

Hundred and seventy-fifth session

175 EX/32
PARIS, 25 August 2006
Original: English

Item 33 of the provisional agenda

**FINANCIAL REPORT AND AUDITED FINANCIAL STATEMENTS
OF UNESCO FOR THE PERIOD ENDED 31 DECEMBER 2005
AND REPORT BY THE EXTERNAL AUDITOR**

SUMMARY

In accordance with Financial Regulation 12.10, the report by the External Auditor and the audited financial statements, together with the report by the Director-General on the accounts of UNESCO for the financial period ended 31 December 2005 are submitted to the Executive Board.

The financial report and the audited financial statements, together with the formal opinion of the External Auditor, are contained in document DCO/137 (attached hereto) while the report by the External Auditor, together with the comments of the Director-General thereon, is presented in an addendum (175 EX/32 Add.).

This document should be read in conjunction with information documents 175/EX/INF.7 (IPSAS) and 175 EX/INF.8 (Unfunded liabilities) which are attached.

The draft decision refers to the document as a whole (175 EX/INF.7 and 175 EX/INF.8).

Decision proposed: paragraph 3.

1. In accordance with Financial Regulation 12.10, the Executive Board is required to examine the External Auditor's report together with the final audited accounts and to forward them to the General Conference with such comments as it deems appropriate.

2. The Executive Board may also wish to note in particular the opinion of the External Auditor on the financial statements in that they present fairly, in all material respects, the financial position of UNESCO as at 31 December 2005. The long-form report of the External Auditor and the Director-General's comments thereon is to be found in document 175 EX/31 Add.

Proposed draft decision

3. The Board may wish to adopt a decision along the following lines:

The Executive Board,

1. Recalling Article 12.10 of the Financial Regulations,
2. Having examined documents 175 EX/32 and Add., 175 EX/INF.7 and 175 EX/INF.8,
3. Expresses its appreciation to the External Auditor for the high standard of her work;
4. Notes the opinion of the External Auditor that the financial statements presented fairly, in all material respects, the financial position of UNESCO as at 31 December 2005 and the results of its operations and its cash flow for the two-year financial period then ended; that they were prepared in accordance with the stated accounting policies, which were applied on a basis consistent with that of the preceding financial period;
5. Takes note of the unobligated balances in Statement IV by appropriation line and approves the expenditure as reported;
6. Takes notes of the information contained in documents 175 EX/32 and Add., 175 EX/INF.7 and 175 EX/INF.8, and requests the Director-General to keep the Executive Board informed of the outcome of the United Nations General Assembly's deliberation and decisions on the concerned issues;
7. Invites the Director-General to report on the implementation of the recommendations of the External Auditor to the General Conference at its 34th session and to submit this report to the Executive Board at its 177th session for prior review;
8. Decides to transmit to the General Conference the report by the External Auditor and the audited financial statements of UNESCO for the period ended 31 December 2005.

DCO/137
PARIS, 31 March 2006
Original: English

**UNITED NATIONS EDUCATIONAL,
SCIENTIFIC AND CULTURAL ORGANIZATION**

**FINANCIAL REPORT AND AUDITED FINANCIAL STATEMENTS
OF UNESCO FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005**

CONTENTS

1. REPORT OF THE DIRECTOR-GENERAL ON THE ACCOUNTS OF UNESCO FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
2. OPINION OF THE EXTERNAL AUDITOR
3. APPROVAL OF THE FINANCIAL STATEMENTS
4. STATEMENTS
 - Statement I Statement of Income and Expenditure and Changes in Reserves and Fund Balances as at 31 December 2005 for the financial period ended 31 December 2005
 - Statement II Statement of Assets, Liabilities and Reserves and Fund Balances as at 31 December 2005
 - Statement III Statement of Cash Flow of Proprietary Funds (General, Working Capital and Other) for the financial period ended 31 December 2005
 - Statement IV Status of Appropriations of the General Fund – Regular and Participation Programmes for the financial period ended 31 December 2005
5. NOTES TO THE FINANCIAL STATEMENTS
6. SCHEDULES
 - Schedules of Income and Expenditure and Changes in Reserves and Fund Balances as at 31 December 2005 for the financial period ended 31 December 2005 for the following funds:
 - Schedule 1.1 General Fund (GEF)
 - Schedule 1.2 Other Proprietary Funds (OPF)
 - Schedule 1.2.1 Other Proprietary Funds (OPF) – Revenue-Generating Activities
 - Schedule 1.2.2 Other Proprietary Funds (OPF) – Support Costs
 - Schedule 1.2.3 Other Proprietary Funds (OPF) – Staff Related Accounts
 - Schedule 1.3 Programme Fiduciary Funds (PFF)
 - Schedule 1.3.1 Special Accounts for Institutes
 - Schedule 1.3.2 Other Special Accounts and Trust Funds
 - Schedule 1.4 Staff Fiduciary Funds (SFF)

Schedules of Assets, Liabilities and Reserves and Fund Balances as at 31 December 2005 for the following funds:

- Schedule 2.1 General and Working Capital Funds
- Schedule 2.2 Other Proprietary Funds
 - Schedule 2.2.1 Other Proprietary Funds – Revenue-Generating Activities
 - Schedule 2.2.2 Other Proprietary Funds (OPF) – Support Costs
 - Schedule 2.2.3 Other Proprietary Funds (OPF) – Staff-Related Accounts
- Schedule 2.3 Programme Fiduciary Funds
 - Schedule 2.3.1 Special Accounts for Institutes
- Schedule 2.4 Staff Fiduciary Funds

7. UNAUDITED ANNEXES

- Annex I Ex gratia payments
- Annex II Report of special accounts and trust funds established and closed during the financial period ended 31 December 2005
- Annex III Aged analysis of assessed contributions receivable

**FINANCIAL REPORT OF THE DIRECTOR-GENERAL ON THE ACCOUNTS
OF UNESCO FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005**

Full biennium combined financial situation

1. In 2004-2005, UNESCO achieved for the second successive biennium over \$1 billion of programme expenditure (i.e. excluding Staff Fiduciary Funds), over 50% of which related to non-regular programme activities. This can be summarized as follows:

	2004-2005		2002-2003	
	\$ '000s	%	\$ '000s	%
General Fund (GEF - Schedule 1.1)	620,391	45.86	554,032	49.32
Other Proprietary Funds (OPF – Schedule 1.2)	69,347	5.13	69,678	6.20
Total, Proprietary Funds (A)	689,738	50.99	623,710	55.52
Programme Fiduciary Funds (PFF – Schedule 1.3)	718,715	53.13	556,217	49.53
Less transfers from General Fund	(55,791)	(4.12)	(56,750)	(5.05)
Total, Programme Fiduciary Funds (B)	662,924	49.01	499,467	44.48
Total, Programme Funds – (A) plus (B)	1,352,662	100.00	1,123,177	100.00

This excellent performance was attained through increases (decrease) in the following business areas:

General Fund	\$66.4m	+12.0%
Other Proprietary Funds	(\$0.3m)	- 0.5%
Programme Fiduciary Funds	\$163.5m	+32.7%

2. The increase in the General Fund (regular programme) was directly attributable to the successful execution of an increased budget which was based on a real growth scenario of \$610 million in 2004-2005 compared with \$544 million in 2002-2003. This represents an overall increase of 12.1% or \$66 million.

3. Expenditure on Other Proprietary Funds overall has remained relatively stable (a marginal decrease) although notable increases were recorded on programme support costs for extrabudgetary activities and on the US Special Account. There were compensating decreases on the Special Accounts for the Renovation Plan and New Management and Monitoring Instruments.

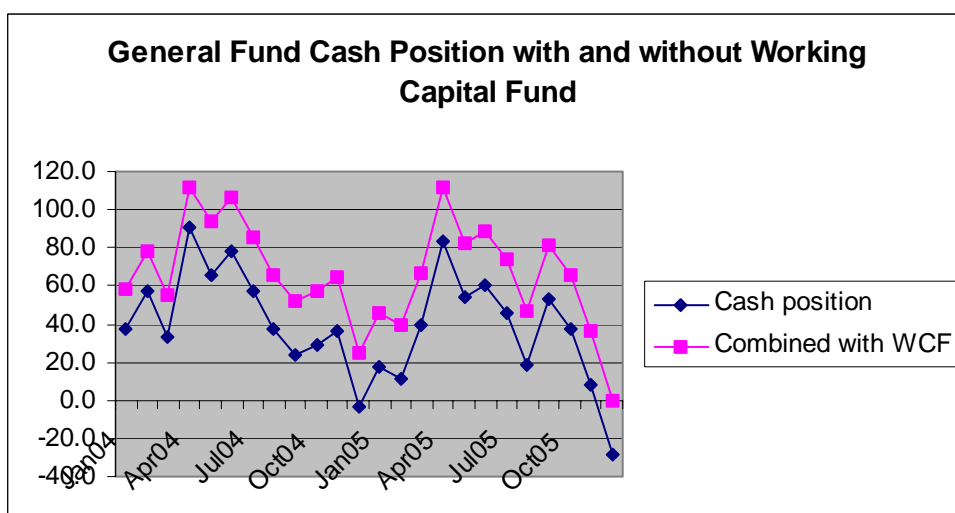
4. The considerable increase in Programme Fiduciary Funds (extrabudgetary activities) was principally due to the institutes (with the inclusion of IHE for the first time), and the Brazilian self-benefiting trust funds.

Treasury

5. UNESCO operates a central treasury function, mostly in euros and United States dollars, providing services to the whole Organization by managing cash and reducing financial risks.

6. All the investments of the Organization are made in accordance with the Investment Policy and they are regularly monitored by the Investment Committee established at the end of the previous biennium. The Investment Policy is also regularly reviewed and updated as necessary by the Investment Committee. Use is made of common bank account arrangements to provide efficient cash management while respecting the nature of fiduciary funds that represented \$938 million or 94% of the total cash and investments as at 31 December 2005.

7. The cash position of the Organization based on the total resources of the General Fund with and without the Working Capital Fund as at the end of each month for the 2004-2005 biennium is shown graphically as follows, in millions of United States dollars:



2004	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Cash position	37.1	57.0	33.7	90.4	65.6	78.6	57.3	37.6	24.3	29.2	36.7	-2.9
Combined with WCF	58.6	78.5	55.2	111.9	93.4	106.4	85.2	65.5	52.2	57.1	64.6	25.1
2005												
Cash position	17.4	11.2	39.1	83.4	54.4	60.8	45.9	18.4	53.6	37.8	8.1	-28.5
Combined with WCF	45.4	39.2	67.1	111.4	82.4	88.8	73.9	46.4	81.6	65.8	36.1	-0.5

8. The cash position varied in line with the receipt of contributions and remained sound throughout the biennium but was in deficit at the end of the biennium due to the level of outstanding contributions.

9. The amount of \$85 million of contributions due by Member States at 31 December 2005 represents almost three months of expenditure and three times the level of Working Capital Fund. This gives great cause for concern and all Member States, which owe money to the Organization, are urged to pay their outstanding amounts as soon as possible.

10. During the biennium the EUR/USD exchange rate trend remained relatively stable with sometimes significant monthly variations. The regular programme was adequately protected by the split level system of assessment.

Renovation of Headquarters and related financing

11. Work on Phase II of the Belmont Plan, which started in the spring of 2004, progressed throughout the biennium with a total amount of \$29 million of expenditure being incurred. These costs are included in the balance sheet under the heading Renovation Work in Progress since they

enhance the overall value of the Fontenoy site. Phase I of the Belmont, plan which was completed during the biennium, has likewise been brought to account under Land and Buildings in the balance sheet at 31 December 2005 for an amount of \$24 million.

12. At the end of the biennium \$31 million (€27 million) had been drawn down from the \$91 million (€80 million – constant rate) loan facility granted by the Caisse de Dépôts et Consignation. This facility, which will be fully drawn down by 2008, is repayable over eight biennia starting in 2006 and ending in 2021. The full cost of this operation will be provided for in future budgets based on the repayment schedule. It should also be noted that the interest accruing on the loan is borne by the Government of France.

Liabilities for employee benefits

13. Like many agencies within the United Nations system the Organization has a contractual obligation with employees, both current and past, which is not provided for as a liability in the accounts. The liability, estimated at \$639 million at end 2005, relates mainly to after service medical care but also includes accrued annual leave and terminal and repatriation grant entitlements.

14. This amount is currently disclosed as a note to the financial statements. However, good practice under International Accounting Standards require that these items be provided for as a liability in the balance sheet and prudent management would also favour the direct funding, over time, of this amount.

Risk management and internal control

15. Risk management and internal control continue to be priorities within the Secretariat. Both Headquarters and field offices work continuously to improve the internal control environment within the Organization including increased accountability and delegation of authority and implement, where considered practicable, auditors recommendations.

Auditor General of Canada
Vérificatrice générale du Canada

OPINION OF THE EXTERNAL AUDITOR

To the General Conference of the United Nations Educational, Scientific and Cultural Organization

I have audited the statement of assets, liabilities and reserves and fund balances of the United Nations Educational, Scientific and Cultural Organization (UNESCO) as at 31 December 2005 and the statements of income and expenditure and changes in reserves and fund balances, cash flow for the proprietary funds and status of appropriations of the general fund for the two-year financial period then ended. These financial statements are the responsibility of the Director-General. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and conforming with International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director-General, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the UNESCO as at 31 December 2005 and the results of its operations and changes in reserves and fund balances, the cash flows for its proprietary funds and the status of appropriations of the general fund for the two-year period then ended in accordance with the United Nations System Accounting Standards, which were applied on a basis consistent with that of the preceding financial period.

UNESCO's Financial Regulations require that an effective internal financial control environment be established. During the audit, certain transactions in the UNESCO Brasilia Office that came to our attention did not comply with UNESCO's financial and administrative policies and procedures and the internal financial control over those transactions was inadequate. Moreover, in our March 2006 performance audit report on the management of extrabudgetary funds (174 EX/27), we observed that UNESCO had not established effective management control over its extrabudgetary activities, including certain large projects that we examined in Brazil. Further information on these compliance issues can be found in my long-form report.

Thus, in my opinion, except for the transactions in the UNESCO Brasilia Office referred to in the preceding paragraph, the transactions of the UNESCO that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the UNESCO's Financial Regulations and legislative authority.

In accordance with Article 12.9 of the Financial Regulations, I have also issued a long-form report on my audit of the UNESCO's financial statements.

(Signed)

Sheila Fraser, FCA
Auditor General of Canada
External Auditor of UNESCO

Ottawa, Canada
5 July 2006

**APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED
31 DECEMBER 2005**

Established by

Approved by

Getachew Engida
Deputy Assistant Director-General for Administration
and Comptroller

Koïchiro Matsuura
Director-General

UNESCO
STATEMENT OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(Expressed in '000s US dollars)

	PROPRIETARY FUNDS				PROGRAMME FIDUCIARY FUNDS		Inter-fund Eliminations	Total Managed Funds	
	General Fund (Regular Programme) "GEF"	Other Proprietary Funds "OPF"	Total Proprietary Funds		Programme Fiduciary Funds "PFF"	Staff Fiduciary Funds "SFF"		2005	2003
			2005	2003					
(Schedule)	(1.1)	(1.2)			(1.3)	(1.4)			
INCOME									
Assessed contributions	610 104		610 104	559 481	6 198		616 302	566 386	
Voluntary contributions	8 652		8 652	9 605	591 625		600 277	461 870	
Revenue producing activities		17 391	17 391	12 384	1 027	14 760	33 178	24 931	
Funds received under inter-organization arrangements					58 032		58 032	131 877	
Allocations from other funds (regular programme)		5 329	5 329	13 752	25 405	16 104	(46 838)		
Income for services rendered		25 057	25 057	20 840	35 791	16 218	(25 057)	52 009	
Investment income	2 835	10 339	13 174	7 332	23 465	30 694	67 333	56 340	
Currency exchange adjustments	2 285	(121)	2 164	359	16 100	(938)	17 326	7 506	
Other	2 528	4 479	7 007	7 988	1 606	2 948	11 561	10 899	
TOTAL INCOME	626 404	62 474	688 878	631 741	759 249	79 786	(71 895)	1 456 018	1 273 837
EXPENDITURE	620 391	69 347	689 738	623 710	718 715	51 723	(71 895)	1 388 281	1 151 009
TOTAL EXPENDITURE	620 391	69 347	689 738	623 710	718 715	51 723	(71 895)	1 388 281	1 151 009
EXCESS (SHORTFALL) OF INCOME									
OVER EXPENDITURE	(a) 6 013	(6 873)	(860)	8 031	40 534	28 063		67 737	122 828
Increase in land and buildings (Note 11)	22 941		22 941	2			22 941	2	
Savings on prior periods' obligations				493				493	
Distribution to members of USLS						(28 001)	(28 001)	(31 931)	
Decrease in budgetary surpluses	(5 012)		(5 012)	(836)			(5 012)	(836)	
Other adjustments to reserves and fund balances	47	2 702	2 749	9 156	3 386	(813)	5 322	23 612	
Reserves and fund balances, beginning of period	115 812	49 783	165 595	148 749	265 447	49 021	480 063	365 895	
RESERVES AND FUND BALANCES, END OF PERIOD	139 801	45 612	185 413	165 595	309 367	48 270		543 050	480 063

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

(a) Represented by - :

Budget Surplus - Statement IV	371
Miscellaneous income	5 467
Currency exchange adjustments	3 153
Currency exchange Renovation Loan	(868)
Carry-forward funds	(2 110)
	<u>6 013</u>

UNESCO
STATEMENT OF ASSETS, LIABILITIES AND RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(Expressed in '000s US dollars)

	PROPRIETARY FUNDS				PROGRAMME FIDUCIARY FUNDS		Inter-fund Eliminations	Total Managed Funds		
	General Fund (regular programme)	Other Proprietary Funds	Inter-fund Eliminations	Total Proprietary Funds		Programme Fiduciary Funds		Staff Fiduciary Funds	2005	2003
				2005	2003					
(Schedule)	"GEF" (2.1)	"OPF" (2.2)		2005	2003	"PFF" (2.3)	"SFF" (2.4)			
ASSETS										
Cash and term deposits (Note 6)	4,742	56,213		60,955	86,364	407,090	401,124	869,169	807,816	
Investments (Note 7)						1,425	128,726	130,151	94,805	
Accounts receivable										
Assessed contributions receivable from Member States (Note 8)	85,100			85,100	97,731			85,100	97,731	
Inter-fund balances		578	(578)		14,128	119				
Other (Note 9)	4,528	3,868		8,396	4,123	9,586	45,212	63,194	57,207	
Other assets (Note 10)	490	908		1,398	1,316	3,115	2,375	6,888	5,561	
Land and buildings (Note 11)	98,142			98,142	72,891			98,142	72,891	
Renovation work in progress (Note 12)	28,896			28,896				28,896		
TOTAL ASSETS	221,898	61,567	(578)	282,887	276,553	421,335	577,437	1,281,540	1,136,011	
LIABILITIES										
Payments or contributions received in advance	540			540	21,456			540	21,456	
Unliquidated obligations	32,639	3,253		35,892	30,314	94,682		130,574	63,563	
Accounts payable										
Inter-fund balances	687		(578)	109	32,620		10	46,508	34,314	
Other	13,870	11,973		25,843	22,327	14,988	5,677	609,157	515,733	
Members' deposits							14,323	18,624	18,944	
Other liabilities	1,274	729		2,003	2,303	2,298		31,441	1,938	
Loan for HQ building renovation (Note 12)	31,441			31,441				1,646		
Loan for IBE building (Note 11)	1,646			1,646	1,938					
TOTAL LIABILITIES	82,097	15,955	(578)	97,474	110,958	111,968	529,167	738,490	655,948	
RESERVES AND FUND BALANCES										
Working Capital Fund (Note 3)	28,010			28,010	30,500			28,010	30,500	
Capital funds relating to land and buildings (Note 11)	93,894			93,894	70,953			93,894	70,953	
Currency exchange reserve (Note 12)	(868)			(868)				(868)		
Operating reserves (Note 5)		1,381		1,381	1,695	11,909	20,820	34,110	32,874	
Balances relating to projects funded by donors						282,897		282,897	240,084	
Budgetary surpluses (Note 4)	7,237			7,237	7,255			7,237	7,255	
Other surpluses (Note 5)	11,528	44,231		55,759	55,192	14,561	27,450	97,770	98,397	
TOTAL RESERVES AND FUND BALANCES	139,801	45,612		185,413	165,595	309,367	48,270	543,050	480,063	
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	221,898	61,567	(578)	282,887	276,553	421,335	577,437	1,281,540	1,136,011	

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

UNESCO
PROPRIETARY FUNDS
(General, Working Capital and Other)
STATEMENT OF CASH FLOW FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005

	2005	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net excess (shortfall) of income over expenditure (Statement I)	(860)	8,031
(Increase) decrease in contributions receivable	12,631	(23,663)
(Increase) decrease in other accounts receivable	(4,273)	1,932
(Increase) decrease in other assets	(82)	1,523
(Increase) decrease in inter-fund balances receivable	14,128	(10,460)
Increase (decrease) in contributions or payments received in advance	(20,916)	12,830
Increase in unliquidated obligations	5,578	827
Increase in accounts payable	3,516	5,874
Decrease in other liabilities	(300)	(11,256)
Increase (decrease) in inter-fund balances payable	(32,511)	40,655
Less: Interest income	(13,174)	(7,332)
Plus: Interest expense	314	290
Currency exchange adjustments	(3,032)	(5,951)
NET CASH FROM OPERATING ACTIVITIES	(38,981)	13,300
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in renovation work	(28,896)	
Increase in land and buildings	(25,251)	
Increase (decrease) in borrowings	31,149	(2)
Plus: Interest income	13,174	7,332
Less: Interest expense	(314)	(290)
Currency exchange adjustments	3,032	5,951
NET CASH FROM INVESTING ACTIVITIES	(7,106)	12,991
CASH FLOWS FROM FINANCING ACTIVITIES		
Savings on or cancellation of prior periods' obligations	2,478	1,174
Credits to Member States	(5,011)	(836)
Other adjustments to reserves and fund balances	23,211	8,477
NET CASH FLOWS FROM FINANCING ACTIVITIES	20,678	8,815
NET INCREASE (DECREASE) IN CASH AND TERM DEPOSITS	(25,409)	35,106
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	86,364	51,258
CASH AND TERM DEPOSITS, END OF PERIOD	60,955	86,364

UNESCO GENERAL FUND
STATUS OF APPROPRIATIONS
REGULAR AND PARTICIPATION PROGRAMMES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)

Main Appropriation Line	32 C/5 Approved	2002-2003 Carryover funds	Authorized transfer	Additional appropriation	32 C/5 Approved as adjusted	Expenditure			Unobligated balance
						Deliveries/ Disbursements	UOs/UDOs	Total	
PART I GENERAL POLICY AND DIRECTION									
A. Governing bodies									
1. General Conference	6,135	264	19		6,418	5,888	171	6,059	359
2. Executive Board	7,959	35	(266)		7,728	7,519	57	7,576	152
Total, Part IA	14,094	299	(247)		14,146	13,407	228	13,635	511
B. Direction <i>(Including: Directorate; Office of the Director-General; Internal Oversight; International Standards and Legal Affairs)</i>	18,379		237		18,616	16,875	551	17,426	1,190
C. Participation in the Joint Machinery of the United Nations System	3,579	468	3,309		7,356	6,264	436	6,700	656
TOTAL, PART I	36,052	767	3,299		40,118	36,546	1,215	37,761	2,357
PART II PROGRAMMES AND PROGRAMME RELATED SERVICES									
A. Programmes									
Major Programme I - Education	109,869	375	1,087	2,272	113,603	105,014	8,010	113,024	579
Major Programme II - Natural sciences	58,232	174	783	2,642	61,831	56,437	3,168	59,605	2,226
Major Programme III - Social and human sciences	33,337	83	465	198	34,083	30,084	2,196	32,280	1,803
Major Programme IV - Culture	53,380	71	875	1,372	55,698	50,792	3,313	54,105	1,593
Major Programme V - Communication and information	35,541	56	471	443	36,511	33,143	3,470	36,613	(102)
UNESCO Institute for Statistics	9,020				9,020	9,020		9,020	
Field - Management of decentralized programmes	32,216		(684)		31,532	39,358	409	39,767	(8,235)
Total, Part IIA	331,595	759	2,997	6,927	342,278	323,848	20,566	344,414	(2,136)
B. Participation Programme	23,000				23,000	23,046	19	23,065	(65)
C. Programme Related Services									
1. Coordination of action to benefit Africa	3,164		101		3,265	3,007	271	3,278	(13)
2. Fellowships Programme	2,523		37		2,560	2,006	57	2,063	497
3. Public information	14,516		882		15,398	14,572	310	14,882	516
4. Strategic planning and programming monitoring	7,069	17	152	417	7,655	7,067	110	7,177	478
5. Budget preparation and monitoring	4,154		111		4,265	4,375	90	4,465	(200)
Total, Part IIC	31,426	17	1,283	417	33,143	31,027	838	31,865	1,278
TOTAL, PART II	386,021	776	4,280	7,344	398,421	377,921	21,423	399,344	(923)
PART III SUPPORT FOR PROGRAMME EXECUTION AND ADMINISTRATION									
A. Field management and coordination	18,511	12	1,422	1,308	21,253	21,722	1,027	22,749	(1,496)
B. External relations and cooperation	23,194	22	543		23,759	20,791	314	21,105	2,654
C. Human resources management	30,800		1,387		32,187	31,284	1,681	32,965	(778)
D. Administration, maintenance and renovation of Headquarters premises	100,165	533	4,326		105,024	100,016	6,451	106,467	(1,443)
TOTAL, PART III	172,670	567	7,678	1,308	182,223	173,813	9,473	183,286	(1,063)
TOTAL, PARTS I - III	594,743	2,110	15,257	8,652	620,762	588,280	32,111	620,391	371
Reserve for reclassifications	1,500		(1,500)						
PART IV ANTICIPATED COST INCREASES	13,757		(13,757)						
TOTAL	610,000	2,110		8,652	620,762	588,280	32,111	620,391	371

UNESCO

NOTES TO THE FINANCIAL STATEMENTS

1. OBJECTIVES (purpose, mandate and governance of the Organization)

- (a) The United Nations Educational, Scientific and Cultural Organization (UNESCO) was created in London on 16 November 1945 by governments of the States Parties to contribute to peace and security by promoting collaboration among the nations through education, science and culture in order to further universal respect for justice, for the rule of law and for human rights and fundamental freedoms which are affirmed for the peoples of the world, without distinction of race, sex, language or religion, by the Charter of the United Nations Organization. As one of the specialized agencies referred to in Article 57 of the Charter of the United Nations Organization, the provisions of Articles 104 and 105 of that Charter concerning the legal status of that Organization, its privileges and immunities, apply in the same way to UNESCO.
- (b) UNESCO is governed by a General Conference, consisting of the representatives of its Member States, which determines the policies and main lines of work of the Organization. The Executive Board, which consists of 58 Member States elected by the General Conference, takes, in accordance with the decisions of the General Conference, all necessary measures to ensure the effective and rational execution of the programme by the Director-General.

2. SIGNIFICANT ACCOUNTING POLICIES

Introduction

The financial statements have been prepared in accordance with the provisions of UNESCO's Financial Regulations and with stated accounting policies as described below. These accounting policies conform to the United Nations System Accounting Standards (UNSAS) which provide a framework for accounting and financial reporting in the United Nations system.

The financial period of UNESCO is a biennium and consists of two consecutive calendar years, beginning with an even-numbered year. The financial statements are presented in thousands ('000s/K) of United States dollars (\$).

(a) Financial Statement presentation

In conformity with the framework for financial reporting in the United Nations system, the financial statements are prepared on a combined basis, which includes the accounts of all the funds managed by UNESCO with a sub-grouping for UNESCO Proprietary Funds (GEF and OPF), on which the Statement of Cash Flow is presented at the end of each financial period, followed by Programme Fiduciary Funds (PFF) and Staff Fiduciary Funds (SFF). Elimination columns show adjustments for inter-fund transfers and balances.

Managed Funds are disclosed in the following business areas:

- (1) **General Fund (GEF)** includes both the General and Working Capital Funds set up in accordance with Financial Regulations 6.1 and 6.2.

- (2) **Other Proprietary Funds (OPF)** include revenue-generating activities, programme support costs for special accounts and trust funds, the Staff Compensation Fund, the Terminal Payments Fund, and Headquarters-related special accounts. The United Kingdom and United States Special Funds are also included under this grouping.

These funds are used to carry out the programmes, or to group other authorized expenditure, of UNESCO. The residual right of ownership of all of these funds is ultimately vested in Member States. The funds have been established in accordance with Financial Regulation 6.6 and normally have individual special financial regulations.

- (3) **Programme Fiduciary Funds (PFF)** include institutes, special accounts and trust funds set up in accordance with Financial Regulation 6.6. They are used to carry out extrabudgetary programme activities in accordance with the respective agreements signed between UNESCO and the related parties or other legal authority.

As of 1 January 2004 a new institute, UNESCO-IHE Institute for Water Education, has been included with PFF. This entity reports in accordance with Dutch generally accepted accounting principles which are, in some respects, different to UNSAS. However, no restatement has been made to the figures of UNESCO-IHE on the grounds that to do so would not be helpful to the reader of the Organization's financial statements and any adjustments arising from such a restatement are not significant in the context of Programme Fiduciary Funds.

- (4) **Staff Fiduciary Funds (SFF)** are funds that have been established for the benefit of UNESCO's staff members, namely the Medical Benefits Fund, the UNESCO Staff Savings and Loans Services (USLS), UNESCO Commissary Fund (UCF) and the UNESCO Restaurant Service (URS) with the residual right of ownership totally or partially vested in staff or retired staff members.

The resources of each fund in the Programme Fiduciary Funds and the Staff Fiduciary Funds can only be used for the purposes for which the respective fund has been established.

(b) Income recognition

Income from assessed contributions represents a legal obligation of Member States, which is recognized as income in the year or biennium in which it becomes due and payable. No provision is made for delays in the collection of assessed contributions.

Voluntary contributions are recognized when funds are received.

Other sources of income are recorded on an accrual basis of accounting. A provision for doubtful receivables is recorded at the end of the financial period to recognize the risk of non receipt of certain amounts.

(c) Expenditure recognition

Expenditure includes amounts for goods supplied and services rendered in the financial period as well as amounts for legal obligations of the financial period. Expenditure is recorded on an accrual basis of accounting except for certain employee benefits.

UNESCO employees are entitled to annual leave, termination and repatriation grant entitlements. The Organization also contributes an amount equal to the employees share of medical costs. The cost of these benefits is normally recognized as an expense in the financial period in which they are paid. However, a Terminal Payment Fund (TPF) reserve for repatriation grant and other post-termination entitlements is maintained by appropriate transfers from certain non-General Fund accounts for the benefit of staff financed by these accounts.

Acquisitions of non-expendable equipment, including furniture, computers and other office equipment and motor vehicles as well as maintenance and repairs to buildings are charged to operations in the financial period in which the expenditure is contracted.

A figure for non-expendable equipment (referred to as Inventories) is given in Note 14 of these Financial Statements.

(d) Translation of currencies

Transactions carried out during the period in currencies other than United States dollars, are translated to United States dollars using the United Nations operational rate of exchange at the date of the transaction except for budgetary income and expenditure in euros of the regular and Participation Programmes of the General Fund.

For budgetary purposes, General Fund expenditures (regular and Participation Programmes) in euros are translated to United States dollars using UNESCO constant budget rate. The difference between the translation at constant and operational rates of exchange is recorded in the currency exchange adjustments account.

Likewise, the differences between the constant budget rate and operational rates of exchange at which the assessed contributions of the General Fund are brought to account are also credited or debited in the currency exchange adjustments account.

Any balance under the currency exchange adjustments account in the General Fund at the end of the biennium is added to or deducted from Miscellaneous Income and included in the calculation of the balance available for distribution to Member States.

Monetary balances carried at fair value are converted using the United Nations rate of exchange at 1 January of the following year with the exception of assessed contribution accounts receivable amounts denominated in Euros, which are converted at biennium end into United States dollars using the most beneficial rate allowed by General Conference Resolution (Note 8).

Non-monetary balances carried at historical cost are converted using the United Nations rate of exchange at the date of the transaction.

(e) Land and buildings

Land and buildings are carried at historical purchase cost except for donated properties where land is shown at nominal valuation and structures at insurance valuation as of the balance sheet date. Major construction and renovation in progress are recorded at cost, which includes material, direct labour and related overhead and are capitalised under land and buildings when a project, or distinct phase of a project, is completed. In the case of large projects, the duration of which extends over several accounting periods, cost may be initially recorded as work-in-progress before being transferred to land and

buildings on completion. No provision is made for depreciation since the cost is charged to expenditure as approved by the General Conference.

(f) Pension fund participation

UNESCO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF) which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a defined benefit plan.

The financial obligation of the Organization to the UNJSPF consists of its mandated contribution at the rate established by the United Nations General Assembly together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. At the time of this report the United Nations General Assembly has not invoked this provision.

(g) Investments

Investments are recorded at cost adjusted for amortization of premiums or discounts to maturity or market value, if significant.

3. FUNDS

(a) General Fund

A General Fund has been established for the purpose of accounting for the expenditure of the Regular Programme appropriation voted by the General Conference of UNESCO for a given financial period. It is financed from assessed contributions from Member States.

Appropriations, which are voted by the General Conference, are available for obligation during the financial period to which they relate and for a further twelve months to the extent they are required to discharge obligations incurred during that financial period.

In addition to the appropriations voted by the General Conference, the Director-General is authorized by Financial Regulation 7.3 to accept “voluntary contributions, gifts, bequests and subventions”. Such receipts are shown as “voluntary contributions” in Statement I and as “Other credits” in Statement IV. Furthermore, as authorized by the General Conference, the carry forward of unspent balance from the previous biennium is identified separately in Schedule 1.1 and Statement IV.

(b) Working Capital Fund

A Working Capital Fund has been established in an amount and for purposes to be determined from time to time by the General Conference. It is financed by advances from Member States made in accordance with the scale of assessments as determined by the General Conference. By 32 C/Resolution 68, the authorized level of the fund was established to K\$28,000 as of 1 January 2004 which was subsequently adjusted to K\$28,010 to include assessment made on a new Member State.

(c) Trust funds, reserve and special accounts

Trust funds, reserve and special accounts are established by the Director-General and are reported to the Executive Board. They are administered in accordance with the Financial Regulations of UNESCO unless otherwise provided.

Trust Funds and Special Accounts are financed principally by voluntary donations. They are organized in three groups, namely, Institutes, Self-Benefiting Trust Fund-Brazil and Other. Details of Other, their sources of income and the projects they support are detailed in Schedule 1.3.2.

4. INCREASE/DECREASE IN BUDGETARY SURPLUSES

Budgetary surpluses for a financial period, after deducting therefrom any contributions of Member States relating to that financial period which remain unpaid, shall, in accordance with Financial Regulations 4.3 and 4.4, unless otherwise determined by the General Conference, be apportioned among Member States in proportion to their assessed contributions for that financial period and surrendered to each Member State once its contribution for that financial period has been paid in full.

The balance of budgetary surplus is summarized as follows:

	2005	2003
	\$'000s	
Un-apportioned surpluses relating to the budgets of previous financial periods:		
Not yet available for apportionment	1,958	1,958
Available for apportionment		18
Subtotal	1,958	1,976
Surpluses apportioned but not surrendered	5,279	5,279
Total (Statement II)	7,237	7,255

However, in accordance with 31 C/Resolution 53 (III) “the existing experimental scheme to encourage prompt payment of contributions should be continued for a further six-year period”.

5. OPERATING RESERVES AND OTHER SURPLUSES**(i) Operating reserves**

Operating reserves have been created within the legislative authority of certain funds as is deemed to be required for the purpose of sound administration or legal obligation and are summarized as follows:

	2005	2003	Increase/ (Decrease)
	\$'000s		
(a) <u>Administrative reserves</u>			
(i) Public Information Liaison and Relations Fund	1,195	1,500	(305)
(ii) International Centre for Theoretical Physics (ICTP)	7,782	5,789	1,993
(iii) International Institute for Education Planning (IIEP)	3,314	2,883	431
(iv) UNESCO Institute of Statistics (UIS)	813	444	369
	13,104	10,616	2,488
(b) <u>Currency fluctuation reserves</u>			
– Public Information Liaison and Relations Fund (PILRF)	102	131	(29)
	102	131	(29)
(c) <u>Staff savings reserves</u>			
– UNESCO Savings and Loan Services (USLS)	20,820	22,063	(1,243)
	20,820	22,063	(1,243)
(d) <u>Other reserves</u>			
– Headquarters Utilization Fund (HQF)	84	64	20
	84	64	20
Total (Statement II)	34,110	32,874	1,236

- (a) Administrative reserves have been established in accordance with the rules pertaining to each fund to cover mainly staff related costs (separation, after service entitlements etc), and other outflows that may arise in the future.
- (b) The currency fluctuation reserve is established to cover the foreign currency risk element arising from the operation of the coupons programme.
- (c) The staff savings reserves for USLS include statutory reserves and special reserves for unrealized portfolio profits and interest rate stability.
- (d) The Headquarters utilization reserve is intended to cover accidental damages to Works of Art.

(ii) Other surpluses

(a) Other surpluses consist of the net amount of all miscellaneous income earned for the biennium after taking into account currency exchange adjustments and the balance of the currency clearing account. Included also are other General Fund surpluses; surpluses on other proprietary funds and surpluses on fiduciary funds. Apart from surpluses of the regular programme and certain other funds, to which special rules apply, surpluses can be carried forward from one financial period to the next.

(b) An overall summary of all “other surpluses” is given in the following table:

	2005	2003	Increase/ (Decrease)
	\$'000s		
<u>Proprietary funds</u>			
Regular programme (Note 5(ii)(c))	11,528	7,104	4,424
Other Proprietary Funds	44,231	48,088	(3,857)
	55,759	55,192	567
<u>Fiduciary funds</u>			
Special Accounts	14,561	16,247	(1,686)
Employee Benefit Funds	27,450	26,958	492
	42,011	43,205	(1,194)
Total (Statement II)	97,770	98,397	(627)

(c) The surplus of the regular programme is reconciled to the balance available for distribution under the positive incentive scheme to encourage prompt payment of contributions as follows:

	2005	2003
	\$'000s	
Excess of Regular Programme Income over Expenditure (Schedule 1.1)	8,018	21,254
Unspent balance of appropriations from previous financial period (Note 5(ii)(d))	2,478	681
Unspent balance on Use of carry-forward funds	105	280
Currency Exchange Reserve	868	
Adjustment PILRF and UMS	59	
US Special Account transferred to OPF Reserves		(15,093)
Adjustment budget surplus available for apportionment		(18)
Other surpluses (Schedule 2.1)	11,528	7,104
Adjust for:		
(i) MBF subcontracting in accordance with 33 C/Resolution 86	(2,478)	
(ii) Budget surplus available for apportionment		18
(iii) Surplus available for carry-forward in accordance with 32 C/Resolution 64		(2,110)
(iv) Currency Exchange Reserve	(868)	
Balance available for distribution under the positive incentive scheme	8,182	5,012

- (d) At the close of 2002-2003 financial period, a provision of K\$25,115 was set up to cover the unliquidated obligations of the regular and Participation Programmes at that date. Those unliquidated obligations remained available for 12 months up to 31 December 2004 to the extent that they were required to discharge obligations against goods and services rendered in the financial period and to liquidate any other outstanding legal obligations of that financial period.

As previously reported to the General Conference (33 C/27) a part of the unspent balance of these unliquidated obligations has been used to liquidate other outstanding legal obligations of the Organization as follows:

	2005	2003
	\$'000s	
Unspent balance of appropriations from previous financial period	5,259	1,247
(i) Courier sub-account deficit	1,871	
(ii) Field office expenditure	513	309
(iii) Headquarters regularization of commitments arising from cancellation of unliquidated obligations in the 2002-2003 biennium	22	
(iv) Liquidation of lawsuit – additional costs	52	
(v) Clearance of stock of photocopy paper	48	
(vi) Accounts receivable written off	98	
(vii) UIE additional allocation	177	
(viii) Staff cost adjustments		257
Subtotal	2,781	567
Total	2,478	681

In accordance with 33 C/Resolution 86 the remaining K\$2,478 may be used to finance the costs of subcontracting the processing of the reimbursement claims of the Medical Benefit Fund.

6. CASH AND TERM DEPOSITS

The table below shows that of the total K\$869,169 (2003 K\$807,816), the amount available under proprietary funds is K\$60,955 (2003 K\$86,364) and the remaining balances are held by UNESCO in a fiduciary capacity.

	2005	2003
	\$'000	
Regular programme (GEF)	4,742	64,571
Other Proprietary Funds (OPF)	56,213	21,793
Total Proprietary Funds	60,955	86,364
Programme Fiduciary Funds (PFF)	407,090	280,304
Staff Fiduciary Funds (SFF)	401,124	441,148
Total (Statement II)	869,169	807,816

The term deposits are held with international banks which are assigned deposit ceilings in accordance with the investment policy of UNESCO. The deposit ceilings are determined using the following criteria: minimum equity USD 2,5 billion and minimum Fitch ratings: sovereign AA-, individual B/C, support 2.

The Investment Committee regularly follows up that the rate of return is in line with the benchmarks set up in the Investment Policy.

7. INVESTMENTS

Investments, all of which are held in a fiduciary capacity, are summarized as follows:

	2005		2003	
	\$'000s		\$'000s	
	Carrying value	Market value	Carrying value	Market value
Short-term money market funds & shares	721	1,100	5,548	6,093
Bonds	129,430	129,478	89,257	89,257
Total (Statement II)	130,151	130,578	94,805	95,350

Within Staff Fiduciary Funds (SFF), the UNESCO Staff Savings and Loan Service (USLS) portfolio managers are authorized within defined limits to buy and sell futures contracts which complement the bond investment strategy by covering firm investment positions and generating additional income. All such contracts are traded on organized markets and valued at official settlement prices. As at 31 December 2005, the fair market value of futures contracts owned by USLS was K€6,607 (K\$7,819) and as at 31 December 2003 K€5,305 (K\$6,624). The futures are off-balance sheet amounts and consequently, the underlying values are not included in the Financial Statements.

Bonds include obligations issued or guaranteed by governments, supranational organisations or corporations with a duration of 3 to 5 years, the quality of which is not to be less than AA (Standard & Poors or its equivalent) except for Euro zone sovereign bonds for which a rating of A is accepted.

The Investment Committee regularly follows up that the investment performance is in line with the benchmarks set up in the investment policy.

8. ASSESSED CONTRIBUTIONS RECEIVABLE FROM MEMBER STATES

The balance of assessed contributions receivable is summarized as follows:

	2004-2005			2002-2003
	\$'000s			\$'000s
	Contributions due as at 1 January 2004	Contributions received and other credits	Unpaid contributions as at 31 December 2005	Unpaid contributions as at 31 December 2003
Arrears *	71,774	(57,633)	14,141	21,337
Contributions assessed for the biennium **	610,104	(562,102)	48,002	40,369
Subtotal	681,878	(619,735)	62,143	61,706
Deferred arrears under payment plans			22,957	30,491
Subtotal contributions Receivable			85,100	92,197
Working Capital Fund				5,534
Total (Statement II)			85,100	97,731

* includes arrears payable in annual instalments up to the current biennium.

** includes new Member States and Associated Members.

Summary of aged Contributions Receivable:

	Due for	US\$ '000s
Arrears	1988-1999	10,827
	2000-2001	696
	2002-2003	936
	2004-2005	48,002
Arrears under payment plans (annual instalments)	1992-2003	848
	2004-2005	834
Deferred arrears under payment plans	2006-2011	22,957
Total		85,100

In application of 32 C/Resolution 65.II paragraph 1(c), the contributions for 2004-2005 that remained unpaid as at 1 January 2006 that were assessed in euros are considered as due and payable in United States dollars thereafter and are converted into United States dollars at the average United Nations operational rate of exchange for the euro during the biennium 2004-2005: US \$1 = € 0.806.

A detailed listing of unpaid contributions as at 31 December 2005 is shown in Annex III. In addition, the complete statement of assessed contributions and payments received is available in separate documents submitted to the governing bodies of UNESCO.

9. ACCOUNTS RECEIVABLE – OTHER

The balances of Accounts Receivable – Other, which are shown net of any provisions established to cover the risk of non-payment of any sum which appears doubtful, are summarized as follows:

	2005	2003
	\$'000s	
Staff loans and advances	41,863	43,831
Interest receivable	5,897	4,495
Amounts receivable for goods and services	4,480	2,489
Value added tax recoverable	2,554	1,456
Advances to project partners	2,220	-
Miscellaneous	6,180	4,936
Total (Statement II)	63,194	57,207

10. OTHER ASSETS

Other assets are summarized as follows:

	2005	2003
	\$'000s	
Field office payments	1,051	1,686
Stock on hand, at lower of cost or net realizable value	1,678	1,818
Fixed assets	3,246	1,604
Miscellaneous	913	453
Total (Statement II)	6,888	5,561

11. LAND AND BUILDINGS

	2005	2003
	\$'000s	
Headquarters premises, Place de Fontenoy at cost	23,022	23,022
Add – Phase I Belmont Plan – renovation costs, Place de Fontenoy	23,549	
Subtotal, Headquarters premises, Place de Fontenoy at cost	46,571	23,022
Headquarters Fifth Building, rue Miollis at cost	7,899	7,899
Headquarters Sixth Building, rue François Bonvin at cost	30,426	30,426
Headquarters Seventh Building, rue François Bonvin at cost	3,525	3,525
Industrial building, rue François Bonvin at cost	704	704
Building of the International Bureau of Education (IBE), Geneva at cost	4,615	4,615
Headquarters Apartment, Place Vauban at cost	2,602	
Ocampo Villa, Buenos Aires – Land, at nominal valuation of \$1 and structures at insurance valuation	1,800	2,700
Total (Statement II)	98,142	72,891

(a) Headquarters buildings

The land at Place de Fontenoy is rented from the French Government at a nominal rent of €2 per annum and the land lease covers a period of 99 years starting with the year 1953. The land at rue Miollis and François Bonvin is rented from the French Government at a nominal rent of €15 per annum and the land lease covers a period of 84 years starting from 1 January 1969.

(i) Additions – Building renovation costs of Phase I – Belmont Plan

The Phase I of the Belmont Plan on the renovation of the Fontenoy Building complex was completed in 2004 and the associated costs amounting to K\$23,549 have been brought into account and capitalized under Land and Buildings. This has increased the total value of the Fontenoy Building from K\$23,022 to K\$46,571 as at 31 December 2005.

(ii) Headquarters Apartment – Place Vauban

By 32 C/Resolution 76, the General Conference “*approved* the purchase of the apartment currently occupied by the Director-General under the conditions stated in the available offer for the use of UNESCO Directors-General and *authorized*

the Executive Board to review and approve on its behalf the implementation of this purchase, including its funding from UNESCO's own cash balances". The Resolution states that "the purchase will be amortized over two biennia starting in 2006 and 2007 and invites the Director General to include in future budgets the necessary funds to cover such amortization". The purchase was concluded in May 2004 and the cost incurred in the entire acquisition of K\$2,602 is disclosed in the above table.

(b) IBE building (and related loan)

(i) Building

An agreement was signed on 31 July 1984 between UNESCO and FIPOI (Property Foundation for International Organizations) of Switzerland for the purchase of three floors of a building situated at 17 rue des Morillons, Geneva to house the International Bureau of Education. Further to an agreement signed between FIPOI and the Canton of Geneva on 16 October 1996, UNESCO's share of the costs of this building have been finalized at KCHF (thousands of Swiss francs) 6,692 (K\$4,615) and the IBE building has consequently been brought to account for this amount.

This amount was financed partly by a donation of KCHF 2,255 by the "Conseil d'Etat" of the Republic and Canton of Geneva and partly by loans from FIPOI for the balance of KCHF 4,437.

Following a renegotiation of the repayment schedule in December 1997 it was agreed to fix the amount of the loan outstanding as of 1 January 1998 at KCHF 3,223 (K\$2,270) repayable in equal annual instalments of KCHF 133 from 1998 until 2021, with a final payment of KCHF 19 in 2022.

(ii) IBE loan outstanding

	Swiss francs	\$
	'000s	
Balance at 1 January 2004	2,423	1,938
Less -:		
(i) Loan repayment 2004 and 2005	(267)	(220)
(ii) Exchange adjustment on revaluation		(72)
Balance at 31 December 2005	2,156	1,646
Amount payable in 2006	133	102
Amount payable in future periods	2,023	1,544

(c) Ocampo Villa, Buenos Aires

Following damages sustained by a fire on the Ocampo Villa complex in 2003, the insurance value for all the existing structures was decreased by K\$900 resulting in a revised value of K\$1,800 as at 31 December 2005.

(d) Capital funds related to land and building

The increase in the capital funds relating to land and buildings amounting to K\$ 22,941, bringing the total capital funds at 31 December 2005 to K\$ 93,894 (2003 K\$70,953) is due to the following:

- (i) inclusion of K\$23,549 costs incurred on the Phase I of the Fontenoy Building renovations;
- (ii) repayment of the outstanding loan on IBE building equivalent to K\$220 and loan revaluation of K\$72;
- (iii) reduction of insurance valuation of the Ocampo Villa of K\$900.

12. RENOVATION LOAN AND WORK-IN-PROGRESS**(a) Loan for renovation - Phase II of the Belmont Plan**

By 32 C/Resolution 74, the General Conference had “*authorized* the Director-General to contract an interest-free loan of K€79,875 with a lender chosen by him in cooperation with the Government of France and to take into account the necessity of making provision in future budgets for the funds required for reimbursement of the sums borrowed.” An agreement was signed on 23 March 2004 between UNESCO, the Caisse des Depots et Consignations (CDC) and the Government of France for the interest-free loan which would be drawn in five yearly instalments from 2004 to 2008 and repaid over eight biennia starting in 2006. The loan repayments are fully guaranteed by the Government of France. The first and second instalments were received from CDC in April 2004 and March 2005 for a total sum of K€26,567.

The interest that would have been payable by the Organization during the biennium under a non-interest-free arrangement amounts to K€ 954.

	€	\$
	'000s	
Loan withdrawals from CDC in 2004/2005	26,567	30,573
Exchange adjustment on revaluation		868
Balance at 31 December 2005	26,567	31,441
Amount payable in 2006	2,969	3,514
Amount payable in future periods	23,598	27,927

Due to the significant impact and the extraordinary nature of the renovation loan, the exchange difference arising from the revaluation of the loan balance at the close of the reporting period is disclosed under a Currency Exchange Reserve account dedicated to the renovation loan. The exchange loss of K\$868 from revaluation has therefore been reported in the balance sheet of the General Fund (GEF) (schedule 2.1) as at 31 December 2005.

(b) Work-in-progress

For the first time this biennium project costs have been recorded as renovation work in progress due to the significant amounts involved, the duration of the remaining phases of the Belmont Plan and the approved method of charging expenditure.

The renovation work undertaken under Phase II of the Belmont Plan includes major reconstruction and improvements to the existing Headquarters premises at the place de Fontenoy. In conformity with the United Nations System Accounting Standards (UNSAS) the expenditure incurred on such undertakings would need to be “accumulated and disclosed in a separate account” and then “on completion should be brought to account at final cost”. In this respect the accumulated costs incurred under Phase II of the Plan as at 31 December 2005 amounting to K\$ 28,896 are currently disclosed separately in the GEF balance sheet as “Renovation Work-in-Progress”. It is anticipated that when the renovation project is completed which is foreseen by end of 2008, the total costs incurred will be capitalized and brought to account at cost under Land and Buildings.

If the General conference had approved that expenditure of Phase II of the Belmont Plan be recognized based on costs incurred rather than on the reimbursement schedule of the sums borrowed, then the above stated amount of \$28,896 would have been treated as expenditure.

13. LIABILITIES FOR EMPLOYEE BENEFITS**(a) Annual leave, termination and repatriation grants**

As stated in note 2(c) on expenditure recognition, UNESCO does not normally recognize in its financial statements liabilities for accrued annual leave, termination and repatriation grant entitlements. Where not provided, charges are recorded in the financial period in which they are paid.

At 31 December 2005, UNESCO’s total liability for these costs is estimated to be approximately K\$38,000 (2003 K\$37,000) of which an amount of K\$16,002 (2003 K\$14,229) has been accumulated as reserves in the Financial Statements.

(b) After-service medical care

Staff retiring from UNESCO, who have reached their fifty-fifth birthday and who have completed at least 10 years of participation in the Medical Benefits Fund as at the date of their separation, may opt to remain (indefinitely) in that Fund as an associate participant with UNESCO continuing to participate in the funding of their contributions.

As at 31 December 2005 the net present value of UNESCO’s liability which is not provided for in these financial statements, amounts to K\$601,000 (2003 K\$323,000). This figure has been determined by actuarial valuation.

14. INVENTORIES (non-expendable equipment)

Estimates of Inventories, excluding “Works of Art”, at Paris Headquarters, UNESCO institutes and offices away from Headquarters as at 31 December 2005 are as follows:

		2005	2003
		\$'000s	
Paris Headquarters	at valuation/original cost	6,797	3,904
UNESCO institutes	at valuation/original cost	10,736	9,850
Offices away from Headquarters	at original cost	7,539	5,743

15. CONTINGENT LIABILITIES

- (a) A civil action suit alleging acts of administrative impropriety was filed in January 2005 against high-ranking former officials of the National Social Security Institute of Brazil in which UNESCO and its former representative in the country were also cited as co-defendants, with respect to technical assistance agreements concluded between the aforementioned Institute and the UNESCO Brazil Office. Action on the case has been suspended pending determination on UNESCO’s immunity from legal process by the Supreme Court. At this time it is not possible to determine the outcome of the above claim nor can the likelihood or the amount, if any, of loss associated with the outcome be determined.
- (b) A number of legal cases are pending before labour courts in which former employees have lodged claims for compensation alleging violation of employment contracts. It is not possible at this time to determine whether any of these cases will result in a material outflow of resources.

16. COMPARATIVE FIGURES

Comparative figures of the corresponding period of the previous biennium (2003) are given in the Statements and Schedules. These figures incorporate changes (mainly regroupings or reclassifications) in order for them to be comparable with the figures of the current biennium.

UNESCO
GENERAL FUND
SCHEDULE OF INCOME AND EXPENDITURE
AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)

	Regular programme	Use of carry-forward funds 169EX/FA/EG	TOTAL	
			2005	2003
INCOME				
Assessed contributions				
Member States	610,000		610,000	559,462
New Member States	82		82	
Associate Member States	22		22	19
	610,104		610,104	559,481
Voluntary contributions	8,652		8,652	3,769
Income for services rendered				
Interest income	2,835		2,835	1,425
Currency exchange adjustments	2,285		2,285	46
Other	2,528		2,528	2,840
TOTAL INCOME	626,404		626,404	567,561
EXPENDITURE				
Expenditure	618,386	2,005	620,391	554,032
TOTAL EXPENDITURE	618,386	2,005	620,391	554,032
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	8,018	(2,005)	6,013	13,529
Increase in land and buildings	22,941		22,941	2
Transfers to other funds				(15,093)
Decrease in budgetary surpluses	(5,012)		(5,012)	(836)
Other adjustments to reserves and fund balances	(2,063)	2,110	47	6,181
Reserves and fund balances, beginning of period	115,812		115,812	112,029
RESERVES AND FUND BALANCES, END OF PERIOD	139,696	105	139,801	115,812

SCHEDULE 1.2

UNESCO
OTHER PROPRIETARY FUND
SCHEDULE OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)

	Revenue-generating activities (Schedule 1.2.1)	Support costs (Schedule 1.2.2)	Staff-related accounts (Schedule 1.2.3)	Renovation plan	New management monitoring instruments	US special account	UK special account	TOTAL	
								2005	2003
INCOME									
Voluntary contributions									5,836
Revenue producing activities	17,391							17,391	12,384
Allocations from other funds	200		129		5,000			5,329	13,752
Income for services rendered		25,057						25,057	20,840
Investment income	939	8,410	252	64	119	536	19	10,339	5,907
Currency exchange adjustment	7	(129)	1					(121)	313
Other	646	2,154	1,679					4,479	5,148
TOTAL INCOME	19,183	35,492	2,061	64	5,119	536	19	62,474	64,180
EXPENDITURE	17,242	37,850	1,873	1,528	4,255	5,898	701	69,347	69,678
TOTAL EXPENDITURE	17,242	37,850	1,873	1,528	4,255	5,898	701	69,347	69,678
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	1,941	(2,358)	188	(1,464)	864	(5,362)	(682)	(6,873)	(5,498)
Savings on prior period obligations									493
Transfer to/from reserves									15,093
Other adjustments to reserves and fund balances	3,039	(332)		(3)	(2)			2,702	2,975
Reserves and fund balances, beginning of period	6,773	18,824	5,929	1,910	502	15,093	752	49,783	36,720
RESERVES AND FUND BALANCES, END OF PERIOD	11,753	16,134	6,117	443	1,364	9,731	70	45,612	49,783

UNESCO
REVENUE GENERATING ACTIVITIES
SCHEDULE OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)

	Public Information Liaison and Relations Fund	Publications and Auditory and Visual Material Fund	Utilization of Headquarters Fund	Special Account for Documents/ Publications Services	Special Account for Interpretation Services	Special Account for Micrography	TOTAL	
							2005	2003
INCOME								
Revenue producing activities								
Sales & Royalties	427	2,677	20	1,722	2,690		7,536	4,888
Rental & Charges from letting			9,855				9,855	7,496
Allocation from other funds						200	200	174
Investment income	635		304				939	727
Currency exchange adjustment	4	3					7	87
Other	451	64	130	1			646	1,302
TOTAL INCOME	1,517	2,744	10,309	1,723	2,690	200	19,183	14,674
EXPENDITURE								
Cost of goods sold	149	323					472	635
Staff costs	1,207	156	4,770	248	367	203	6,951	5,689
Other expenditure	880	2,034	3,793	1,090	2,037	(15)	9,819	7,906
TOTAL EXPENDITURE	2,236	2,513	8,563	1,338	2,404	188	17,242	14,230
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(719)	231	1,746	385	286	12	1,941	444
Savings on prior period obligations								493
Other adjustments to reserves and fund balances	1,183	1,914	2	(42)		(18)	3,039	(1,479)
Reserves and fund balances, beginning of period	2,373	(775)	4,284	579	306	6	6,773	7,315
RESERVES AND FUND BALANCES, END OF PERIOD	2,837	1,370	6,032	922	592		11,753	6,773

SCHEDULE 1.2.2

UNESCO
PROGRAMME SUPPORT COSTS FOR SPECIAL ACCOUNTS AND TRUST FUNDS
SCHEDULE OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)

	Funds-in Trust Overhead Cost Account (FITOCA)	Special Account for Administrative and Operational Services (UNDP-AOS)	Technical Support Services at the Programme Level (UNDP-SPPD)	Technical Support at the Project Level (UNDP- STS)	TOTAL	
					2005	2003
INCOME						
Income for services rendered Programme Support Costs	24,517	540			25,057	20,840
Investment income	8,364		32	14	8,410	4,574
Currency exchange adjustment	(129)				(129)	224
Other	2,154				2,154	2,225
TOTAL INCOME	34,906	540	32	14	35,492	27,863
EXPENDITURE						
Staff costs	25,545			3	25,548	15,442
Other expenditure	12,140		85	77	12,302	15,942
TOTAL EXPENDITURE	37,685		85	80	37,850	31,384
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(2,779)	540	(53)	(66)	(2,358)	(3,521)
Other adjustments to reserves and fund balances	(332)				(332)	(520)
Reserves and fund balances, beginning of period	16,207	1,531	728	358	18,824	22,865
RESERVES AND FUND BALANCES, END OF PERIOD	13,096	2,071	675	292	16,134	18,824

UNESCO
STAFF RELATED ACCOUNTS
SCHEDULE OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)

	Terminal Payment Fund	Staff Compensation Fund	Housing Loan	TOTAL	
				2005	2003
INCOME					
Allocations from other funds		129		129	140
Investment income	252			252	169
Currency exchange adjustment		1		1	2
Other	1,628	51		1,679	1,607
TOTAL INCOME	1,880	181		2,061	1,918
EXPENDITURE					
Staff costs	1,380			1,380	926
Compensation/benefits paid		196		196	256
Other expenditure	297			297	331
TOTAL EXPENDITURE	1,677	196		1,873	1,513
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	203	(15)		188	405
Other adjustments to reserves and fund balances		615	(615)		4,814
Reserves and fund balances, beginning of period	5,215	99	615	5,929	710
RESERVES AND FUND BALANCES, END OF PERIOD	5,418	699		6,117	5,929

**UNESCO
PROGRAMME FIDUCIARY FUNDS
SCHEDULE OF INCOME AND EXPENDITURE
AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)**

	Institutes (Schedule 1.3.1)	Self-Benefiting Trust Fund-Brazil	Other Special Accounts and Trust Funds (Sch. 1.3.2)	TOTAL	
				2005	2003
INCOME					
Assessed contributions			6,198	6,198	6,905
Voluntary contributions	115,824	269,487	206,314	591,625	452,265
Revenue producing activities	1,027			1,027	828
Funds received under inter-organization arrangements			58,032	58,032	131,877
Allocation from other funds	25,051		354	25,405	22,102
Income for services rendered	35,791			35,791	718
Investment income	1,554	13,199	8,712	23,465	13,230
Currency exchange adjustments	(312)	15,387	1,025	16,100	1,696
Other	1,606			1,606	318
TOTAL INCOME	180,541	298,073	280,635	759,249	629,939
EXPENDITURE					
Expenditure	182,820	279,400	256,495	718,715	556,217
TOTAL EXPENDITURE	182,820	279,400	256,495	718,715	556,217
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(2,279)	18,673	24,140	40,534	73,722
Other adjustments to reserves and fund balances	3,386			3,386	8,070
Reserves and fund balances, beginning of period	25,363	44,909	195,175	265,447	183,655
RESERVES AND FUND BALANCES, END OF PERIOD	26,470	63,582	219,315	309,367	265,447

UNESCO
SPECIAL ACCOUNTS FOR INSTITUTES
SCHEDULE OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s USD)

	International Bureau of Education	International Centre for Theoretical Physics	International Institute for Higher Education in Latin America and the Carribean	UNESCO-IHE Institute for Water Education	International Institute for Capacity Building in Africa	International Institute for Educational Planning	UNESCO Institute for Information Technologies in Education	UNESCO Institute of Statistics	Total	
									2005	2003
	IBE	ICTP	IESALC	IHE	IICBA	IIEP	IITE	UIS		
INCOME										
Voluntary contributions	1,744	57,648	312	21,243		28,419		6,458	115,824	83,240
Revenue producing activities	38	948				37	4		1,027	828
Allocations from other funds(regular programme)	4,591	1,040	2,200		2,000	5,100	1,100	9,020	25,051	21,975
Income for services rendered	63			34,055		1,669	4		35,791	718
Investment income	45	802				438		269	1,554	1,185
Currency exchange adjustments	(12)	(22)	(9)			(345)		76	(312)	1,770
Other	109	248	11	1,025		199	3	11	1,606	318
TOTAL INCOME	6,578	60,664	2,514	56,323	2,000	35,517	1,111	15,834	180,541	110,034
EXPENDITURE										
Expenditure	7,027	59,720	3,035	56,440	1,793	37,331	1,173	16,301	182,820	105,316
TOTAL EXPENDITURE	7,027	59,720	3,035	56,440	1,793	37,331	1,173	16,301	182,820	105,316
EXCESS (SHORTFALL) OF INCOME OVER EXPENDITURE	(449)	944	(521)	(117)	207	(1,814)	(62)	(467)	(2,279)	4,718
Savings on prior period obligations	37	211	128		16	1,196	40	848	2,476	1,644
Transfers to/from reserves										(135)
Other adjustments to reserves and fund balances	(50)	(1,385)		2,445		(23)		(77)	910	6,561
Reserves and fund balances, beginning of period	504	13,159	448		7	7,269	58	3,918	25,363	12,575
RESERVES AND FUND BALANCES, END OF PERIOD	42	12,929	55	2,328	230	6,628	36	4,222	26,470	25,363

Footnote: The above figures for IHE are presented in accordance with Dutch Accounting Principles (Note 2 (a) (3)). If UNSAS had been applied the main line items would have been as follows:

	K USD
Reserves and Fund Balances, beginning of period	-9,776
Excess (Shortfall) of income over expenditures	<u>12,404</u>
Reserves and Fund Balances, end of period	2,628

UNESCO

OTHER SPECIAL ACCOUNTS AND TRUST FUNDS
BALANCES AS AT 1 JANUARY 2004, RECEIPTS AND DISBURSEMENTS FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
AND BALANCES AS AT 31 DECEMBER 2005

(Expressed in US dollars)

	RECEIPTS						DISBURSEMENTS						
	Fund balances excluding ULOs 1 January 2004	UNESCO regular programme	Government contributions	Amounts financed from UN and UN agencies	Interest income	Exchange difference	Other receipts	Project disbursements	Programme support costs	Fund balances excluding ULOs 31 December 2005	Unliquidated obligations (ULOs)	Fund balances 31 December 2005	
PART I - UNITED NATIONS SOURCES													
UN AIDS - AIDS Prevention, Awareness and Education Projects	3,204,862			7,770,084			27,372	-1,899	8,311,728	408,973	2,279,718	1,218,202	1,061,516
UN Development Programme	3,503,201			-529,167			11,279	83,867	5,904,586	540,696	-3,376,102	354,765	-3,730,867
UN Development Programme Projects	11,311			438,011	331			-111	304,065	28,036	117,441	22,040	95,401
UN Development Programme Resident Coordinator's Fund	678			24,454				-250	24,882				
UN East Timor J. Cultural Centre	18,563							10,000	10,559				18,004
UN Environment Programme - Memoranda of Understanding	1,823,207			2,513,495				8,493	3,074,400		1,270,795	328,576	942,219
UN Fund for International Partnership	2,102,025			9,523,649	-83,816		-27,375		6,877,542	343,877	4,293,064	1,127,600	3,165,464
UN Fund for Population Activities	-39,368			295,409				-220	316,376	21,537	-82,092	4,942	-87,034
UN Multi-Donor : Ecuador	-7,997			8,000				-3					
UN Multi-Donor : International Workshops/Conferences	73,080		54,255	13,580				-620	114,532		25,763		25,763
UNDHA Iraq, Implementation Budget of Security Council Resolution 986	1,155,995			197,486	-31,052				1,283,912	38,517			
UNDHA Iraq, Implementation Budget of Security Council Resolution 1483				1,216,453						1,216,453			
UNDHA Iraq, Training of Supervisors	3,366			-3,366									
UNESCO/UNOCHA Educational and Cultural Programme for Afghanistan	4,756			-2,912				-1,356	488				
UNESCO/UNOCHA Trust Fund for Tsunami Disaster Relief				704,840	2,501				42,000	4,200	661,141	19,902	641,239
UNHCR Fund	-27,706			505,403				26,222	510,992	85	-7,158	1,074	-8,232
United Nations Development Group Iraq Trust Fund				31,413,833	460,207				10,684,796	611,564	20,577,680	8,562,040	12,015,640
United Nations Human Security Fund					6,881				1,088,066	58,892	50,774	7,791	42,983
United Nations International Strategy for Disaster Reduction	1,190,851			2,292,866	24,480				967,339	77,387	1,272,620	456,540	816,080
UNICEF Fund	275,398			110,167			4	-257	212,004	921	172,387	11,326	161,061
WFP Cooperative Programme	402,586			-48,384					354,202				
International Labour Organization Projects				5,000					5,000				
World Conference on Education for All	101,318				3,451			-1,742	46,772		56,255	21,759	34,496
TOTAL, PART I	13,796,126		54,255	56,448,901	382,983		11,280	122,124	40,134,241	3,351,138	27,330,290	12,136,557	15,193,733
PART II - OTHER EXTRABUDGETARY SOURCES													
A. TECHNICAL ASSISTANCE PROJECTS FINANCED BY LOANS / GRANTS FROM INSTITUTIONS													
African Development Bank:													
Chad	18,619		-18,619										
Cameroon									8,692	609	-9,301	22,799	-32,100
Côte d'Ivoire	-167,959		219,900						218,154	28,360	-194,573	1,866	-196,439
Gambia	503,911		-4,283		6,871				387,072	30,966	88,461	60,192	28,269
Guinea-Bissau	2,585		-2,585										
Mali	-43,837		38,557					35	-4,856	-389			
Mozambique	-15,000							15,000					
Niger	101,387				839				86,343	6,907	8,976	5,267	3,709
Rwanda	54,215		261,787						311,252	39,854	-35,104	542	-35,646
Senegal	148,894		-149,915		1,021								
Sierra- Leone	234,207		49,085		3,929				159,697	20,761	106,763	138,396	-31,633
Uganda	-7,496									7,496			
Cooperative Programme	-64,712							160,438	228,474		-132,748	14,492	-147,240

	RECEIPTS						DISBURSEMENTS					
	Fund balances excluding ULOs 1 January 2004	UNESCO regular programme	Government contributions	Amounts financed from UN and UN agencies	Interest income	Exchange difference	Other receipts	Project disbursements	Programme support costs	Fund balances excluding ULOs 31 December 2005	Unliquidated obligations (ULOs)	Fund balances 31 December 2005
Arab Fund For Economic Development:												
Assessment and Mitigation of Earthquake Risk in the Arab Region	71,742				1,026		-72,768					
Assessment and Mitigation of Earthquake Risk - Syria	79,891		-81,032		1,141							
Earthquake Risk Reduction (Pamerar) - Morocco	70,986		-65,195		1,278		6,263	806				
Earthquake Risk Reduction - Tunisia	123,463		-106,356		1,675		16,621	2,161				
Feasibility Study - Education Buildings and Facilities	91,570				1,308							
Feasibility Study - Educational Industries / Decision Support Systems in Arab countries	172,158						-5,190	45,509	-76	121,535	943	120,592
Asian Development Bank:												
Bangladesh	-32,756						32,756					
Development of National Plans for Education for All in the Asian - and Pacific Region	-31,057						31,057					
Kazakhstan	5,517						-180	5,337				
Lao PDR	30,394		484,231				273,398	29,857	211,370	75,889	135,481	
Uzbekistan	16,379		24,555				105,529		-64,595		-64,595	
Viet Nam	214,569		77,000				257,637	33,493	439		439	
Caribbean Development Bank:												
Latin America	-59,900						59,900					
Inter-American Development Bank:												
Argentina	16,872		-16,872									
Brazil	149,688		2,532,038		-8,876	-49,681	898,950	47,467	1,676,752			1,676,752
Chile	6,442		-7,793				-1,196	-155				
Latin American Laboratory - Quality in Education	25,756						-25,756					
Latin America - Summit of the Presidents for Education Evaluation	18,572						27,980	1,418	27,415		27,415	
Peru			157,870		1		130,432		27,439	27,469		-30
Islamic Development Bank:												
Chad	-6,252		63,945				49,506		8,187		8,187	
Niger	-23,293		63,945				36,056		4,596	1,550	3,046	
Yemen	1,209		-1,209									
Cooperative Programme	13,924						13,924					
OPEC Fund:												
Bangladesh	15,615								15,615			15,615
Burkina Faso			31,387				27,776	3,611				
Central African Republic	-78,644					78,644						
Côte d'Ivoire	57,481				858		22,724	2,954	32,661	2,619	30,042	
Mali	26,095		103,340		113		100,023	10,002	19,523	5,093	14,430	
Mauritania	469,183		1,585,224		18,177		1,321,517	105,721	645,346	373,116	272,230	
Populations and Perspectives for Development in the Arab World	-7,318						8,000		-15,318		-15,318	
Senegal	-18,416								-18,416		-18,416	
Strengthening Education Sector Response to prevent HIV/AIDS						1,125,000	349,827		775,173		775,173	
Tajikistan	226,012		-170,000				51,139	4,091	782	695	87	
Uganda	-3,145						3,145					
Cooperative Programme	-4,314						9,259		-4,668		-4,668	
World Bank:												
African Education Planners Study Tour					42		72,500		9,872		9,872	
Argentina	31,957		-31,957									
Armenia	-69						-63	-6				
Asia Pacific Cultural Industry Programme							22,124	2,876				
Bangladesh	397,457				12,239				409,696		409,696	
Brazil	1,096,835		2,362,771		170,647	157,404	2,865,238	143,262	779,157		779,157	
Burundi	-19,939						19,939					
Capacity Building Programme for NGOs/CSOs Involved in Education in Sub-Saharan Africa	18,648						18,648					
Conservation Master Plan, Rehabilitation Activities for Cultural Heritage in the Bethlehem Area	-9,936						2,000	100	-12,036		-12,036	
Consultation of the Mena Education Stake Holders	-4,311								-4,311		-4,311	
Consulting Services within the Framework of UN Special Initiative - Afri	80,990				317		71,216		10,091	55	10,036	
Cooperation under EFA Framework - Consultancy Services - Africa	4,572						7,000		2,400		2,400	

	RECEIPTS						DISBURSEMENTS					
	Fund balances excluding ULOs 1 January 2004	UNESCO regular programme	Government contributions	Amounts financed from UN and UN agencies	Interest income	Exchange difference	Other receipts	Project disbursements	Programme support costs	Fund balances excluding ULOs 31 December 2005	Unliquidated obligations (ULOs)	Fund balances 31 December 2005
Gambia	6,871		-6,871									
Ghana	38,461											60
Guinea	8,546						35,556	2,845	60			60
Haiti			200,000		2,567						17,665	12,862
International Programme for the Improvement of Educational Outcome	7,883				-6,512	-1,371	172,040		30,527			
Islamic Republic of Iran	-84,689								-84,689			-84,689
Lao PDR	1,255		-1,255									
Madagascar	6,243						5,525	718				
Morocco	149,885				929		154,199	8,205	-11,590	258		-11,848
Seminar on Improving Learning : Perspectives for Primary Education in Rural Africa	-9,848											
Senegal	156,518				834	-156,695	597	60				
Uzbekistan			13,560				15,000	1,950	-3,390			-3,390
Viet Nam	15,466		231,300				240,501		6,265			6,265
Workshop on Strengthening the Role of Education Ministries in the Government's response to HIV/AIDS in Central Asia	22,936						16,173	2,103	4,660			4,660
SUBTOTAL, PART II A	4,318,968		7,836,553		210,424	107,723	1,321,613	8,831,728	530,531	4,433,022	748,906	3,684,116
B. SELF-BENEFITING PROJECTS												
Aga Khan Foundation	185,433				4,467		352,600	305,552	39,722	197,226		197,226
Argentina	14,068		-14,068									
Bahrain	290,920		503,120		14,577			163,892	21,306	623,419	9,549	613,870
Brazil (Great Works)	4,615											
Chile	115,714		253,034					189,523	15,162	164,063	36,576	127,487
Costa Rica	5,695									5,695		5,695
Ecuador	223,262		1,527,846				1,335,100	74,481	341,527	320,805		20,722
Guatemala	1,543						1,331	80	132			132
Italy	11,867						-27	10,478	1,362			
Jordan	704									704		704
Korea, Republic of (Great Works)	657											
Latin American Laboratory for Assessment of Quality in Education	193,633		207,623				85,588	280,984		205,860	54,019	151,841
Lebanon	39,901							500	65	39,336		39,336
Libyan Arab Jamahiriya	17,990,518		-2,279,622		406,224		4,591,656	453,081	11,072,383	682,833		10,389,550
Mexico	264,654		623,536				1,746	664,272	80,478	145,186	87,243	57,943
Namibia			54,413					47,464	6,170	779		779
Nigeria			2,361,278		13,583	-6,421		246,146	12,307	2,109,987	294,836	1,815,151
Oman	1,228											
Paraguay	1											
Peru	-2,105											
Portugal (Great Works)	3,694											
Qatar	314,113		-314,897		784							
Saudi Arabia	588,888		-7,375		10,308			306,234	30,623	254,964	2,154	252,810
United Arab Emirates	16,420		5,965					16,984	2,208			
Uruguay	41,939		217,085					240,374	12,383	6,267		6,267
SUBTOTAL, PART II B	20,307,362		3,137,938		449,943	-6,421	428,624	8,400,490	749,428	15,167,528	1,488,015	13,679,513
C. DONATED PROJECTS												
Arab Gulf Programme for United Nations Development Associate Experts' Scheme	589,474				12,151		360,746	483,394	57,292	421,685	90,714	330,971
Austria	-21,350		98,900		256			34,229	4,107	39,470	3,685	35,785
Belgium	111,525		379,161		2,696			299,656	35,959	157,767	5,746	152,021
Denmark	398,092		-94,600		-330			168,870	20,264	114,028		114,028
Finland	84,569		941,988		6,120			721,096	86,532	225,049	7,058	217,991
France	41,186		567,250		3,601			452,673	54,321	105,043		105,043
Germany	196,529		677,490		2,919		53	648,881	77,866	150,244	1,348	148,896
Italy	-94,838		1,604,997		3,560			1,473,863	176,863	-137,007	3,248	-140,255
Japan	547,382		2,405,078		22,379			2,507,895	300,947	165,997	32,737	133,260
Korea Republic of	144,816		544,238		1,344			559,502	67,140	63,756	3,080	60,676
Netherlands	129,955		335,618		423			387,743	46,529	31,724	9,161	22,563

RECEIPTS

DISBURSEMENTS

	Fund balances excluding ULOs 1 January 2004	UNESCO regular programme	Government contributions	Amounts financed from UN and UN agencies	Interest income	Exchange difference	Other receipts	Project disbursements	Programme support costs	Fund balances excluding ULOs 31 December 2005	Unliquidated obligations (ULOs)	Fund balances 31 December 2005	
Norway	332,994		276,000		3,399			575,563	69,068	-32,238	2,704	-34,942	
Portugal			102,900		967			59,292	7,115	37,460	55	37,405	
Spain	-7,602									-7,602		-7,602	
Sweden	-105,581		560,526		53			608,684	73,042	-226,728	5,374	-232,102	
United Kingdom	69,295		120,500		773			191,365	22,964	-23,761		-23,761	
Australian Trust Fund	164,130				2,192			136,351	17,726	12,245	1,708	10,537	
Belgian (Flanders) Trust Fund	5,808,180		5,624,671		42,753		-310,613	5,982,504	646,575	4,535,912	627,231	3,908,681	
BMBF (Bundesministerium für Bildung und Forschung) - Cooperative Ecology Research Project -CERP/China	564,988		1,681,342		20,391			1,216,477	64,291	985,953	181,821	804,132	
Canadian Trust Fund	61,687		128,398		2,293		-30,703	102,733	13,355	45,587	10,096	35,491	
Catholic Famine and Development Committee	10,254						-10,254						
Danish Trust Fund	1,289,940		403,827		23,038		-662,913	486,938	59,193	507,761		507,761	
Electricity Company of France (EDF) Trust Fund	17,993				48		-18,041						
European Commission Trust Fund	2,039,163				132,371		8,685,257	7,863,039	329,929	2,663,823	636,747	2,027,076	
Felissimo Trust Fund	46,083				8,321		315,612	77,950	10,133	281,933	24,860	257,073	
Finnish Trust Fund	289,948		412,166		8,110			375,641	35,648	298,935		298,935	
French Trust Fund	999,656		1,579,481		33,854		-72,127	1,283,046	142,399	1,115,419	196,789	918,630	
German Trust Fund	1,537,734		1,081,499		39,438		-35,211	1,072,038	137,241	1,414,181	417,489	996,692	
International Centre for Technical Research	5,910						-5,910						
Iranian Trust Fund	81,829				2,519					84,348		84,348	
Irish Trust Fund			600,960		1,422			9,335	1,214	591,833		591,833	
Islamic Call Society Trust Fund	2,624,184				60,750		-516,018	543,556	69,629	1,555,731	8,226	1,547,505	
Italian Trust Fund	18,142,722		17,811,788		734,747			12,278,521	1,377,454	23,033,282	2,775,903	20,257,379	
Japanese Trust Fund	51,212,851		23,098,875		1,346,496			30,945,317	4,007,660	40,705,245	5,833,357	34,871,888	
Korea, Republic of, Trust Fund	753,013		1,066,895		21,395			1,044,801	132,283	664,219	85,211	579,008	
Luxembourg Trust Fund	340,407		1,160,508		26,194			621,057	80,738	825,314	175,664	649,650	
Menorca Trust Fund	90,096				875			84,888	4,244	1,839	1,825	14	
Mexico Trust Fund			203,910					103,118	13,405	87,387	45,663	41,724	
Monaco Trust Fund	1,191		-1,191										
Netherlands Trust Fund	2,155,472		870,201		44,478		126,687	1,171,532	150,724	1,874,582	112,074	1,762,508	
New Zealand Trust Fund	684,581		794,442		17,729			875,350	51,011	570,391	170,504	399,887	
Norwegian Agency for Development Trust Fund	1,942,270		316,617		45,923			1,106,099	140,713	1,057,998	334,386	723,612	
Norwegian Trust Fund	3,504,590		6,071,751		118,812			3,744,048	486,343	5,464,762	378,071	5,086,691	
OECD Trust Fund	76					116	-93			99		99	
Portuguese Trust Fund	370,381		131,438		12,154			115,777	15,477	374,469	7,103	367,366	
Private Sector Trust Fund	3,398,242		-214		152,240	140,341	9,568,512	8,660,048	461,997	4,137,076	482,673	3,654,403	
Private Sector UNESCO Chairs	121,200				2,319			300,364	87,640	10,796	325,447	17,270	308,177
Qatar Foundation Trust Fund	-848				152,601		9,184,000	4,508,968	450,897	4,375,888	1,662,940	2,712,948	
San Marino Trust Fund	1,304						-1,304						
Saudi Arabian Trust Fund	3,380,444		7,599,426		121,143			37,607	2,681	11,060,725		11,060,725	
Spanish Trust Fund	1,720,241		2,659,385		61,141			1,284,484	161,897	2,994,386	288,308	2,706,078	
Swedish Trust Fund	383,133		2,694,607		30,119			1,766,011	229,581	1,112,267	69,323	1,042,944	
Swiss Trust Fund	778,493		3,037,236		32,016			1,633,403	208,742	2,005,600	371,351	1,634,249	
United Arab Emirates Trust fund			49,934		408					50,342		50,342	
United Arab Emirates/Kuwait Trust fund [Kitab Fi Jarida]	25,582						-25,582						
United Kingdom Trust Fund	488,748		2,352,702		30,764			1,289,046	167,576	1,415,592	27,718	1,387,874	
United States of America Trust Fund	-517,590		7,199,448		836	-3,977		5,490,419	711,263	477,035	31,914	445,121	
SUBTOTAL, PART II C	106,934,724		97,150,148		3,390,201	136,480	26,844,212	105,170,448	11,492,824	117,792,493	15,141,135	102,651,358	

D.FUNDS FOR CULTURAL CAMPAIGNS, VOLUNTARY
CONTRIBUTIONS AND INTERNATIONAL APPEALSPRIZES AND AWARDS :

Arirang Prize (Korea Rep. Of)	60,000		60,000					60,000		60,000		60,000
Emir Jaber Al-Ahmad Al-Jaber Al-Sabah Prize	545,715				25,227			7,475		563,467	30	563,437
Felix Houphouet-Boigny Peace Prize	8,315,456	278,421			354,546	-312,048		1,019,238		7,617,137	5,144	7,611,993
International Prize for Water Conservation : "Great Artificial River"	383,686				17,592			27,072		374,206	1,630	372,576
Japan Shipbuilding Industry Foundation Endowment for UNESCO Peace Prize	1,096,324				49,587			21,974		1,123,937	11	1,123,926
Javad Husain "Young Scientist" Prize	186,167				8,642			4,000		190,809		190,809

RECEIPTS

DISBURSEMENTS

	Fund balances excluding ULOs 1 January 2004	UNESCO regular programme	Government contributions	Amounts financed from UN and UN agencies	Interest income	Exchange difference	Other receipts	Project disbursements	Programme support costs	Fund balances excluding ULOs 31 December 2005	Unliquidated obligations (ULOs)	Fund balances 31 December 2005
Literacy Prizes												
International Reading Association Literacy Award	38,106				158		40,000	30,000		48,264		48,264
King Sejong Literacy Prize	29,075		76,000					61,986		43,089		43,089
Malcolm Adieshiah International Literacy Prize	940							912		28		28
Noma Literacy Prize	38,363							24,261		14,102	9,600	4,502
Melina Mercouri Prize	15,630							8,874		6,756		6,756
Prince of Asturias Prize	3									3		3
Samarkand Taronasi Prize	6,000							3,000		3,000		3,000
Sharjah Prize for Arab Culture	262,092		99,960		11,162			128,138		245,076		245,076
Sheikh Zayed Bin Sultan Al Nahyan Prize	153,782		6,098					155,447		4,433		4,433
Special Account for : International Simon Bolivar Prize	296,978				12,393			37,180		272,191		272,191
Sultan Qaboos Prize for Environmental Preservation	282,624		13,000		13,157			20,000		288,781	400	288,381
UNESCO/Jikji Memory of the World Prize			35,000					34,764		236		236
UNESCO Prize for Children and Young People Literature in the Service of Tolerance	4,488									4,488		4,488
UNESCO Prize for the Promotion of the Arts	129,992				6,278		104,160	107,910		132,520	12,692	119,828
UNESCO-Madanjeet Singh Prize for the Promotion of Tolerance and Non-Violence	100,000						100,000	100,000		100,000		100,000
FELLOWSHIP AND SCHOLARSHIP FUNDS :												
Hirayama Silk Roads Scholarship Fund	9,955						-9,955					
Nessim Habif Fund	1,507,518				109,596		10,547	12,013		1,615,648		1,615,648
Scholarship Fund for Higher Educational Students in Occupied Arab Territories	16,222							16,082		140		140
Scholarship Programme for Girls in Africa	6,868									6,868		6,868
Silk Roads Symposium in Xi'An	6,850						-6,272	578				
Theresa McKay Memorial Fund Fellowships	195,146				9,074					204,220		204,220
Third World Academy of Sciences	11,603,063	76,000	10,487,712	117,200	690,712	-2,840	813,037	6,807,910		16,976,974	2,006,962	14,970,012
UNESCO-ASCHBERG Foundation Trust Fund	3,393,786				159,614		152,420	265,838		3,439,982	56,991	3,382,991
UNESCO Fellowship Bank	37,232						29,766	38,817		28,181		28,181
UNESCO/Republic of Korea Fellowship Programme	626						-626					
OTHERS :												
Action in Education for Afghan Refugees	48,965						43,352	64,891		27,426	2,654	24,772
African Research and Development - Science & Technology	86,342				1,272		13,501	64,378		36,737	11,551	25,186
ANSTI Membership Fund	145,206				5,890		36,254	63,728		123,622		123,622
Asian Programme of Educational Innovation for Development	47,402		25,000				4,473	48,882		27,993	1,359	26,634
Asia-Pacific Programme of Education for All	34,193		25,000					21,347		37,846	17,020	20,826
Capacity Building for Education for All	3,350,012		8,889,907		230,266		1,131,650	7,615,411		5,986,424	1,846,070	4,140,354
Caribbean Teacher-Project Preparation Phase financed by Canada	4,734						-4,734					
CCT Links	47,716		7,325		1,187			1,463		54,765		54,765
Children in Need	1,187,856				71,966		2,888,466	2,835,038		1,313,250	245,447	1,067,803
Conservation and Restoration of Wat Phu Archaeological Sites	1,505									1,505		1,505
Copyrights Programme	17,612							15,445		2,167		2,167
Criança Esperanza - Hope on our Children					568,431	620,088	10,743,264	3,070,421		8,861,362		8,861,362
Cultural Heritage and Promotion of Understanding in Punjab, India	-3,146						3,146					
Education For All - Dakar Follow-up	3,782,549		5,811,452		181,563			6,231,815		3,543,749	490,943	3,052,806
Emergency Relief Fund	304,989				3,445		-96,010	130,115		82,309		82,309
Global Alliance for Cultural Diversity	94,043		134,846	22,175	2,602		45,000	215,560		83,106	4,008	79,098
Great Apes Survival Project							7,507	3,511		3,996		3,996
Increased Aid to Developing Countries	612,263		1,879		21,870		-235,162	130,294		270,556	6,673	263,883
Information Programme for All	250,751		174,740		22,804		738,247	460,405		726,137	430,970	295,167
Initiative for the Volga-Caspian basin	19,455						37,313	53,792		2,976	2,200	776
Integral Study of the Silk Roads	24,788							23,129		1,659		1,659
Intergovernmental Informatics Programme	948,036				26,081		-738,247	221,530		14,340	55	14,285
Intergovernmental Oceanographic Commission (I.O.C)	1,363,114		5,808,786	1,319,022	143,044		565,857	4,464,817		4,735,006	495,904	4,239,102
International Campaigns - Cultural Heritage	389,319		25,771		7,967		-3,721	202,500		216,836	16,747	200,089
International Computer Driving License	971,051		767,507	49,659			2,289,876	1,910,794		2,167,299	207,112	1,960,187
International Fund for the Development of Physical Education and Sport	37,515		67,137		315		74,913	168,660		11,220	6,644	4,576
International Fund for the Promotion of Culture	3,856,175				173,826		47,580	301,155		3,776,426	33,107	3,743,319
International Fund for the Promotion of the Return of Cultural Works of Art to their Country of Origin	28,913									28,913		28,913

	RECEIPTS							DISBURSEMENTS				
	Fund balances excluding ULOs 1 January 2004	UNESCO regular programme	Government contributions	Amounts financed from UN and UN agencies	Interest income	Exchange difference	Other receipts	Project disbursements	Programme support costs	Fund balances excluding ULOs 31 December 2005	Unliquidated obligations (ULOs)	Fund balances 31 December 2005
International Hydrological Programme	2,577						-2,577					
International Programme for the Development of Communication	2,438,651		1,118,597		96,658		78,250	2,099,939	1,632,217	508,730	1,123,487	
International Programme on Technical and Vocational Education (UNEVOC)	90,239				846	-1,369	86,604		3,112		3,112	
Man and Biosphere Programme (MAB)			91,463	8,000	1,774		124,899	11,937	214,199	63	214,136	
Mitigation Against Earthquake Losses in the Mediterranean Region	28,079		2,052				816	14,218	16,729		16,729	
Ocampo Donations Special Account	370,708		75,758		10,961		10,874	338,237	130,064	46,753	83,311	
Plan for the Promotion of Arab Culture	7,523								7,523		7,523	
Preliminary Microzonation Map for Bam							60,000	57,364	2,636	2,636		
Preservation and Enhancement of the Protection of Underwater Cultural Heritage	96,185		-78,587		2,402		-20,000					
Preventive Education Against Drug Abuse	12,987		-12,987									
Priority Africa	459,979				11,602		140,498	494,221	117,858	47,003	70,855	
Programme for Education of Children in Difficult Situations	10,915			2,069			54,762	63,797	3,949	55	3,894	
Promotion of Cultural Heritage Activities	95,054							75,467	19,587	421	19,166	
Protection of Cultural Property in the Middle East in the Event of Armed Conflict	397,863				18,498				416,361		416,361	
Protection of the World Cultural and Natural Heritage	192,249		444,954		9,980		6,546	412,518	241,211	11,400	229,811	
Revival of the Alexandria Library	13,001						-13,001					
Route of Iron in Africa	78						-78					
Special Account - Egypt	10,030,250				455,164	-60,174		30,852	10,394,388		10,394,388	
Special Accounts for General Histories	532,280				19,223		17,500	205,628	363,375	29,717	333,658	
Special Account - Contribution to Internal Oversight Service	921,079		116,810	2,950	23,611		39,722	832,621	271,551	11,307	260,244	
Special Account for Science and Human Sciences Sector - Div. of Foresight & Philos.	11,000		27,748						38,748		38,748	
Special Account for Voluntary Contributions	3,584,088		1,882,427		291,297	360,460	2,163,715	3,878,121	8,054	4,395,812	196,753	4,199,059
Special Fund for Youth	23,747		431		93		53,493	61,381	16,383	7,099	9,284	
The 500th Anniversary of the Encounters Between Two Worlds	53						-53					
Trust Fund for the Establishment of the Nubia Museum in Aswan and - - the National Museum of Egyptian Civilization in Cairo	1,781,720				70,329			666,377	1,185,672	137,144	1,048,528	
Trust Funds for the Preservation of :												
Moenjodaro	711,755				28,819			174,632	565,942	28,225	537,717	
Parsi Zoroastrian Culture and Heritage	30,227				-106		60,742	76,798	14,065	2,276	11,789	
Trust Funds for Safeguarding the :												
Monuments of Borobodur	363,954				15,192			119,664	259,482	63,923	195,559	
Monuments of Venice	325,067				1,651	-16,631	4,166,408	3,674,733	801,762	285,957	515,805	
Tsunami Special Account							204,776	140,070	64,706	31,534	33,172	
UNESCO Chair at Upaz to Follow-up the Meeting of the Council of University	-19,000						19,000					
UNESCO History Project			32,425						32,425		32,425	
UNESCO Media Fund	680,477				11,428	-698		626,123	65,084	45,781	19,303	
World AIDS Foundation	101,389				3,346			48,108	56,627	50,704	5,923	
World Commission on Culture and Development	6,872							3,090	3,782		3,782	
World Heritage Fund	4,785,733		6,738,143	62,326	203,474		1,109,158	8,240,553	4,658,281	1,217,287	3,440,994	
World Solar Summit - High-Level Expert Meeting	95,632				3,972			31,727	67,877		67,877	
SUBTOTAL, PART II D	74,556,456	354,421	42,956,354	1,583,401	4,210,481	587,486	27,100,354	59,777,330	8,054	91,563,569	8,636,692	82,926,877
E. GOVERNMENT CONTRIBUTIONS TO FIELD OFFICES												
Special Account for the Contribution of the Government - - of Qatar for the Operation of the UNESCO Regional - Representative's Office in the Arab States of the Gulf	-110,683		448,756					320,778	17,295			17,295
Brazil UNESCO Antenna	51,821		1,370,345		3,372	-266		1,262,585	162,687			162,687
Beirut Office	-115,043		464,791					442,488	-92,740	42,644		-135,384
Venice Office	60,208						78,612	103,706	35,114	9,926		25,188
Regional Office for Science and - - Technology for Europe (Venice)												
	2,221,083		3,200,083		61,191	1,449		4,177,795	1,306,011	536,372		769,639
SUBTOTAL, PART II E	2,107,386		5,483,975		64,563	1,183	78,612	6,307,352	1,428,367	588,942		839,425

	RECEIPTS						DISBURSEMENTS					
	Fund balances excluding ULOs 1 January 2004	UNESCO regular programme	Government contributions	Amounts financed from UN and UN agencies	Interest income	Exchange difference	Other receipts	Project disbursements	Programme support costs	Fund balances excluding ULOs 31 December 2005	Unliquidated obligations (ULOs)	Fund balances 31 December 2005
F. CONTRIBUTIONS FOR HQ RENOVATIONS												
Japanese Garden - Renovation Plan	102,745				3,622		33,246		73,121	2,103	71,018	
Renovation of Fontenoy Entrance	3,000					-3,000						
SUBTOTAL, PART II F	105,745				3,622	-3,000	33,246		73,121	2,103	71,018	
TOTAL, PART II	208,330,641	354,421	156,564,968	1,583,401	8,329,234	826,451	55,770,415	188,520,594	12,780,837	230,458,100	26,605,793	203,852,307
TOTAL, PROGRAMME EXPENDITURE PARTS I AND I	222,126,767	354,421	156,619,223	58,032,302	8,712,217	837,731	55,892,539	228,654,835	16,131,975	257,788,390	38,742,350	219,046,040
Closing exchange revaluation	-118,006					187,388			69,382	-199,723	269,105	
GRAND TOTAL	222,008,761	354,421	156,619,223	58,032,302	8,712,217	1,025,119	55,892,539	228,654,835	16,131,975	257,857,772	38,542,627	219,315,145

Note: The fund balance of US \$219,315,145 at 31 December 2005 includes amounts of US \$24,921,688 held as endowments.

UNESCO
STAFF FIDUCIARY FUNDS
SCHEDULE OF INCOME AND EXPENDITURE AND CHANGES IN RESERVES AND FUND BALANCES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2005
(expressed in '000s US dollars)

					2005	2003
	Medical Benefits Fund	UNESCO Staff Savings and Loan Service	UNESCO Commissary Fund	UNESCO Restaurant Service		
INCOME						
Revenue-producing activities			3,613	11,147	14,760	11,719
Employer contribution to benefit plan	16,104				16,104	13,217
Employee contribution to benefit plan	16,218				16,218	13,310
Investment income	1,019	29,561	114		30,694	35,778
Currency exchange adjustments	(938)				(938)	5,451
Other	1,125	221	120	1,482	2,948	2,593
TOTAL INCOME	33,528	29,782	3,847	12,629	79,786	82,068
EXPENDITURE						
Staff costs		1,806	779	6,965	9,550	7,594
Compensation/Benefit paid	33,038				33,038	26,471
Other expenditures		591	3,026	5,518	9,135	6,928
TOTAL EXPENDITURE	33,038	2,397	3,805	12,483	51,723	40,993
EXCESS OF INCOME OVER EXPENDITURE	490	27,385	42	146	28,063	41,075
Distribution to members of USLS		(28,001)			(28,001)	(31,931)
Other adjustment to reserves and fund balances		(627)	(173)	(13)	(813)	6,386
Reserves and fund balances, beginning of period	24,844	22,063	2,032	82	49,021	33,491
RESERVES AND FUND BALANCES, END OF PERIOD	25,334	20,820	1,901	215	48,270	49,021

UNESCO
GENERAL AND WORKING CAPITAL FUNDS
SCHEDULE OF ASSETS, LIABILITIES AND RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(expressed in '000s US dollars)

	GENERAL FUND			Inter-fund eliminations	TOTAL	
	Regular programme	Use of carry-forward Funds 169 EX/FA/EG	Subtotal		2005	2003
ASSETS						
Cash and term deposits	4,742		4,742		4,742	64,571
Assessed contributions receivable from Member States	85,100		85,100		85,100	97,731
Accounts receivable						
Inter-fund balances		105	105	(105)		14,128
Other	4,528		4,528		4,528	720
Other assets	490		490		490	164
Land and buildings	98,142		98,142		98,142	72,891
Renovation work in progress	28,896		28,896		28,896	
TOTAL ASSETS	221,898	105	222,003	(105)	221,898	250,205
LIABILITIES						
Payments or contributions received in advance	540		540		540	21,456
Unliquidated obligations	32,639		32,639		32,639	25,115
Accounts payable						
Inter-fund balances	792		792	(105)	687	76,076
Other	13,870		13,870		13,870	9,271
Other liabilities	1,274		1,274		1,274	537
Loan for Headquarters building renovation	31,441		31,441		31,441	
Loan for IBE building	1,646		1,646		1,646	1,938
TOTAL LIABILITIES	82,202		82,202	(105)	82,097	134,393
RESERVES AND FUND BALANCES						
Working Capital Fund	28,010		28,010		28,010	30,500
Capital funds relating to land and buildings	93,894		93,894		93,894	70,953
Currency Exchange Reserve	(868)		(868)		(868)	
Budgetary surpluses	7,237		7,237		7,237	7,255
Surplus	11,423	105	11,528		11,528	7,104
TOTAL RESERVES AND FUND BALANCES	139,696	105	139,801		139,801	115,812
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	221,898	105	222,003		221,898	250,205

UNESCO
OTHER PROPRIETARY FUND
SCHEDULE OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(Expressed in '000s US dollars)

	Revenue Generating activities (Schedule 2.2.1)	Support costs (Schedule 2.2.2)	Staff related accounts (Schedule 2.2.3)	Renovation plan	New Management Monitoring Instruments	United States special account	United Kingdom special account	Unattributed OPF Balances	TOTAL	
									2005	2003
ASSETS										
Cash and term deposits	36							56,177	56,213	21,793
Accounts receivable										
Inter-fund balances	20,894	16,880	6,117	458	1,611	11,009	240	(56,631)	578	83,647
Other	1,814							2,054	3,868	3,403
Other assets	900							8	908	1,152
TOTAL ASSETS	23,644	16,880	6,117	458	1,611	11,009	240	1,608	61,567	109,995
LIABILITIES										
Unliquidated obligations	795	746		15	247	1,278	170	2	3,253	5,199
Accounts payable										
Inter-fund balances										40,191
Other	11,031							942	11,973	13,056
Other liabilities	65							664	729	1,766
TOTAL LIABILITIES	11,891	746		15	247	1,278	170	1,608	15,955	60,212
RESERVES AND FUND BALANCES										
Operating reserves	1,381								1,381	1,695
Other Surpluses	10,372	16,134	6,117	443	1,364	9,731	70		44,231	48,088
TOTAL RESERVES AND FUND BALANCES	11,753	16,134	6,117	443	1,364	9,731	70		45,612	49,783
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	23,644	16,880	6,117	458	1,611	11,009	240	1,608	61,567	109,995

SCHEDULE 2.2.1

UNESCO
REVENUE GENERATING ACTIVITIES
SCHEDULE OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(expressed in '000s US dollars)

	Public Information Liaison and Relations Fund	Publications and Auditory and Visual Material Fund	Utilization of Headquarters Fund	Special Account for Documents/ Publications Services	Special Account for Interpretation Services	TOTAL	
						2005	2003
ASSETS							
Cash and term deposits		36				36	483
Accounts receivable							
Inter-fund balances	13,728	807	4,805	962	592	20,894	18,158
Other	42	233	1,539			1,814	1,952
Other assets	242	459	199			900	1,141
TOTAL ASSETS	14,012	1,535	6,543	962	592	23,644	21,734
LIABILITIES							
Unliquidated obligations	79	165	511	40		795	539
Accounts payable							
Inter-fund balances							2,117
Unredeemed coupons	11,031					11,031	12,284
Other							1
Other liabilities	65					65	20
TOTAL LIABILITIES	11,175	165	511	40		11,891	14,961
RESERVES AND FUND BALANCES							
Operating reserves	1,297		84			1,381	1,695
Other surpluses	1,540	1,370	5,948	922	592	10,372	5,078
TOTAL RESERVES AND FUND BALANCES	2,837	1,370	6,032	922	592	11,753	6,773
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	14,012	1,535	6,543	962	592	23,644	21,734

UNESCO
PROGRAMME SUPPORT COSTS FOR SPECIAL ACCOUNTS AND TRUST FUNDS
SCHEDULE OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(expressed in '000s US dollars)

	Funds-in Trust Overhead Cost Account (FITOCA)	Special Account for Administrative and Operational Services (UNDP-AOS)	Technical Support Services at the Programme Level (UNDP-SPPD)	Technical Support at the Project Level (UNDP-STs)	TOTAL	
					2005	2003
ASSETS						
Accounts receivable						
Inter-fund balances	13,836	2,071	680	293	16,880	19,521
Other assets						11
TOTAL ASSETS	13,836	2,071	680	293	16,880	19,532
LIABILITIES						
Unliquidated obligations	740		5	1	746	684
Accounts payable						
Inter-fund balances						24
TOTAL LIABILITIES	740		5	1	746	708
RESERVES AND FUND BALANCES						
Other surpluses	13,096	2,071	675	292	16,134	18,824
TOTAL RESERVES AND FUND BALANCES	13,096	2,071	675	292	16,134	18,824
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	13,836	2,071	680	293	16,880	19,532

SCHEDULE 2.2.3

UNESCO
STAFF RELATED ACCOUNTS
SCHEDULE OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(expressed in '000s US dollars)

	Terminal Payment Fund	Staff Compensation Fund	TOTAL	
			2005	2003
ASSETS				
Accounts receivable				
Inter-fund balances	5,418	699	6,117	5,929
TOTAL ASSETS	5,418	699	6,117	5,929
LIABILITIES				
TOTAL LIABILITIES				
RESERVES AND FUND BALANCES				
Other surpluses	5,418	699	6,117	5,929
TOTAL RESERVES AND FUND BALANCES	5,418	699	6,117	5,929
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	5,418	699	6,117	5,929

UNESCO
PROGRAMME FIDUCIARY FUNDS
SCHEDULE OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(Expressed in '000s US dollars)

	Institutes (Schedule 2.3.1)	UNESCO Brasilia Office	Other Special Accounts and Trust Funds	Inter-fund eliminations	TOTAL	
					2005	2003
ASSETS						
Cash and term deposits	34,277	127,274	245,539		407,090	280,304
Investments (Market Value 2005 - \$1,852; 2003 - \$6,093)			1,425		1,425	5,548
Accounts receivable						
Inter-fund balances	4,961		11,075	(15,917)	119	17,351
Other	6,166		3,420		9,586	4,444
Other assets	2,101		1,014		3,115	1,901
TOTAL ASSETS	47,505	127,274	262,473	(15,917)	421,335	309,548
LIABILITIES						
Unliquidated obligations	7,106	49,033	38,543		94,682	33,249
Accounts payable						
Inter-fund balances	1,426	14,491		(15,917)		1,033
Other	12,170		2,818		14,988	6,451
Other liabilities	333	168	1,797		2,298	3,368
TOTAL LIABILITIES	21,035	63,692	43,158	(15,917)	111,968	44,101
RESERVES AND FUND BALANCES						
Balances relating to projects funded by donors		63,582	219,315		282,897	240,084
Operating reserves	11,909				11,909	9,116
Other surpluses	14,561				14,561	16,247
TOTAL RESERVES AND FUND BALANCES	26,470	63,582	219,315		309,367	265,447
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	47,505	127,274	262,473	(15,917)	421,335	309,548

UNESCO
SPECIAL ACCOUNTS FOR INSTITUTES
SCHEDULE OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(expressed in '000s USDs)

	International Bureau of Education IBE	International Centre for Theoretical Physics ICTP	International Institute for Higher Education in Latin America and the Caribbean IESALC	UNESCO-IHE Institute for Water Education IHE	International Institute for Capacity-Building in Africa IICBA	International Institute for Educational Planning IIEP	UNESCO Institute for Information Technologies in Education IITE	UNESCO Institute of Statistics UIS	Total	
									2005	2003
ASSETS										
Cash and term deposits	256	13,787	121	9,234	19	9,879	51	930	34,277	21,540
Investments										4,013
Accounts receivable										
Inter-fund balances	94		485		253			4,129	4,961	4,595
Other	5	268	7	5,324		514		48	6,166	2,640
Other assets		206		1,812		9		74	2,101	289
TOTAL ASSETS	355	14,261	613	16,370	272	10,402	51	5,181	47,505	33,077
LIABILITIES										
Unliquidated obligations	308	1,186	558	1,708	39	2,358		949	7,106	6,291
Accounts payable										
Inter-fund balances		64				1,347	15		1,426	1,033
Other	5	82		12,003	1	69		10	12,170	302
Other liabilities				331		2			333	88
TOTAL LIABILITIES	313	1,332	558	14,042	42	3,774	15	959	21,035	7,714
RESERVES AND FUND BALANCES										
Operating reserves		7,782				3,314		813	11,909	9,116
Other surpluses	42	5,147	55	2,328	230	3,314	36	3,409	14,561	16,247
TOTAL RESERVES AND FUND BALANCES	42	12,929	55	2,328	230	6,628	36	4,222	26,470	25,363
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	355	14,261	613	16,370	272	10,402	51	5,181	47,505	33,077

UNESCO
STAFF FIDUCIARY FUNDS
SCHEDULE OF ASSETS, LIABILITIES AND RESERVES AND FUND BALANCES
AS AT 31 DECEMBER 2005
(expressed in '000s US dollars)

					TOTAL	
	Medical Benefits Fund	UNESCO Staff Savings and Loan Service	UNESCO Commissary Fund	UNESCO Restaurant Service	2005	2003
ASSETS						
Cash and term deposits	27,247	371,878	1,735	264	401,124	441,148
Investments		128,726			128,726	89,257
Accounts receivable						2,174
Inter-fund balances					40,183	43,831
Loans to staff members		40,183			5,029	4,809
Other	728	3,898	35	368	777	677
Stock on hand at lower of cost or net realizable value			636	141	1,598	1,667
Other assets	118		26	1,454		
TOTAL ASSETS	28,093	544,685	2,432	2,227	577,437	583,563
LIABILITIES						
Accounts payable	2,749	436	480	2,012	5,677	5,536
Inter-fund balances	10				10	
Distribution payable to members		14,272			14,272	13,219
Members' deposits		509,157			509,157	515,733
Other liabilities			51		51	54
TOTAL LIABILITIES	2,759	523,865	531	2,012	529,167	534,542
RESERVES AND FUND BALANCES						
Operating reserves		20,820			20,820	22,063
Surplus	25,334		1,901	215	27,450	26,958
TOTAL RESERVES AND FUND BALANCES	25,334	20,820	1,901	215	48,270	49,021
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	28,093	544,685	2,432	2,227	577,437	583,563

ANNEX I

UNESCO EX GRATIA PAYMENTS

In accordance with the provisions of Financial Regulation 10.3, the following ex gratia payments, made during the financial period ended 31 December 2005, are hereby reported:

		\$'000
(i)	Compensation paid to a retired staff member on a service-incurred accident which was granted on medical grounds.	88
(ii)	Amount granted to a staff member to settle a claim in relation to the retroactive reclassification of his post in order to avoid further proceedings.	4
Total ex gratia payments for the 2004-2005 biennium		92

ANNEX II

UNESCO SPECIAL ACCOUNTS AND TRUST FUNDS

The new special accounts and trust funds established during the financial period 2004-2005 were the following:

United Nations sources

United Nations Development Group Iraq Trust Fund
 United Nations International Strategy for Disaster Reduction
 United Nations Office for the Coordination of Humanitarian Affairs Trust Fund for Tsunami Disaster Relief
 International Labour Organization

Technical Assistance Projects

African Development Bank
 Cameroon
 Inter-American Development Bank
 Peru
 OPEC Fund
 Burkina Faso
 Strengthening Education Sector Response to prevent HIV/AIDS
 World Bank
 African Education Planners Study Tour
 Asia Pacific Cultural Industry Programme
 Haiti
 Uzbekistan

Self-benefiting projects

Namibia
 Nigeria

Donated projects

Associate Experts' Scheme – Portugal
 Irish Trust Fund
 Mexico Trust Fund
 Alcatel
 American Chamber of Commerce, China
 Asociacion Mexicano por Agua Limpia y Ambiente Sanos
 Caixa Economica Federal
 Credit Suisse
 Economic Development Bank, Puerto Rico
 Foundation Nanpaz
 Hans Christian Andersen, ABC Foundation
 Japan Association for the 2005 World Exposition
 Microsoft
 Mines Advisory Group
 Novartis

Osaka University of Economics and Law
Reform By Action International
Samsung
Sebai Institutes
Terra Paulista Nas Escolas
The Asia Foundation
The Høglund Foundation
União das Cidades Capitais Luso-Afro-Americo-Asiáticas
Wasy & Schlegel
Zaragoza Expo 2008 SA

Special accounts for:

UNESCO/Jikji Memory of the World Prize
Criança Esperanza - Hope on our Children
Great Apes Survival Project
Preliminary Microzonation Map for Bam
Tsunami
UNESCO History Project

There were 49 special accounts closed during the biennium (2002-2003: 40), three of which were under Other Proprietary Funds:

Housing loan
Micrography
50th Anniversary

In addition, 46 special accounts under Programme Fiduciary Funds were also closed.

**ANNEX III
UNPAID CONTRIBUTIONS AS AT 31 DECEMBER 2005**

PART I: ARREARS ON CONTRIBUTIONS FOR PRIOR FINANCIAL PERIODS (EXCLUDING ARREARS PAYABLE IN ANNUAL INSTALMENTS)

	US\$	1992-1993							GRAND TOTAL 1988-2005
		US\$	US\$	US\$	US\$	US\$	US\$	US\$	
Antigua and Barbuda	19,072								283,995
Argentina	5,803,771	63,897	76,034	76,340	16,268	16,330	16,054	264,923	5,803,771
Bolivia	57,217								57,217
Botswana	1,431								1,431
Brazil	9,733,291								9,733,291
Cambodia	8,325								8,325
Cameroon	7,140								7,140
Cape Verde	6,357								6,357
Central African Republic	6,357								6,357
Chad	6,357					5,445	5,704	11,149	17,506
Chile	863,488								863,488
Comoros	6,357								6,357
Cook Islands	3,900								3,900
Côte d'Ivoire	31,787								31,787
Cuba	2,227								2,227
Djibouti	6,357					5,445	5,704	11,149	17,506
Dominica	6,083								6,083
Dominican Republic	222,513								222,513
Ecuador	68,814						2,103	2,103	70,917
El Salvador	133,844								133,844
Gabon	1,673								1,673
Gambia	1,871								1,871
Georgia	7,355								7,355
Grenada	6,357						3,350	3,350	9,707
Guinea	14,789								14,789
Hungary	403,700								403,700
India	1,171,608								1,171,608
Iraq	101,720	524,925	830,652	1,026,533	1,059,586	471,772	571,585	891,980	5,377,033
Libyan Arab Jamahiriya	225,785								225,785
Lithuania	18,678								18,678
Madagascar	2,838								2,838
Mali	893								893
Marshall Islands	4,929								4,929
Mauritania	724								724
Mozambique	2,784								2,784
Myanmar	63,574								63,574
Niue	6,357								6,357
Pakistan	164,412								164,412
Palau	652								652
Panama	21,656								21,656
Papua New Guinea	14,798								14,798
Paraguay	76,290								76,290

UNPAID CONTRIBUTIONS AS AT 31 DECEMBER 2005

PART I: ARREARS ON CONTRIBUTIONS FOR PRIOR FINANCIAL PERIODS (EXCLUDING ARREARS PAYABLE IN ANNUAL INSTALMENTS)

	US\$	1992-1993							1988-2003	GRAND TOTAL 1988-2005
		US\$	US\$	US\$	US\$	US\$	US\$	US\$		
Philippines	465,458									465,458
Sao Tome and Principe	6,357					5,422	5,445	5,704	16,571	22,928
Senegal	13,916									13,916
Serbia and Montenegro	60,472									60,472
Sierra Leone	6,310									6,310
Slovenia	910									910
Somalia	6,357	103,293	63,897	76,034	76,340	5,422	5,445	5,704	336,135	342,492
Sudan	44,624									44,624
Syrian Arab Republic	674									674
Timor-Leste	3,178									3,178
Tunisia	192,681									192,681
Turkmenistan	31,787									31,787
United Arab Emirates	3,983									3,983
United States of America	26,880,123									26,880,123
Uruguay	305,159									305,159
Uzbekistan	86,409									86,409
Venezuela	546,743									546,743
Viet Nam	489									489
Zambia	6,782									6,782
Zimbabwe	22,289									22,289
Yugoslavia, SFRY **		2,469,044	297,439						2,766,483	2,766,483
Yugoslavia, Former FRY **			1,528,727	950,215	766,062	338,918	85,894		3,669,816	3,669,816
Total, Member States	47,992,832	3,097,262	2,784,612	2,128,816	1,978,328	837,802	695,589	936,303	12,458,712	60,451,544
British Virgin Islands	1,792									
Cayman Islands	3,816									
Netherlands Antilles	1,897									
Tokelau	1,908									
Total, Associate Members	9,412									9,412
Grand Total	48,002,244	3,097,262	2,784,612	2,128,816	1,978,328	837,802	695,589	936,303	12,458,712	60,460,956

* Arrears on contributions due in euros for 2004-2005 are translated at the average rate for 2004-2005 of US \$1 = €0.806.

** The question of recovery of the unpaid contributions of the Socialist Federal Republic of Yugoslavia (SFRY) amounting to US \$2,766,483 and of the former Federal Republic of Yugoslavia (FRY) amounting to US \$3,669,816 is under discussion not only in UNESCO but in other United Nations bodies with a view to adopting a system-wide approach.

ANNEX III

UNPAID CONTRIBUTIONS AS AT 31 DECEMBER 2005

PART II - ARREARS PAYABLE UNDER PAYMENT PLANS

Member State	2004 and 2005 total due			2006 2007 2008 2009 2010 2011 Total deferred and further							TOTAL	
	prior years										DUE PLUS	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	DEFERRED	
AFGHANISTAN	0	0	0	0	0	0	0	0	332,468		332,468	332,468
ANTIGUA AND BARBUDA	153,017		153,017								0	153,017
ARGENTINA	0	0	0	3,128,933	3,128,933	3,128,933	3,128,936				12,515,735	12,515,735
ARMENIA	0	0	0	103,710	103,710	103,710	103,710	103,710	311,136		829,686	829,686
AZERBAIJAN	0	0	0	0	0	64,886	287,253	115,639			467,778	467,778
CENTRAL AFRICAN REPUBLIC	99,263	105,177	204,440								0	204,440
CHAD	324,635	65,074	389,709								0	389,709
COMOROS	75,798	75,798	151,596	75,798	75,798	75,798	75,799				303,193	454,789
COSTA RICA		1,712	1,712	30,499	30,499	30,499	30,499	30,499	30,504		182,999	184,711
DJIBOUTI	228,912	7,813	236,725								0	236,725
GABON		0	0	14,568	14,568	14,568	14,571				58,275	58,275
GAMBIA				37,907	37,910						75,817	75,817
GEORGIA				40,000	40,000	40,000	40,000	2,753,065			2,913,065	2,913,065
GRENADA		2,077	2,077									2,077
GUINEA-BISSAU		58,368	58,368	51,529	51,529	51,529	51,529	51,529	51,533		309,178	367,546
KYRGYZSTAN				4,766	5,000	5,000	5,000	784,082			803,848	803,848
LIBERIA				35,587	35,587	35,587	35,587	35,587	35,588		213,523	213,523
NAURU				2,643	2,643	2,643	1,093	0	0		9,022	9,022
NIGER				21,427	21,427	21,427	21,427	21,427	21,430		128,565	128,565
PARAGUAY				45,000	44,989						89,989	89,989
PERU				229,936	229,936	229,936	229,936	229,936	229,937		1,379,617	1,379,617
REPUBLIC OF MOLDOVA				145,736	145,736	145,736	145,736	145,736	728,685		1,457,365	1,457,365
SAO TOME AND PRINCIPE	215,569		215,569									215,569
SIERRA LEONE		4,152	4,152	14,108	14,108	14,108	14,108				56,432	60,584
SOLOMON ISLANDS				1,361	1,362						2,723	2,723
TAJIKISTAN					5,000	5,000	5,000	397,992			412,992	412,992
TURKMENISTAN	124,507	138,192	262,699	138,192	138,192	138,193					414,577	677,276
URUGUAY	0	1,712	1,712								0	1,712
TOTAL	1,221,701	460,075	1,681,776	4,121,700	4,126,927	4,107,553	4,190,184	5,001,670	1,408,813	22,956,847	24,638,623	

Hundred and seventy-fifth session

175 EX/32 Add.
PARIS, 25 August 2006
Original: English

Item 33 of the provisional agenda

**FINANCIAL REPORT AND AUDITED FINANCIAL STATEMENTS
OF UNESCO FOR THE PERIOD ENDED 31 DECEMBER 2005
AND REPORT BY THE EXTERNAL AUDITOR**

ADDENDUM

SUMMARY

This addendum, contains the long form report of the External Auditor on the accounts of UNESCO for the 2004-2005 biennium, together with the written comments of the Director-General thereon.

1. The report of the External Auditor on the accounts of UNESCO for the 2004-2005 biennium is attached to this document.
2. The “Comments by the Director-General” have been made in italics immediately after the following paragraphs 19, 23, 29, 34 and 38.
3. The Director-General draws the attention of the Executive Board to the unqualified opinion on the financial statements issued by the External Auditor.

ANNEX

REPORT OF THE EXTERNAL AUDITOR ON THE ACCOUNTS OF UNESCO FOR THE 2004-2005 BIENNIUM

INTRODUCTION

The audit for the 2004-2005 biennium accounts represents the last biennium of our second mandate as External Auditor of UNESCO. In November 1999, the General Conference reappointed us for a new three-biennium term, 2000-2001, 2002-2003, and 2004-2005.

Under our mandate, we audit the financial statements of UNESCO and related entities. In addition we conduct performance audits of the organization's programmes and activities.

During the 2004-2005 biennium, we tabled two performance audit long form reports. The first report was published in spring 2005 as document 171 EX/32 and followed up the implementation of previous recommendations and also included our performance audit of the Medical Benefits Fund. The second report was published in Spring 2006 as document 174 EX/27 and completed the second phase of our audit of the management of extrabudgetary funds.

The report that we are tabling now includes observations arising from our audit of the financial statements of UNESCO for the 2004-2005 biennium. The work was carried out at Headquarters and in the UNESCO Brasilia Office. We also prepared a status report on the implementation of the External Auditor's recommendations which is presented separately in 175 EX/33.

This report was prepared in English.

ACKNOWLEDGEMENT

We wish to express our appreciation for the cooperation and assistance during our audit by the Director-General, his officers and members of their staff. We also wish to express our appreciation to the Governing bodies for the support and interest shown in the work of my office.

Sheila Fraser, FCA
External Auditor
(Auditor General of Canada)
Ottawa, Canada
8 August 2006

TABLE OF CONTENTS

	Page
MAIN POINTS	5
FINANCIAL MANAGEMENT AND CONTROL ISSUES	6
Audit of the Financial Statements	6
Timely Preparation of Accounts and Financial Statements	6
International Public Sector Accounting Standards (IPSAS)	6
Unliquidated Obligations (ULOs)	8
Contingent Liabilities	8
Management Estimates	9
UNESCO-IHE Institute for Water Education	9
UNESCO Brasilia Office	10-12
Fraud and cases of presumptive fraud	12

MAIN POINTS

1. We expressed an unqualified audit opinion on UNESCO's 2004-2005 financial statements. We concluded that they present fairly, in all material respects, UNESCO's financial position, results of operations, changes in reserves and fund balances, cash flows and the status of appropriations in accordance with United Nations System Accounting Standards (UNSAS) and that the standards were applied on a basis consistent with that of the preceding biennium. However, we observed significant areas of non-compliance with authorities relating to the operations of the UNESCO Brasilia Office.
2. For the second time since we became the External Auditors of UNESCO, the Secretariat met the statutory deadline and presented us with a complete set of financial statements on 31 March 2006. The Secretariat has also started presenting quarterly financial statements to its senior management.
3. The United Nations Task Force on Accounting Standards has recommended that the International Public Sector Accounting Standards (IPSAS) be adopted as the accounting framework for all organizations within the United Nations system, effective no later than reporting periods beginning on or after 1 January 2010. The move from UNSAS to IPSAS will result in a fundamental shift in reporting. UNESCO will require a thorough transitional plan to guide the implementation of the new standards.
4. Overall, we noted improvements in the identification and recording of Unliquidated Obligations (ULOs) although the Internal Oversight Service in its biennium-end review has identified many ULOs which did not comply with established rules. This is an area that will continue to require vigilance on the part of senior management given the risks inherent to ULOs.
5. For the 2004-2005 biennium, the newly-formed UNESCO-IHE, Institute for Water Education, has been included in UNESCO's accounts. The accounts of this Institute were prepared in accordance with Dutch generally accepted accounting principles which are different, in some respects, from UNESCO's accounting policies under the United Nations System Accounting Standards (UNSAS). The overall impact on the fund in the current biennium is not material. However, UNESCO ought to prepare the UNESCO-IHE accounts in accordance with UNSAS.
6. During our financial audit and our second performance audit of the management of extrabudgetary funds, we observed several areas of significant non-compliance with UNESCO's financial and administrative policies and procedures in operation in Brazil and the internal financial control over those transactions was inadequate. The UNESCO Brasilia Office opened six satellite offices from 1997 to 2003 without the Director-General's approval; 18 of 29 extrabudgetary projects we examined were started before obtaining necessary approvals from Headquarters; and many financial obligations were incurred before proper budget allotment authority was obtained.
7. In the spring of 2006, the Secretariat reported to the Executive Board its assessment of the operations in the UNESCO Brasilia Office and presented a draft action plan to address the areas of concern raised with respect to that office and the management of extrabudgetary resources as a whole.

FINANCIAL MANAGEMENT AND CONTROL ISSUES

Audit of the Financial Statements

8. The Director-General submitted for audit the financial statements of UNESCO for the 2004-2005 biennium ended 31 December 2005.

9. We were also asked to audit the annual financial statements of the UNESCO Savings and Loan Service (USLS) and the International Institute for Educational Planning (IIEP), as well as the biennial financial statements of the International Centre for Theoretical Physics (ICTP).

10. Audit standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Secretariat as well as evaluating the overall presentation of the financial statements.

11. We confirm that the Office of the Auditor General of Canada remained independent of UNESCO throughout the audit.

12. In all cases, we audited the English version of the financial statements. Our audit opinions were also prepared in English.

13. We expressed an unqualified audit opinion on UNESCO's 2004-05 financial statements. We concluded that they present fairly, in all material respects, UNESCO's financial position, results of operations, changes in reserves and fund balances, cash flows and the status of appropriations in accordance with United Nations System Accounting Standards (UNSAS) and that the standards were applied on a basis consistent with that of the preceding biennium. With the exception of certain transactions related to the operations of the UNESCO Brasilia Office, the transactions of UNESCO that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the UNESCO's Financial Regulations and legislative authority.

14. Our audit opinions on the financial statements of USLS (2004 and 2005), IIEP (2004 and 2005), and ICTP (2004-2005 biennium) were issued without qualification.

Timely Preparation of Accounts and Financial Statements

15. According to Article 11 of the UNESCO Financial Regulations, "final accounts shall be submitted by the Director-General to the External Auditor no later than 31 March following the end of the period to which they relate."

16. For the second time since 1994 when we were appointed as the External Auditors of UNESCO, we were presented with a complete draft of the financial statements, including the schedules and notes on time, on 31 March 2006. UNESCO's ability to meet this statutory deadline is enhanced by the fact that the Secretariat has started presenting quarterly financial statements to senior management since 2004.

International Public Sector Accounting Standards (IPSAS)

The accounting standards presently used by UNESCO to prepare its financial statements are the United Nations System Accounting Standards (UNSAS). At the meeting of the United Nations System of High Level Committee on Management (HLCM) on 21 November 2005, the Task Force

on Accounting Standards recommended the United Nations System organizations adopt International Public Sector Accounting Standards (IPSAS) as its accounting framework with all organizations adopting IPSAS effective no later than reporting periods beginning on or after 1 January 2010. In June 2006, The United Nations General Assembly has approved the adoption of IPSAS as the new accounting standard for the United Nations System.

17. We strongly support the United Nations System's move to adopt IPSAS. The adoption of IPSAS will improve the quality, comparability and credibility of United Nations System financial reporting, resulting in improvements with respect to accountability, transparency and governance.

18. The move from UNSAS to IPSAS will require a fundamental shift in accounting frameworks, from one that is primarily budget-based to one that is accrual-based. The Task Force on Accounting Standards describes the key accounting implications of IPSAS adoption on United Nations System accounting, as follows:

- full recognition of liabilities for employee benefits such as after service health insurance, annual leave and repatriation grants;
- recognition and depreciation of capital assets such as buildings, vehicles, furniture and equipment;
- valuation of inventories;
- recognition of expenses on the basis of goods and services received (the delivery principle);
- changed basis for recognition of revenue from contributions;
- consolidation of activities not currently included in the Organization's financial statements;
- fair value accounting for investments; and
- preparation of audited annual financial statements, instead of on a biennial basis.

19. This fundamental shift in frameworks will not only impact accounting, but will also impact budgeting, funding and organizational management. IPSAS adoption is a major change that will require changes to the Financial Regulations and Rules and a significant investment in project management, staff training, development of relevant guidance, resolution of accounting issues and appropriate information system deployment. It will be important for UNESCO to put in place a thorough transition plan to support this change. This plan should be presented to UNESCO's governing bodies to assure them that UNESCO will be ready for the change.

Comments by the Director-General

The United Nations General Assembly has approved in June 2006 the adoption of IPSAS system-wide (resolution A/RES/60/283). A separate information document (175 EX/INF 7) is being submitted to the autumn session of the Executive Board. There would be a more detailed action plan on the strategy and implementation of IPSAS within UNESCO which would be presented to the 176th session of the Executive Board. The Comptroller is in charge of leading this important change in financial management and reporting in close collaboration with all central services of UNESCO and the United Nations Accounting Standards Task Force, in which UNESCO is represented. It is planned that adequate financial provisions will be made in document 34 C/5 to cover the cost of implementation.

Unliquidated Obligations (ULOs)

20. Unliquidated obligations (ULOs) for the regular programme have always been an area of audit concern because of its inherent risk. Financial Regulation 4.4 stipulates that funds that are not appropriated have to be returned to Member States at the end of the biennium. Moreover, funds that were appropriated in a biennium but not spent may be used for other purposes in the subsequent biennium if approved by Member States.

21. At the end of the current biennium, ULOs of the regular programme amounted to \$32.6 million and ULOs for the extrabudgetary programme totalled \$97.9 million. Internal Oversight Services (IOS) has performed an audit of regular programme ULOs as at 15 November 2005. IOS identified many ULOs which did not comply with established rules. We have reviewed and relied on the work of IOS in this area. We also reviewed the follow-up procedures that were performed by the Division of the Comptroller (DCO) on the findings of the IOS audit as well as any other significant ULO validity checks that have been conducted by UNESCO. Furthermore, we sampled and substantively tested the biennium-end ULO balances in all business areas. Overall, we noted some improvements with the identification of valid unliquidated obligations compared to prior biennia but this is an area that will continue to require vigilance on the part of management.

22. During our audit of the accounts of the UNESCO Brasilia Office, we noted that there is a timing difference between when obligations are recorded in SICOF (UBO's financial system) and UNESCO's financial system (FABS). Although the Division of the Comptroller performs annual reconciliations between SICOF and FABS and reconciles monthly imprest accounts to bank statements, these reconciliations focus only on cash transactions and do not encompass commitments.

23. Consequently, we requested a listing of financial obligations from SICOF as at biennium-end and compared it to the amounts that were recorded in FABS. Upon further testing, we concluded that valid legal commitments related to extrabudgetary projects amounting to about \$50 million had not been recorded in FABS. These amounts were valid obligations as at 31 December 2005 and should have been recorded as unliquidated obligations in UNESCO's financial statements. The Division of the Comptroller was in agreement and adjusted the financial statements accordingly.

Comments by the Director-General

The Director-General and the Committee of Budget and Finance (CBF) continue to monitor the situation of unliquidated obligations on a regular basis and take innovative approaches to encourage timely and effective utilization of allocated resources.

Contingent Liabilities

24. UNESCO is subject to claims in the normal course of business. Note 15 to the financial statements discloses its contingent liabilities. It includes claims in relation to a civil action suit filed against a number of parties including the UNESCO Brasilia Office (UBO) and its former Director of UBO. The disclosure is as follows:

A civil action suit alleging acts of administrative impropriety was filed in January 2005 against high-ranking former officials of the National Social Security Institute of Brazil in which UNESCO and its former representative in the country were also cited as co-defendants, with respect to technical assistance agreements concluded between the aforementioned Institute and the UNESCO Brazil Office. Action on the case has been suspended pending determination on UNESCO's immunity from legal process by the Supreme Court. At this

time it is not possible to determine the outcome of the above claim nor can the likelihood or the amount, if any, of loss associated with the outcome be determined.

25. The civil action seeks application of sanctions against the defendants for causing losses to Brazil of approximately R\$77 million (about US \$33 million at 31 December 2005). There is no indication in the civil action suit of what percentage of the alleged loss is to be attributable to UNESCO's actions.

Management Estimates

26. The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations. The most significant item on the financial statements for which estimates are used is the after-service medical liability. This liability represents the present value of expected payments that UNESCO will make to cover the benefits to retired staff members. It is the obligation of the organization in respect of past services rendered by its employees.

27. UNESCO engaged an actuary to carry out an evaluation of the liability. Actuarial evaluations involve the use of assumptions about several factors including such factors as the population of participants, interest rates, and inflation. In forming our opinion on the reasonableness of the estimate, we relied on the work of the actuary. This liability, disclosed in Note 13 to the financial statements, is \$601 million at 31 December 2005 (\$323 million at 31 December 2003).

UNESCO-IHE Institute for Water Education

28. The IHE-Delft Foundation (IHE Foundation) has existed since 1957. In November 2001, UNESCO's 31st session of the General Conference decided to make IHE an integral part of the Organization by creating the UNESCO-IHE Institute for Water Education (IHE Institute). As of January 2004, the IHE Institute has been included in UNESCO's accounts.

29. This entity reports in accordance with Dutch generally accepted accounting principles which are, in some respects, different from the United Nations System Accounting Standards (UNSAS). A key difference includes the use of the completed contract method to recognize income/expense on projects whereas under UNSAS voluntary contributions are disbursements are recorded as income/expense on a cash basis. However, no restatement of accounts has been made to bring the IHE Institute's accounts in line with UNSAS. If UNSAS had been applied, the IHE Institute's excess (shortfall) of income over expenditure would have been \$12.4 million USD and the opening reserve and fund balance would have been (\$9.8) million USD. Overall, the ending reserve and fund balance under both methods of accounting differs by approximately \$0.3 million USD. The overall impact on the fund in the current biennium is not material. However, UNESCO ought to prepare this account in accordance with UNSAS.

Comments by the Director-General

Given the imminent adoption of IPSAS which resembles in many respects the Dutch GAAP on accrual and asset accounting principles and in order to avoid any confusion that may arise to readers of the financial statement, it is considered not useful to restate the accounts of IHE unless the net difference between the two standards is significant. The status quo would therefore be maintained for the remaining biennia until the adoption of IPSAS. We will continue to make full disclosure in the Notes to the Accounts.

UNESCO Brasilia Office

30. In January 2006, we carried out an audit of the accounts in the UNESCO Brasilia Office (UBO) in support of our audit opinion on the UNESCO Financial Statements for the 2004-2005 biennium. In 2004-2005, UBO's expenditures related to its self-benefiting trust fund projects were US \$279 million and represented 20% of UNESCO's total expenditures. In addition, UBO processes a large volume of transactions and has its own financial system called SICOF.

31. Because of the problems we had noted during our 2005 performance audit of extrabudgetary projects at UBO and increased risk, we expanded the scope of our audit procedures and extent of our transaction testing. At the time we informed the Director-General about some of the problems that we noted. He acted quickly and tasked various Headquarters functions to review the situation. This resulted in a number of missions to Brasilia by Headquarters personnel to take remedial action.

32. During our financial audit, we identified certain transactions that did not comply with UNESCO's policies and procedures. In our March 2006 performance report on the management of extrabudgetary funds (174 EX/27), we also observed that UNESCO had not established effective management control over its extrabudgetary activities, including certain large projects that we examined in Brazil. We conclude that the internal financial control over those transactions was inadequate. The transactions and the related compliance issues are summarized below.

- (a) **Satellite offices opened without the Director-General's approval.** There is no delegation from the Director-General for field office Directors to open satellite offices. Six such offices, called antenna offices, were opened from 1997 to 2003 in states other than the federal District of Brasilia in Brazil without a formal approval by the Director-General. They were opened without having been subjected to proper review by UNESCO's legal advisors and the Division of the Comptroller to ensure UNESCO's interest were fully protected. Such review of the six offices was ultimately carried out in May 2006.
- (b) **Projects started without proper approvals from Assistant Directors-General.** UNESCO's administrative rules require that proposals for projects be cleared by the appropriate Assistant Directors-General (ADGs) before making a formal submission. Of the 29 projects that we tested, 18 proceeded without prior approval by the ADG. Fourteen (with an estimated contract value of US \$352 million) received Headquarters' approval only after the donor agreement had been signed. For 10 of these 18 projects, UBO had requested approval after the signature of the donor agreement was obtained. In 4 projects (with an estimated contract value of US \$149 million), there was no evidence of any approval.
- (c) **Obligations incurred before proper allotment authority or appropriate authorization is obtained.** Article 10.2 of UNESCO's Financial Regulation states that "No obligations shall be incurred until allotments or other appropriate authorizations have been made in writing under the authority of the Director-General". We note that it is general practice that UBO sometimes spend funds prior to receiving allotments from Headquarters. These transactions are recorded in UNESCO's suspense accounts.

At 31 December 2005, UBO suspense accounts had a net balance of US \$170,000 consisting of US \$3.8 million of disbursements and US \$3.970 million of income. From 1 January 2004 to 30 September 2005, UBO had used approximately 30 suspense accounts to process US \$4.9 million in payments on contracts for which it had not received proper allotment authority before making the payments. In addition, at

biennium-end, 34 UBO self-benefiting projects had negative fund balances amounting to US \$21 million, meaning that the UBO has either paid or obligated funds prior to receiving proper allotment authority or other appropriate authorizations from the Director-General. As a result, UBO had not conformed with article 10.2 of UNESCO's Financial Regulations throughout the biennium.

As we noted in our second performance audit of extrabudgetary activities, UBO had signed a partnership agreement with a private sector partner for the Criança Esperança fund raising annual campaign without having obtained the appropriate authorizations and without review by appropriate Headquarters functions to ensure that UNESCO's interests were fully protected. The partnership agreement committed UNESCO to fund five Brazilian non-governmental organizations (NGOs) on a priority basis as long as funding permits through the proceeds of the campaign. Approximately US \$1.4 million were paid to those NGOs without UBO first obtaining the proper allotment authority from Headquarters. Finally, during the biennium, UBO has paid \$723,000 in grants to various NGOs without the approval of the Director-General.

- (d) **Established contracting procedures not followed.** UNESCO's Manual states that any contract proposal entailing financial support of more than US \$100,000, irrespective of the source of funding must be submitted to the Contracts Committee for decision. With respect to the five specifically-funded NGOs under the Criança Esperança project, four contracts (ranging from US \$411,000 to US \$1,029,000) totaling approximately US \$2.5 million were signed without obtaining in advance Headquarters Contract Committee approval. We also noted that UBO awarded a contract for the acquisition of a software package for \$250,000 without proper approval from the Committee.

According to the UNESCO Manual, contract requirements should be tendered. In 1996, UBO awarded a contract for travel services in Brazil without competitive bidding. The field office has continued to receive services from this contract since that time without ever inviting other competitive bids. Since 2001, IOS has repeatedly recommended that UBO re-opens this contract for competitive bidding. This recommendation has yet to be implemented.

- (e) **Other transactions made without or before obtaining necessary Headquarters approval.**
- i. In 2001, UBO introduced an administrative manual called the "UBO Execution Manual" establishing procedures for administrative and financial execution, project personnel and expenditure on travels and missions. In 2004, UBO management accepted formally without prior consultation with Headquarters to use the Manual of Convergence of Procurement Rules used by the United Nations Development Program (UNDP) in Brazil. Management informed us that this manual was introduced pursuant to a request of the Brazil Cooperation Agency sent to all the United Nations agencies. This new manual replaced the UBO Execution Manual produced by UNESCO which was introduced in 2001 in respect of procurement. The new manual was never authorized for use by UNESCO Headquarters.
 - ii. According to UNESCO's Field Office delegation of authority, the Director of the Office is vested with the authority to sign contracts. We noted many instances where the Deputy Director of UBO or other UBO personnel have signed contracts and/or contract amendments. This authority was delegated by the UBO Director to

these officials via a delegation of authority document dated 14 February 2003. The delegation document was signed by the UBO Deputy Director on behalf of the UBO Director, rendering the delegation instrument invalid. This puts into question all contracts signed by others than the UBO Director.

- iii. UNESCO's Comptroller is the only person authorized to open, transfer or close bank accounts in the name of UNESCO. During the course of our audit, we noted that 3 bank accounts were opened by UBO during the biennium without following proper procedures and without the Comptroller's knowledge or authorization. The three bank accounts were closed shortly after having been opened, with minimal transactions.
- iv. UBO is authorized to invest the contributions received in Brazil in local currency in accordance with the UNESCO Investment Policy. Based on our review of UBO's investment portfolio as at 31 December 2005, UBO is compliant with the policy in all significant respects, except that it has exceeded its investment limit of US \$95 million. As at 31 December 2005 UBO had US \$127 million worth of investments. The Investment Policy itself allows for changes in limits, however any change of this limit is to be submitted through the Comptroller to the Investment Committee for approval. The last approved increase to the limit was received by UBO in September 2005 which raised the limit from US \$80 million to US \$95 million. In October 2005, UBO had requested an increase up to US \$125 million however had not received a response by biennium-end. The limit was subsequently revised at US \$150 million in March 2006.

33. Corrective action is presently being taken at UBO. The Director-General has assigned various Headquarters functions including representatives of the Bureau of the Comptroller, of Human Resources management, of the Bureau of Field Coordination and of Legal Affairs, to address the situation. A series of audits and evaluations have been and are being carried out by IOS at UBO and in the satellite offices.

34. In the spring of 2006, the Secretariat reported to the Executive Board its assessment of the operations in the UNESCO Brasilia Office and presented a draft action plan to address the areas of concern raised with respect to that office and the management of extrabudgetary resources as a whole. We note the Board has asked the Director-General to complete as quickly as possible the implementation of his action plan, and report back at the 175th session of the Executive Board.

Comments by the Director-General

Progress made in the reorientation of the operations of the UNESCO Office in Brasilia is reported in detail in two separate documents: 175 EX/24 detailing achievements until end July 2006 and document 175 EX/INF.6 providing update on further developments until mid-September 2006. To be noted that in the light of the External Auditor's report, the Director-General has stressed again, in writing, to the interim Director of the Brasilia Office the importance for the Office's staff to comply strictly with financial regulations and established policies and procedures.

Fraud and cases of presumptive fraud

35. We are required to report on fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause other than trivial misstatement of the financial statements.

36. During the audit we considered the possibility that fraud or error, if sufficiently material, might affect our opinion on the financial statements. Our audit procedures did not result in the identification of any matters related to fraud and/or error other than those that were communicated to us by IOS and referred to in the following paragraph. However, we would like to emphasize that it is the responsibility of management to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring the orderly and efficient conduct of the organization's business. In determining which internal controls to implement to prevent and detect fraud, management should consider the risks that the financial statements may be materially misstated as a result of fraud.

37. We wish to report that, under the Additional Terms of Reference Governing the Audit (Financial Regulations Annex – paragraph 6), IOS informed us of new cases of fraud or presumptive fraud. In 2004-2005, there were seven cases involving employees. The financial loss to the Organization on these cases amounted to almost US \$75,000. Disciplinary measures have been and are being taken where required.

38. We have been also informed by IOS that there were nineteen cases involving National Commissions under the Participation Programme that were investigated. The potential loss for the Organization from these cases amounted to US \$840,000. For the most part, these cases relate to inadequate, or missing supporting documentation.

Comments by the Director-General

Two cases referred to in paragraph 38 are still under investigation. In four cases, funds have been totally or partially recovered. Further action is in progress for the outstanding potential losses amounting to \$3,100.

Concerning the Participation Programme, almost \$420,000 have now been regularized and ERC is in contact with the concerned National Commissions in order to obtain either missing supporting documentation or refunds as the case may be for the outstanding amounts. There is now a systematic procedure put in place to recover these funds and has proven successful to date and where efforts do not lead to successful recovery, this would result in the suspension of new grants under the programme.

Hundred and seventy-fifth session

175 EX/32 Corr.
PARIS, 6 September 2006
English only

Item 33 of the provisional agenda

**FINANCIAL REPORT AND AUDITED FINANCIAL STATEMENTS
OF UNESCO FOR THE PERIOD ENDED 31 DECEMBER 2005
AND REPORT BY THE EXTERNAL AUDITOR**

CORRIGENDUM

This corrigendum containing signed documents replaces the Opinion of the External Auditor and the Approval of the Financial Statements on pages 10 and 11 respectively of document 175 EX/32.



Auditor General of Canada
Vérificatrice générale du Canada

OPINION OF THE EXTERNAL AUDITOR

To the General Conference of the United Nations Educational, Scientific and Cultural Organization

I have audited the statement of assets, liabilities and reserves and fund balances of the United Nations Educational, Scientific and Cultural Organization (UNESCO) as at 31 December 2005 and the statements of income and expenditure and changes in reserves and fund balances, cash flow for the proprietary funds and status of appropriations of the general fund for the two-year financial period then ended. These financial statements are the responsibility of the Director-General. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and conforming with International Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Director-General, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the UNESCO as at 31 December 2005 and the results of its operations and changes in reserves and fund balances, the cash flows for its proprietary funds and the status of appropriations of the general fund for the two-year period then ended in accordance with the United Nations System Accounting Standards, which were applied on a basis consistent with that of the preceding financial period.

UNESCO's Financial Regulations require that an effective internal financial control environment be established. During the audit, certain transactions in the UNESCO Brasilia Office that came to our attention did not comply with UNESCO's financial and administrative policies and procedures and the internal financial control over those transactions was inadequate. Moreover, in our March 2006 performance audit report on the management of extrabudgetary funds (174EX/27), we observed that UNESCO had not established effective management control over its extrabudgetary activities, including certain large projects that we examined in Brazil. Further information on these compliance issues can be found in my long-form report.

Thus, in my opinion, except for the transactions in the UNESCO Brasilia Office referred to in the preceding paragraph, the transactions of the UNESCO that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the UNESCO's Financial Regulations and legislative authority.

In accordance with Article 12.9 of the Financial Regulations, I have also issued a long-form report on my audit of the UNESCO's financial statements.

Sheila Fraser

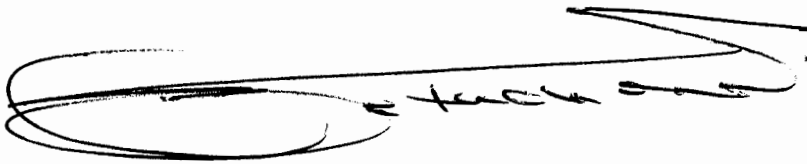
Sheila Fraser, FCA
Auditor General of Canada
External Auditor of UNESCO

Ottawa, Canada
5 July 2006

**APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED
31 DECEMBER 2005**

Established by

Approved by



Getachew Engida
Deputy Assistant Director-General for Administration
and Comptroller



Koïchiro Matsuura
Director-General