UNCDF financial regulations and rules, these financial statements are authorized to be submitted for audit on 30 April 2015.

Note 4
Significant accounting policies

(a) Financial assets classification

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

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

IPSAS classification	*Type of UNCDF financial asset*
Held to maturity	Investments
Available for sale	None
Loans and receivables	Cash and cash equivalents, receivables exchange and non-exchange, advances, e.g. to staff, and loans to financial service providers
Fair value through surplus or deficit	Derivatives

Held-to-maturity financial assets

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

Available-for-sale financial assets

Available-for-sale financial assets are financial assets either designated in this category or not classified in any of the other categories. They are initially recorded at fair value plus transaction costs and subsequently reported at fair value, with any resultant fair-value gains or losses recognized directly in net assets/equity. Interest on available-for-sale financial assets is calculated using the effective interest method. When an available-for-sale financial asset is de-recognized, the gain or deficit accumulated in net assets/equity is reclassified to surplus or deficit in the statement of financial performance. As at 31 December 2014, UNCDF had no financial assets classified as available for sale.

Loans and receivables

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

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

Receivables non-exchange comprise contributions receivable. Contributions receivable represent uncollected revenue committed to UNCDF by donors based on enforceable commitments that are recognized as revenue. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts.

Exchange receivables represent amounts owed to UNCDF for services provided by it to other entities. In exchange, UNCDF directly receives approximately equal value in the form of cash.

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

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

UNCDF provides advances to staff for up to 12 months for specified purposes in accordance with the Staff Rules and Staff Regulations of the United Nations. These advances have an initial maturity of less than 12 months, and the carrying amount approximates fair value.

Loans to financial service providers

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

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

Accounting for concessionary loans

A concessionary loan is a loan provided on more favourable terms than the borrower could obtain in the marketplace.

On initial recognition of concessionary loan, the market-based loan component and discount component are separated and accounted as follows.

The market-based loan component is accounted as a financial asset classified as loans and receivables. It is initially recognized at the fair value of the loan estimated through the use of the valuation technique and is subsequently accounted at amortized cost using the effective interest method.

The discount component of the concessional loan is recognized as an expense in the statement of financial performance. The discount component is the difference between the nominal value of the loan and the fair value of the loan.

Impairment is recognized if there is objective evidence that UNCDF will be unable to collect all amounts due on a loan according to the original contractual terms.

Individual credit exposures are evaluated on the basis of the borrower's character: overall financial condition, resources and payment record, prospects for recovery from the realization of collateral or the calling-in of guarantees where applicable. Specific provisions are made when, in the judgement of UNCDF management, the recovery of the outstanding balances is in serious doubt.

The estimated recoverable amount is the present value of expected future cash flows, which may result from the restructuring or liquidation of the loan.

The increase in the present value of impaired claims due to the passage of time is reported as interest income.

UNCDF fully implemented IPSAS 29: Financial instruments: recognition and measurement, related to concessionary loan, retrospectively from 1 January 2013. As a result, it is the view of UNCDF management that loans provided to four institutions are performing loans in accordance with the contractual arrangement and accounted in accordance with IPSAS 29, as follows:

(Thousands of United States dollars)

Country	*Financial service provider*	*Outstanding amount as at 31 December 2014*
Senegal	1	67
Sierra Leone	1	456
South Sudan	2	251
Total	**4**	**774**

Valuation methodology

The Fund's policy is to initially value loans and receivables at fair market value and account for them on the basis of the effective interest method at amortized cost. To this end, UNCDF first determines the market value of the loan at the point of origination. A loan's market value is the price an investor would likely pay in a competitive arm's-length sales process. This price is most often calculated by discounting the loan's contractual cash flows at an applicable market discount rate (a discounted cash flow analysis). Given the prospective nature with which a loan's cash flow can be formulated (owing to its contractual elements), typically a market participant's yield requirement is the key input in a discounted cash flow analysis. The discount rate, or yield, required by a market participant is commensurate with the level of risk being assumed to acquire the instrument. Other factors that also influence the absolute yield requirement include prevailing macro- and microeconomic forces such as local risk-free borrowing rates as well as interbank borrowing rates, which often form the base index of the absolute yield, as well as commercial lending rates and the inflationary environment.

Owing to the subjectivity involved in concessionary loan pricing, the limited number of market participants within this sector and the accessibility of market information for these types of loans, yields can vary in nature and be fairly wide. As such, the analysis focused on the different risk factors associated with the underlying region in which the borrower is located in formulating the credit risk profile being assumed by a market participant in acquiring the loan.

Country	*Range of discount rate a market participant would likely require*
Senegal	9 per cent and 15 per cent
Sierra Leone	13 per cent and 15 per cent
South Sudan	11 per cent and 15 per cent

UNCDF has utilized the average rate to calculate a market-based loan component.

Fair value through surplus or deficit

Fair value through surplus or deficit financial assets are so designated on initial recognition or are held for trading. They are initially recorded at fair value, and any transaction costs are expensed. The assets are measured at fair value at each reporting date, and any resultant fair value gains or losses are recognized through surplus or deficit. Derivatives are used to manage foreign exchange risk and are contracted with creditworthy counterparties in accordance with the investment guidelines of UNDP. UNCDF classifies derivatives as financial assets at fair value through surplus or deficit in the statement of financial performance. The fair value of derivatives is obtained from counterparties and is compared with internal valuations, which are based on valuation methods and techniques generally recognized as standard in the industry. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the reporting date. At 31 December 2014, UNCDF had no open foreign exchange derivative instruments positions in this asset category and did not have embedded derivatives requiring separate accounting at fair value through surplus or deficit. UNCDF does not apply hedge accounting treatment for derivatives.

All categories of financial assets are assessed at each reporting date to determine whether there is objective evidence that an investment or group of investments is impaired. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in surplus or deficit in the statement of financial performance (directly or through the use of an allowance account) in the year in which they arise.

Inventories

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

Property, plant and equipment

All property, plant and equipment is stated at historical cost, less accumulated depreciation and accumulated impairment losses. This includes costs that are directly attributable to the acquisition of the asset and the initial estimate of dismantling and site restoration costs. Where an asset is acquired without charge or for nominal consideration, the fair value at the date of acquisition is deemed to be its cost. For recognition of property, plant and equipment as an asset, the threshold is $2,500 or more per unit. On 1 January 2014, UNCDF changed its accounting policy in relation to its asset capitalization threshold, increasing the threshold from $500 to $2,500. For further details of this change in accounting policy, please see note 5. For leasehold improvements the threshold is $50,000.

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

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

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

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

The estimated useful lives are as follows:

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

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

UNCDF has no intangible assets.

Impairment of non-cash-generating assets

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

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

(b) Financial liabilities classification

IPSAS classification	*Type of UNCDF financial liabilities*
Other financial liabilities	Accounts payable and accrued liabilities, and other liabilities
Fair value through surplus or deficit	Derivatives

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

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

Post-employment benefits include pension plans, post-employment medical care, repatriation grants and other lump sums payable after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

For defined contribution post-employment plans, the obligation for each period is determined by the amounts to be contributed for that period, and no actuarial assumptions are required to measure the obligation or the expense. Post-employment benefits under defined benefit plans are measured at the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, reduced by the fair value of plan assets (if any) at the reporting date. UNCDF did not hold any assets corresponding to the definition of a plan asset.

UNCDF is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3(b) of the Regulations of the Pension Fund, membership in the Pension Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNCDF and the Pension Fund, in line with the other participating organizations in the Pension Fund, are not in a position to identify the Capital Development Fund's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNCDF has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25: Employee benefits. UNCDF contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

The Regulations of the Pension Fund state that the Pension Board shall have an actuarial valuation made of the Pension Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments; these can be viewed by visiting the Pension Fund website at www.unjspf.org.

The after-service health insurance programme extends subsidized health insurance coverage to retirees and their dependants under the same health insurance terms as those for active staff based on certain eligibility requirements. The after-service health insurance programme at UNCDF is a defined benefit plan. Accordingly, a liability is recognized to reflect the present value of the defined benefit obligation, adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The latest actuarial valuations for the UNCDF after-service health insurance programme were carried out as at 31 December 2014 using the projected unit credit method.

Defined benefit plans

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

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

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

Other long-term employee benefits

Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the period in which employees provide the related service. These benefits include the non-current portions of home leave and compensation for death and injury attributable to the performance of duties. These are recognized as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material. Actuarial gains and losses are reported in the statement of changes in net assets/equity.

Termination benefits

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

Leases

Operating lease

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

Finance lease

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

Right-to-use arrangements

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

(c) Revenue recognition

Contributions

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

Governments make pledges for regular resources voluntary contributions; however, in a few cases the pledged funds are not paid to UNCDF. As the probability of inflow is not certain, UNCDF does not treat those amounts as contingent assets.

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

(d) Expense recognition

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

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

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

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

(e) Commitments, provisions and contingencies

Commitments

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

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

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

(iii) Non-cancellable minimum lease payments;

(iv) Other non-cancellable commitments.

Provisions

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

Contingencies

Contingent assets

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

Contingent liabilities

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

Note 5
Change in accounting policy, prior-period adjustments and reclassification

On 1 January 2014, UNCDF changed its accounting policy in relation to its asset capitalization threshold, increasing it from $500 to $2,500. The purpose of this change was to bring the Fund's policy into line with that of peer United Nations organizations and other organizations of similar size, and to benefit from the resulting efficiencies. The change in accounting policy has been applied retrospectively, and 2013 comparative information has been restated accordingly. The change affected 273 assets with a cost of $398 thousand and accumulated depreciation of $191 thousand. The following table details the changes in comparative information in regard to the change in capitalization threshold.

(Thousands of United States dollars)

	31 December 2013 (audited)	*Prior period adjustments*	*31 December 2013 (after prior period adjustments)*	*Increase/ (decrease) due to change in accounting policy*	*31 December 2013 (restated)*
Statement of financial position extract					
Property, plant and equipment	685	–	685	(207)	478
Total assets	**94 295**	**–**	**94 295**	**(207)**	**94 088**
Accounts payable and accrued liabilities	895	(160)	735	–	735
Total liabilities	**13 723**	**(160)**	**13 563**	**–**	**13 563**
Accumulated surpluses	65 954	160	66 114	(207)	65 907
Total net assets/equity	**80 572**	**160**	**80 732**	**(207)**	**80 525**
Total liabilities and net assets/equity	**94 295**	**–**	**94 295**	**(207)**	**94 088**
Statement of financial performance extract					
Depreciation	87	–	87	(29)	58
Total expenses	**59 942**	**–**	**59 942**	**(29)**	**59 913**
Surplus for the year	**6 295**	**–**	**6 295**	**29**	**6 324**

Prior-period adjustment

The amount of $0.160 million is an adjustment for overstated expenses in a prior year due to an incorrect transaction by a country office that was discovered after a review of accounts payable transactions by UNCDF headquarters. The effect of this adjustment is as follows: an increase in accumulated surpluses of $0.160 million in the statement of financial position and changes in net assets/equity; and a decrease in accounts payable of $0.160 million in the statement of financial position.

Reclassification

The amount of $0.005 million was reclassified from other expenses impairment to Staff costs, other staff benefits, in the statement of financial performance to better reflect the nature of expenses.

Note 6
Segment reporting

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

(a) Regular resources

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

(b) Cost-sharing

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

(c) Trust funds

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

(d) Reimbursable support services and miscellaneous activities

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

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

Statement of financial position as at 31 December 2014, by segment

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2014	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*
Assets										
Current assets										
Cash and cash equivalents	3 300	2 994	7 272	9 000	591	3 204	900	1 317	12 063	16 515
Investments	7 133	9 568	23 269	28 285	1 891	10 071	2 881	4 135	35 174	52 059
Receivables (non-exchange transactions)	3	3 260	2 699	–	2 968	–	213	438	5 883	3 698
Receivables (exchange transactions)	6 897	8 876	17	–	–	–	–	–	6 914	8 876
Advances issued	203	357	158	278	356	395	3	1	720	1 031
Loans to financial service providers	523	783	–	–	–	–	–	–	523	783
Inventories	–	–	–	–	–	–	3	2	3	2
Total current assets	**18 059**	**25 838**	**33 415**	**37 563**	**5 806**	**13 670**	**4 000**	**5 893**	**61 280**	**82 964**
Non-current assets										
Investments	13 708	1 730	42 176	5 571	3 426	1 984	5 220	814	64 530	10 099
Loans to financial service providers	251	273	–	274	–	–	–	–	251	547
Property, plant and equipment	354	415	46	49	–	–	6	14	406	478
Total non-current assets	**14 313**	**2 418**	**42 222**	**5 894**	**3 426**	**1 984**	**5 226**	**828**	**65 187**	**11 124**
Total assets	**32 372**	**28 256**	**75 637**	**43 457**	**9 232**	**15 654**	**9 226**	**6 721**	**126 467**	**94 088**

Statement of financial position as at 31 December 2014, by segment (continued)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Total*	
	2014	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*
Liabilities										
Current liabilities										
Accounts payable and accrued liabilities	93	160	75	178	354	395	–	2	522	735
Employee benefits	1 497	1 366	386	404	158	164	160	176	2 201	2 110
Total current liabilities	**1 590**	**1 526**	**461**	**582**	**512**	**559**	**160**	**178**	**2 723**	**2 845**
Non-current liabilities										
Employee benefits	11 371	8 722	1 137	894	451	448	915	654	13 874	10 718
Total non-current liabilities	**11 371**	**8 722**	**1 137**	**894**	**451**	**448**	**915**	**654**	**13 874**	**10 718**
Total liabilities	**12 961**	**10 248**	**1 598**	**1 476**	**963**	**1 007**	**1 075**	**832**	**16 597**	**13 563**
Net assets/equity										
Reserves	12 420	12 618	–	–	–	–	2 000	2 000	14 420	14 618
Accumulated surplus	6 991	5 390	74 039	41 981	8 269	14 647	6 151	3 889	95 450	65 907
Total net assets/equity	**19 411**	**18 008**	**74 039**	**41 981**	**8 269**	**14 647**	**8 151**	**5 889**	**109 870**	**80 525**
Total liabilities and net assets/equity	**32 372**	**28 256**	**75 637**	**43 457**	**9 232**	**15 654**	**9 226**	**6 721**	**126 467**	**94 088**

Statement of financial performance for the year ended 31 December 2014, by segment

(Thousands of United States dollars)

	Regular resources		*Cost-sharing*		*Trust funds*		*Reimbursable support services and miscellaneous activities*		*Elimination[b]*		*Total*	
	2014	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*	*2014*	*2013 (restated)*
Revenue												
Voluntary contributions, net[a]	13 537	16 052	62 532	31 191	10 718	17 119	1 386	807	–	–	88 173	65 169
Investment revenue	155	239	198	134	39	53	–	–	–	–	392	426
Other revenue	465	593	17	37	12	8	4 672	2 540	(4 667)	(2 536)	499	642
Total revenue	**14 157**	**16 884**	**62 747**	**31 362**	**10 769**	**17 180**	**6 058**	**3 347**	**(4 667)**	**(2 536)**	**89 064**	**66 237**
Expenses												
Contractual services	1 640	2 271	4 521	3 582	1 319	1 454	228	205	–	–	7 708	7 512
Staff costs	5 284	9 297	6 200	5 309	1 342	1 737	2 328	1 897	–	–	15 154	18 240
Supplies and consumables used	218	318	276	84	114	164	16	17	–	–	624	583
General operating expenses	2 256	2 903	7 103	4 817	2 158	1 577	971	1 165	(4 667)	(2 536)	7 821	7 926
Grants and other transfers	1 964	3 187	12 157	11 638	11 992	9 962	–	–	–	–	26 113	24 787
Other expenses	204	508	141	163	19	54	19	59	–	–	383	784
Depreciation	48	51	5	5	–	–	1	2	–	–	54	58
Finance costs	11	7	1	–	102	16	–	–	–	–	114	23
Total expenses	**11 625**	**18 542**	**30 404**	**25 598**	**17 046**	**14 964**	**3 563**	**3 345**	**(4 667)**	**(2 536)**	**57 971**	**59 913**
Surplus/(deficit) for the period	**2 532**	**(1 658)**	**32 343**	**5 764**	**(6 277)**	**2 216**	**2 495**	**2**	**–**	**–**	**31 093**	**6 324**

[a] Voluntary contributions are net of returns to donors of unused contributions.
[b] This adjustment is required to remove the effect of internal UNCDF cost recovery.

Note 7
Comparison to budget

The budget and the accounting basis are different. Statement V (statement of comparison of budget and actual amounts (regular resources)) is prepared on the budget basis, i.e., approved budgets of UNCDF are prepared on a modified cash basis. The presentation of activities and associated expenditures in statement V reflects the cost classification categories. It is noted that the statement of financial performance (statement II) reflects expenses by nature. For this reason, the total actual regular resources budget expenditure of $11.162 million differs from total financial accounting expenses.

For UNCDF, approved budgets are those that permit expenses to be incurred in relation to development and management activities to be funded from regular resources. The Fund's other resources are a forward estimate and projection based on assumptions about future events, and thus are not presented in statement V.

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

Material differences between the original approved budget and the final approved budget are nil, as the original approved budget equates to the final approved budget. Budget utilization levels in 2014 were driven by a combination of the following factors: (a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) requirements and implementation of the UNCDF strategic plan for 2014-2017. Accordingly, actual utilization amounts in the year 2014 against budget levels are as follows:

(a) Development activities: actual utilization of $8.72 million, representing 76.4 per cent of the annualized approved budget of $11.41 million;

(b) Management activities: actual utilization of $2.44 million, representing 85.6 per cent of the annualized approved budget of $2.85 million.

During 2014, UNCDF revised the annual spending limits, noting the reduced level of voluntary contributions. This resulted in lower budget expenditure compared with the annualized budget for 2014.

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

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Total actual amount on a comparable basis as presented in statement V	**11 165**	**(3)**	**–**	**11 162**
Basis differences	50	5	–	55
Entity differences	21 685	(37 354)	–	(15 669)
Net increase/(decrease) in cash and cash equivalents from statement IV	**32 900**	**(37 352)**	**–**	**(4 452)**

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

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

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

Note 8
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Cash in bank accounts	694	588
Money market funds	11 369	6 385
Money market instruments	–	9 999
Impairment	–[a]	(457)
Total	**12 063**	**16 515**

[a] The decrease in impairment of $0.457 represents reversal of prior-year impairment recognized in the statement of financial performance (relating to the valuation of certain non-convertible currencies) no longer held by UNCDF as at 31 December 2014 (refer to note 21, Other revenue).

The Fund's exposure to credit risks is disclosed in note 23, Financial instruments and financial risk management.

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

(Thousands of United States dollars)

	1 January 2014	*Purchases*	*Maturities*	*Amortization*	*Realized gains/ (losses)*	*Reclassification non-current to current*	*31 December 2014*
Current investments							
Money market instruments	19 987	24 989	(45 000)	24	–	–	–
Bonds	32 072	10 509	(36 920)	(639)	–	30 152	35 174
Total current investments	**52 059**	**35 498**	**(81 920)**	**(615)**	**–**	**30 152**	**35 174**
Non-current investments							
Bonds	10 099	85 186	–	(603)	–	(30 152)	64 530
Total non-current investments	**10 099**	**85 186**	**–**	**(603)**	**–**	**(30 152)**	**64 530**
Total investments	**62 158**	**120 684**	**(81 920)**	**(1 218)**	**–**	**–**	**99 704**

As at 31 December 2014, UNCDF did not have any impairment on its investments. The Fund's exposure to credit risks and risk management activities related to investments is disclosed in note 23, Financial instruments and financial risk management.

Note 10
10.1 Receivables non-exchange transactions

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Contributions receivable	5 883	3 698
Total receivables non-exchange transactions	**5 883**	**3 698**

Ageing of receivables non-exchange transactions

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Less than 6 months	5 883	3 698
More than 6 months	–	–
Total receivables non-exchange transactions	**5 883**	**3 698**

Contributions receivable represent uncollected revenue committed to UNCDF by donors. As at 31 December 2014, UNCDF did not have any impairment on its receivables. The Fund's exposure to credit and currency risks related to receivables is disclosed in note 23, Financial instruments and financial risk management.

10.2 Receivables exchange transactions

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Receivables from the United Nations Development Programme	6 315	8 427
Receivables from the United Nations Entity for Gender Equality and the Empowerment of Women	2	10
Investment assets and receivables	575	437
Receivables from staff	5	2
Receivables from third parties	17	–
Total receivables exchange transactions	**6 914**	**8 876**

Ageing of receivables exchange transactions

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Less than 6 months	6 914	8 534
More than 6 months	–	342
Total receivables exchange transactions	**6 914**	**8 876**

The Fund's exposure to credit and currency risks related to receivables is disclosed in note 23, Financial instruments and financial risk management.

Note 11
Advances issued

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Non-exchange transactions		
Operating funds provided to Governments	316	440
Operating funds provided to executing entities/implementing partners	40	71
Subtotal	**356**	**511**
Exchange transactions		
Prepaid advances	–	136
Advances to staff	420	400
Subtotal	**420**	**536**
Total advances issued, gross	**776**	**1 047**
Impairment	(56)[a]	(16)
Total advances issued, net	**720**	**1 031**

[a] The increase in impairment of $0.040 million represents impairment for operating funds provided to executing entities/implementing partners recognized in the statement of financial performance (refer to note 22, "Expenses"). The impairment allowance of $0.016 million in 2013 is cumulative in 2014.

Ageing of advances issued

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Less than 6 months	617	505
More than 6 months	159	542
Total	**776**	**1 047**

Note 12
Loans to financial service providers

(Thousands of United States dollars)

	31 December 2014	31 December 2013
Current		
Loans to financial service providers	523	783
Total current loans to financial service providers	**523**	**783**
Non-current		
Loans to financial service providers	941	1 237
Impairment	(690)[a]	(690)
Total non-current loans to financial service providers	**251**	**547**
Total loans to financial service providers	**774**	**1 330**

[a] There is no change to the impairment of $0.690 million which was recognized in the statement of financial performance in a prior year.

(Thousands of United States dollars)

	31 December 2014	31 December 2013
Balance at 1 January	**1 330**	**1 608**
Loans revaluation	(60)	28
Valuation of loan	(19)	526
Loans repayment	(477)	(832)
Balance at 31 December	**774**	**1 330**

Note 13
Inventories

(Thousands of United States dollars)

	31 December 2014	31 December 2013
Inventories		
Office supplies	3	2
Total inventories	**3**	**2**

Note 14
Property, plant and equipment

UNCDF has two broad categories of property, plant and equipment: project assets and management assets. Project assets, which constitute 99.5 per cent of total assets, are utilized in the delivery of UNCDF programmes/projects. Management assets, which constitute 0.5 per cent of total assets, are used for non-project specific operations at UNCDF country offices and headquarters. As at 31 December 2014, UNCDF had a gross carrying amount of $0.061 million of fully depreciated property, plant and equipment that was still in use.

Total assets

(Thousands of United States dollars)

	Furniture and fixtures	*Communications and information technology equipment*	*Vehicles*	*Heavy machinery and other equipment*	*Total*
Balance at 1 January 2014 (restated)					
Cost	77	91	760	20	948
Accumulated depreciation	(2)	(59)	(404)	(5)	(470)
Carrying amount at 1 January 2014 (restated)	**75**	**32**	**356**	**15**	**478**
Period ended 31 December 2014					
Additions	–	4	–	–	4
Adjustments to cost	–	(10)	(79)	–	(89)
Depreciation	(5)	(5)	(43)	(1)	(54)
Adjustments to accumulated depreciation/depreciation	–	5	62	1	67
Carrying amount at 31 December 2014	**70**	**26**	**296**	**14**	**406**
Balance at 31 December 2014					
Cost	77	85	681	20	863
Accumulated depreciation	(7)	(59)	(385)	(6)	(457)
Carrying amount at 31 December 2014	**70**	**26**	**296**	**14**	**406**

As at 31 December 2014, UNCDF did not have any impairment on property, plant and equipment.

Note 15
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2014	*31 December 2013 (restated)*
Payables to third parties	460	469
Accruals	36	222
Payables to staff	20	20
Payables to the United Nations Office for Project Services	–	24
Payables to the United Nations Population Fund	6	–
Total accounts payable and accrued liabilities	**522**	**735**

Note 16
Employee benefits

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Current		
Annual leave	1 361	1 430
Home leave	370	280
After-service health insurance	108	93
Repatriation entitlements	312	260
Death benefits	4	3
Other employee benefits	46	44
Subtotal	**2 201**	**2 110**
Non-current		
After-service health insurance	10 840	7 806
Repatriation entitlements	1 776	1 719
Home leave	135	135
Death benefits	29	23
Other employee benefits	1 094	1 035
Subtotal	**13 874**	**10 718**
Total	**16 075**	**12 828**

Employee benefits are established in accordance with the Staff Rules and Staff Regulations of the United Nations. The liabilities arising from post-employment benefits are determined by independent actuaries. Liabilities for after-service health insurance, repatriation entitlements and death benefits were determined by the actuarial valuation conducted as at 31 December 2014.

(a) United Nations Joint Staff Pension Fund

The Pension Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

The financial obligation of UNCDF to the Pension Fund consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date.

Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

The actuarial valuation completed as at 31 December 2013 revealed an actuarial deficit of 0.72% (1.87% in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42% of pensionable remuneration, compared to the actual contribution rate of 23.7%. The next actuarial valuation will be conducted as at 31 December 2015.

At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5% (130.0% in the 2011 valuation). The funded ratio was 91.2% (86.2% in the 2011 valuation) when the current system of pension adjustments was taken into account.

After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of article 26.

In December 2012 and April 2013, the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation respectively for new participants of the Pension Fund, with effect not later than 1 January 2014. The related change to the Pension Fund's Regulations was approved by the General Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as of 31 December 2013.

During 2014, contributions paid by UNCDF to the Pension Fund amounted to $2.72 million (2013: $3.12 million). Expected contributions due in 2015 are $2.72 million.

The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting its website at www.unjspf.org.

(b) Defined benefit plans

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Net defined benefit obligation at 1 January 2014	7 899	1 979	26	9 904
Increase in the obligation				
Current service cost	715	260	6	981
Interest cost	382	78	1	461
Actuarial losses from change in assumptions	2 524	161	4	2 689
Actuarial losses on disbursement	–	228	–	228
Decrease in the obligation				
Actual benefits paid	(82)	(499)	–	(581)
Actuarial (gains) on disbursement	(16)	–	(4)	(20)
Actuarial (gains) from change in assumptions	(474)	(119)	–	(593)
Net recognized liability at 31 December 2014	**10 948**	**2 088**	**33**	**13 069**

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

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Current service cost	715	260	6	981
Interest cost	382	78	1	461
Total employee benefits expenses recognized	**1 097**	**338**	**7**	**1 442**

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

(Thousands of United States dollars)

	After-service health insurance	*Repatriation*	*Death benefits*	*Total*
Actuarial gains/(losses) from change in assumptions	(2 050)	(42)	(4)	(2 096)
Actuarial gains/(losses) on disbursements	16	(228)	4	(208)
Total	**(2 034)**	**(270)**	**–**	**(2 304)**

The next comprehensive actuarial valuation will be conducted as at 31 December 2015.

The following table provides the amounts for the current and previous two periods of the defined benefit obligation and the experience adjustment arising on the plan liabilities:

(Thousands of United States dollars)

	2014	*2013*	*2012*
After-service health insurance			
Defined benefits obligation	10 948	7 899	12 640
Experience adjustment on plan liabilities	(474)	(136)	(145)
Repatriation			
Defined benefits obligation	2 088	1 979	1 865
Experience adjustment on plan liabilities	(119)	163	(1)
Death benefits			
Defined benefits obligation	33	26	35
Experience adjustment on plan liabilities	2	(4)	–

(c) Actuarial assumptions

The last actuarial valuation for after-service health insurance, repatriation and death benefits was conducted as at 31 December 2014, and the principal actuarial assumptions used to determine the defined benefit obligation are as follows:

Single equivalent discount rate:	
– After-service health insurance	3.91 per cent
– Repatriation benefits	3.44 per cent
– Death benefits	3.30 per cent
Expected rate of medical cost increase for after-service health insurance (varies by medical plan)	5-6.8 per cent
Salary scale (varying by age and staff category)	5.5-10.8 per cent
Rate of inflation	2.25 per cent
Per capita claim cost (varies by age)	$942-$13,569
Actuarial method	Projected unit credit

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

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

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

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

	Rate of retirement	
Category	*At age 55*	*At age 62*
Male	0.16	0.70
Female	0.20	0.80

Sensitivity analysis

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

(Thousands of United States dollars)

	+1 per cent health costs	*-1 per cent health costs*
Effect of change in discount rate on year-end accumulated defined benefit obligation	(2 550)	3 462
Effect of change in expected rate of medical costs on combined service and interest cost components of net periodic post-employment medical costs	379	(270)

(d) Termination benefits

No termination benefits are recognized for the reporting period.

Note 17
Reserves

(Thousands of United States dollars)

	1 January 2014	*Movements*	*31 December 2014*
Operational reserve	14 618	(198)	14 420
Total reserves	**14 618**	**(198)**	**14 420**

The operational reserve, established in 1979 by the Governing Council (now the Executive Board) to ensure adequate liquidity for UNCDF, is maintained at the level of 20 per cent of project commitments. The project commitments at the end of 2014 were $62.1 million, thus the operational reserve set aside is $12.42 million, which is 20 per cent of the commitments.

Note 18
Accumulated surpluses

(Thousands of United States dollars)

	1 January 2014 (restated)	*Movements*	*31 December 2014*
Accumulated surpluses	59 489	31 291	90 780
Funds with specific purposes	1 695	556	2 251
Actuarial (losses)/gains	4 723	(2 304)	2 419
Total	**65 907**	**29 543**	**95 450**

Movements in the accumulated surplus of $31.291 million comprise surplus for the year of $31.093 million and operational reserve transfer to accumulated surplus of $0.198 million. The movement in funds with specific purposes include the information communications technology fund ($0.139 million), the security fund ($0.040 million), the learning fund ($0.092 million), reimbursement costs for United Nations jointly financed activities ($0.206 million), the appendix D fund ($0.028 million) and the malicious acts insurance policy premium ($0.051 million).

Note 19
Voluntary contributions

(Thousands of United States dollars)

	2014	*2013*
Contributions	88 382	65 184
Less: Returns to donors of unused contributions	(209)	(15)
Total voluntary contributions, net	**88 173**	**65 169**

For 2014-2017, UNDP will rely on the UNCDF financial mandate in areas of shared focus in least developed countries. In that context, UNDP provides institutional support to UNCDF. During 2014, as an in-kind contribution, UNDP directly covered the salary costs of 16 UNCDF staff members amounting to $3.3 million and general operating expenses, which include rent, travel and other costs, amounting to $0.5 million.

Note 20
Investment revenue

(Thousands of United States dollars)

	2014	*2013*
Interest revenue and amortized premium/discount	392	426
Total	**392**	**426**

Investment revenue represents interest plus amortized discount, net of amortized premium earned on the UNCDF investment portfolio ($0.325 million). In addition, it includes interest earned ($0.001 million) on bank account balances and loans to financial service providers ($0.066 million).

Note 21
Other revenue

(Thousands of United States dollars)

	2014	*2013*
Foreign exchange gains	41	101
Loan valuation and other miscellaneous revenue	458[a]	541
Total	**499**	**642**

[a] Of the total $0.458 million, $0.457 million represents reversal of prior-year impairment recognized in the statement of financial performance (relating to the valuation of certain non-convertible currencies) no longer held by UNCDF as at 31 December 2014 (refer to note 8, Cash and cash equivalents).

Note 22
Expenses

(Thousands of United States dollars)

	Programme expenses[a] 2014	*Total expenses 2014*	*Programme expenses 2013 (restated)*	*Total expenses 2013 (restated)*
22.1 Contractual services				
Contract services with individuals	6 507	6 703	6 440	6 614
Contract services with companies	937	986	738	792
United Nations Volunteers expenses for contractual services	19	19	74	106
Subtotal	**7 463**	**7 708**	**7 252**	**7 512**
22.2 Staff costs				
Salary and wages	7 555	9 888	6 712	11 538
Pension benefits	1 291	1 814	1 226	2 127
Post-employment	1 270	1 647	1 004	2 042
Appointment and assignment	456	456	786	1 181
Leave benefits	313	326	326	373
Other staff benefits	633	1 023	523	979
Subtotal	**11 518**	**15 154**	**10 577**	**18 240**
22.3 Supplies and consumables used				
Security-related goods and materials	–	6	–	–
Maintenance costs for property, plant and equipment and project-related supplies	261	269	202	221
Stationery and other office supplies	44	58	91	124

	Programme expenses[a] 2014	*Total expenses 2014*	*Programme expenses 2013 (restated)*	*Total expenses 2013 (restated)*
Agricultural, petroleum and metal products	43	52	76	81
Information technology supplies and software maintenance	45	55	76	78
Information technology and communications equipment	127	139	45	44
Other consumables used	22	45	32	35
Subtotal	**542**	**624**	**522**	**583**
22.4 General operating expenses				
Travel	2 575	2 705	2 635	2 758
Learning and recruitment	1 504	1 528	1 185	1 285
Rent, leases, utilities	786	1 009	579	892
Reimbursement	61	687	146	807
Communications	430	524	563	723
Security	343	456	238	418
Professional services	95	114	377	377
General management costs	4 738[b]	71	2 552	21
Contribution to United Nations jointly financed activities	144	196	102	176
Contribution to information and communications technology	94	134	87	158
Freight	12	14	16	20
Insurance/warranties	14	41	28	33
Miscellaneous operating expenses	325	342	159	258
Subtotal	**11 121**	**7 821**	**8 667**	**7 926**
22.5 Grants and other transfers				
Grants	26 065	26 065	24 680	24 680
Transfers	45	48	32	107
Subtotal	**26 110**	**26 113**	**24 712**	**24 787**
22.6 Other expenses				
Foreign exchange losses	188	160	29	48
Losses on sale of fixed assets	150	166	91	117
Sundries	17	17	112	146
Impairment	–	40[c]	–	473
Subtotal	**355**	**383**	**232**	**784**
22.7 Depreciation				
Depreciation	45	54	42	58
Subtotal	**45**	**54**	**42**	**58**

	Programme expenses[a] 2014	*Total expenses 2014*	*Programme expenses 2013 (restated)*	*Total expenses 2013 (restated)*
22.8 Finance costs				
Bank charges	114	114	23	23
Subtotal	**114**	**114**	**23**	**23**
Total	**57 268**	**57 971**	**52 027**	**59 913**

[a] Of the total expenses, $57.268 million represents programme expenses, while the remaining $0.703 million represents development effectiveness, and management.
[b] Of the $4.738 million, $4.667 million is eliminated to remove the effect of internal UNCDF cost recovery.
[c] In 2014, UNCDF recognized $0.040 million as impairment for operating funds provided to executing entities/implementing partners (refer to note 11, "Advances issued").

Note 23
Financial instruments and financial risk management

In its operations, UNCDF is exposed to a variety of financial risks, including:

- Credit risk: risk of financial loss to UNCDF if counterparties to a financial asset do not meet their contractual obligations;
- Liquidity risk: risk that UNCDF might not have adequate funds to meet its obligations as they fall due; and
- Market risk: risk that UNCDF might incur financial losses on its financial assets owing to unfavourable movements in foreign currency exchange rates interest rates and/or prices of investment securities.

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

The principal objectives of the investment guidelines are:

- Safety: preservation of capital, provided through investing in high-quality, fixed-revenue securities emphasizing the creditworthiness of the issuers;
- Liquidity: flexibility to meet cash requirements through investments in highly marketable, fixed-income securities and through structuring maturities to align with liquidity requirements;
- Revenue: maximization of investment revenue within the foregoing safety and liquidity parameters.

The UNDP Investment Committee, comprising senior management, meets quarterly to review investment portfolio performance and ensure that investment decisions have complied with the established investment guidelines. UNCDF receives a detailed monthly investment performance report from UNDP that shows the composition and performance of the investment portfolio. UNCDF offices review these reports on a regular basis.

UNCDF financial regulations and rules govern the financial management of UNCDF. The regulations and rules are applicable to all funds and programmes administered by UNCDF and establish the standards of internal control and accountability within the organization.

There were no significant changes in the UNCDF risk management framework in 2014.

The table below show the value of financial assets outstanding at year-end based on the IPSAS classifications adopted by UNCDF:

(Thousands of United States dollars)

	Held to maturity	*Available for sale*	*Loans and receivables*	*Fair value through surplus or deficit*	*Book value*	
					2014	*2013*
Cash and cash equivalents		–	12 063	–	12 063	16 515
Investments	99 704	–		–	99 704	62 158
Receivables: non-exchange		–	5 883	–	5 883	3 698
Receivables: exchange		–	6 914	–	6 914	8 876
Advances		–	720	–	720	1 031
Loans to financial service providers		–	774	–	774	1 330
Total financial assets	**99 704**	**–**	**26 354**	**–**	**126 058**	**93 608**

Held-to-maturity financial assets are carried at amortized cost, and, at 31 December 2014, the book value of these assets exceeded market value by $0.088 million. The carrying values for loans and receivables are a reasonable approximation of their fair value. As at 31 December 2014, UNCDF had no outstanding balances of financial assets classified as available for sale or fair value through surplus or deficit.

The table below shows the value of financial liabilities outstanding at year-end based on the IPSAS classifications adopted by UNCDF.

(Thousands of United States dollars)

	Other financial liabilities	*Fair value through surplus or deficit*	*Book value*	
			2014	*2013 (restated)*
Accounts payable and accrued liabilities	522	–	522	735
Total financial liabilities	**522**	**–**	**522**	**735**

As at 31 December 2014, UNCDF had no outstanding financial liabilities recorded at fair value through surplus or deficit. The carrying value of other liabilities is a reasonable approximation of their fair value.

Analysis of the Fund's credit risk

UNCDF is exposed to credit risk on its outstanding financial asset balances, primarily cash and cash equivalents, financial instruments, receivables (exchange and non-exchange), advances and loans to financial service providers.

UNCDF uses UNDP local bank accounts for its day-to-day financial commitments and does not receive contributions at the country office level. All contributions are made directly to UNCDF or UNDP contribution accounts at UNDP headquarters.

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

Credit ratings from the three leading credit rating agencies, Moody's, Standard & Poor's and Fitch, are used to evaluate the credit risk of financial instruments. As at 31 December 2014, the Fund's financial investments were in investment-grade instruments, as shown in the table below (presented using Standard & Poor's rating convention).

Concentration by credit rating

(Thousands of United States dollars)

31 December 2014	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*Total*
Bonds	61 349	19 055	5 054	4 124	10 122	–	99 704
Total	**61 349**	**19 055**	**5 054**	**4 124**	**10 122**	**–**	**99 704**

31 December 2013	*AAA*	*AA+*	*AA*	*AA-*	*A+*	*A*	*Total*
Money market instruments	–	–	–	9 988	–	9 999	19 987
Bonds	29 867	5 065	–	–	–	7 239	42 171
Total	**29 867**	**5 065**	**–**	**9 988**	**–**	**17 238**	**62 158**

Note: Excludes investments classified as cash equivalents.

The credit risk exposure of UNCDF on outstanding non-exchange receivables is mitigated by its financial regulations and rules, which require that, for other resources, expenses be incurred after the receipt of funds from donors. Incurring expenses prior to the receipt of funds is permitted only if specified risk management criteria with regard to the obligor are met. In addition, a large portion of the contributions receivable is due from sovereign Governments and supranational agencies, and private sector donors that do not have significant credit risk.

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

Analysis of the Fund's liquidity risk

Liquidity risk is the risk that UNCDF might be unable to meet its obligations, including accounts payable and accrued liabilities and other liabilities, as they fall due.

Investments are made with due consideration to the Fund's cash requirements for operating purposes based on cash flow forecasting. The investment approach considers the timing of future funding needs of the organization when selecting investment maturities. UNCDF maintains a portion of its cash and investments in cash and cash equivalents (11 per cent) and current investments (31 per cent) sufficient to cover its commitments as and when they fall due, as shown in the table below.

(Thousands of United States dollars)

	31 December 2014	*Percentage*	*31 December 2013*	*Percentage*
Cash balances	694	1	131	0
Cash equivalents	11 369	10	16 384	21
Total cash and cash equivalents	**12 063**	**11**	**16 515**	**21**
Current investments	35 174	31	52 059	66
Non-current investments	64 530	58	10 099	13
Total short- and long-term investments	**99 704**	**89**	**62 158**	**79**
Total investments, cash and cash equivalents	**111 767**	**100**	**78 673**	**100**

Although UNCDF did have a larger percentage of the portfolio invested in bonds at the end 2014 than it did at the end 2013, these were highly liquid securities with relatively short-term maturities (1-2 years). In the unlikely event of insufficient funds for current obligations, UNCDF could easily liquidate such assets with minimal transaction cost and delay.

Composition of cash equivalents

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Money market funds	11 369	6 385
Money market instruments	–	9 999
Cash equivalents	**11 369**	**16 384**

UNCDF further mitigates its liquidity risk through its financial regulations and rules, which prohibit offices from entering into commitments, including purchase commitments, unless a budget already exists. Spending is possible after funds have been received and budgets in the Fund's enterprise resource planning system have been updated. Spending ability is constantly revised as commitments are made and expenditures incurred. Spending in the absence of a funded budget has to comply with UNCDF risk management guidelines.

Analysis of the Fund's market risk

Market risk is the risk that UNCDF will be exposed to potential financial losses owing to unfavourable movements in the market prices of financial instruments, including movements in interest rates, exchange rates and prices of securities.

Interest rate risk arises from the effects of market interest rates fluctuations on:

(a) Fair value of financial assets and liabilities;

(b) Future cash flows.

The Fund's investment portfolio is classified as held to maturity, which is not marked to market. Because held-to-maturity book carrying values are not affected by changes in interest rates.

Foreign exchange risk

UNCDF is exposed to currency risk arising from financial assets that are denominated in foreign currency and financial liabilities that have to be settled in foreign currency.

UNCDF receives donor contributions primarily in United States dollars and euros. Any contributions received other than in United States dollars are converted immediately to United States dollars using the prevailing exchange rate, since UNCDF holds all funds in United States dollar accounts. At 31 December 2014, all UNCDF investments were denominated in United States dollars.

Accounts payable/accrued liabilities do not constitute any foreign exchange risks.

As shown in the table below, a large portion of UNCDF financial assets and financial liabilities are denominated in United States dollars, thereby reducing overall foreign currency risk exposure.

Currency risk exposure

(Thousands of United States dollars)

	United States dollars	*Other currencies*	*31 December 2014*	*31 December 2013 (restated)*
Cash and cash equivalents	12 063	–	12 063	16 515
Investments	99 704	–	99 704	62 158
Receivables, non-exchange transactions	5 883	–	5 883	3 698
Receivables, exchange transactions	6 914	–	6 914	8 876

	United States dollars	*Other currencies*	*31 December 2014*	*31 December 2013 (restated)*
Advances issued	720	–	720	1 031
Loans to financial service providers	456	318	774	1 330
Total financial assets	**125 740**	**318**	**126 058**	**93 608**
Accounts payable and accrued liabilities	522	–	522	735
Total financial liabilities	**522**	**–**	**522**	**735**

Note 24
Related parties

(a) Key management personnel

The Fund's leadership structure consists of a four-member Executive Group: the Executive Secretary, the Deputy Executive Secretary and two Directors of the Practice Areas. The Executive Group is responsible for the strategic direction and operational management of UNCDF and is entrusted with significant authority to execute the Fund's mandate.

(b) Remuneration

(Thousands of United States dollars)

Tier	*Number of posts*	*Salary and post adjustment*	*Other entitlements*	*Total remuneration*	*Annual leave, repatriation and after-service health insurance liability*
Key management personnel	4	896	529	1 425	1 797
Total	**4**	**896**	**529**	**1 425**	**1 797**

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

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

(c) Advances

Staff advances are referred to as salary advances at UNCDF. Salary advances are available to all UNCDF staff, including key management personnel, for specific purposes as provided for in the Staff Rules and Staff Regulations of the United Nations. At 31 December 2014, there were no advances issued to key management personnel and their close family members that would not have been made available to all UNCDF staff.

Note 25
Commitments and contingencies

(a) Open commitments

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Property, plant and equipment	25	12
Goods	210	21
Services	514	800
Total	**749**	**833**

At 31 December 2014, UNCDF commitments for the acquisition of various goods and services contracted but not received amounted to $0.724 million, and acquisition of property, plant and equipment contracted but not received amounted to $0.025 million.

(b) Lease commitments by term

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Obligations for property leases		
Less than 1 year	308	308
1 to 5 years	1 234	1 234
Total	**1 542**	**1 542**

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

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Obligations for operating leases		
Less than 1 year	7	20
1 to 5 years	–	3
Total	**7**	**23**

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

(c) Contingencies

In 2014, UNCDF started the process of corporate realignment, of which the significant implementation activities will occur in 2015. As a result of the realignment, a contingent liability, primarily for separation costs, has been estimated at $590 thousand. The nature of contingent liabilities is such that there is uncertainty as to the amount and/or timing of the outflow.

Note 26
Events after reporting date

The reporting date for the present financial statements is 31 December 2014. No material events, favourable or unfavourable, have occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 27
Additional disclosure

All trust funds established by the United Nations Capital Development Fund: schedule of financial performance

(Thousands of United States dollars)

Name of trust fund	*Net assets 31 December 2013*	*Prior period adjustments*	*Adjusted opening balance*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments recognized directly in closing net assets*	*Net assets 31 December 2014*
Belgium — Anseba Local Development Fund	476		476	2	–		478
Belgium — Appui au développement communal et aux initiatives locales	1		1	–			1
Belgium — Projet d’appui au développement local de la région de Mayahi	–		–	–	–		–
Belgium — Projet d’appui au développement local de la région de N’guigmi	1		1	–	–		1
Belgium — Projet de développement des ressources agro-pastorales de la Province du Namentenga au Burkina Faso	–		–	–	–		–
Belgium (Belgian Fund for Food Security) — Programme conjoint à Nara-Nioro	1 754		1 754	1 471	(1 523)		1 702
Belgian Fund for Food Security — Evaluation	–		–	–	–		–
Belgian Fund for Food Security — Programme d’appui au développement économique local	581		581	1 515	(559)		1 537
Belgian Fund for Food Security — Projet d’appui à la décentralisation, à la déconcentration et au développement économique local au Bénin	765		765	56	(667)		154
Bill and Melinda Gates Foundation — Least Developed Countries Fund	2 914	–	2 914	206	(2 945)	(6)	169
CGAP (Consultative Group to Assist the Poor) — Joint Donor Training Initiative	1		1	1	–	–	2
Canada (Canadian International Development Agency) — Appui à la gouvernance locale dans le département du Nord-Est en Haïti	113		113	–	(29)	–	84
United Kingdom (Department for International Development) — Support to follow-up of 1999 external evaluation	–		–	–	–	–	–
Belgian Fund for Food Security — Collectivités territoriales et développement local à Tombouctou et à Mopti-Mali	324		324	1	(49)	–	276
Belgian Fund for Food Security — Independent impact assessment	–		–	–	–	–	–
Belgian Fund for Food Security — Projet d’appui au développement communautaire en province de Byumba — Rwanda	283		283	1	–	–	284
France — Projet d’appui à la commune Urbaine de Diffa — Niger	137		137	1	–	–	138

Name of trust fund	*Net assets 31 December 2013*	*Prior period adjustments*	*Adjusted opening balance*	*Revenue/ adjustments*	*(Expenses)*	*Adjustments recognized directly in closing net assets*	*Net assets 31 December 2014*
France — Projet d’appui à la décentralisation et au développement local — Mauritanie	268		268	1	–	–	269
Japan — District Development Programme 2 — Gender Mainstreaming Component	121		121	–	–	–	121
Livelihoods and Food Security Trust Fund	2 863		2 863	1 205	(2 101)	–	1 967
Luxembourg — Mali project	2		2	–	–	–	2
Luxembourg — Programme d’appui à la décentralisation en milieu rural	193		193	–	(131)	–	62
Luxembourg — Projet d’appui aux communes rurales de Mopti	–		–	–	–	–	–
Luxembourg — United Nations advisory services	–		–	–	–	–	–
Multi-donor trust fund — Pass-through trust fund	3 807	(10)	3 797	6 309	(9 042)	(95)	969
Spain — Millennium Development Goals — Water and sanitation	4		4	–	–	–	4
Spain — Spain Millennium Development Goals	15		15	–	–	–	15
Sweden — United Nations advisory group	23		23	–	–	–	23
Switzerland — Contributions to Dakar Conference	–		–	–	–	–	–
United Nations Fund for International Partnerships — International Year of Microcredit, 2005	11		11	–	–	–	11
United Nations Fund for International Partnerships — United Nations advisory services	–		–	–	–	–	–
Total	**14 657**	**(10)**	**14 647**	**10 769**	**(17 046)**	**(101)**	**8 269**