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Food and Agriculture
Organization of the
United Nations

Organisation des Nations
Unies pour l'alimentation
et l'agriculture

Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
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CONFERENCE

Forty-second Session

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Audited Accounts - FAO 2018

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FINANCIAL STATEMENTS for 2018

of the

Food and Agriculture Organization

of the

United Nations

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PART B

Report of the External Auditor

The Report of the External Auditor is available under Conference document reference number C 2021/5 B.



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

To the FAO Conference of Member Nations

Opinion

We have audited the financial statements of the Food and Agriculture Organization of the United Nations (FAO), which comprise the statement of financial position as at 31 December 2018, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flow, and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FAO as at 31 December 2018, and its financial performance, changes in net assets/equity, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the FAO in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the FAO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the FAO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the FAO's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economics decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FAO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FAO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Further, in our opinion, the transactions of the Food and Agriculture Organization of the United Nations that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the FAO Financial Regulations.

In accordance with Article 12.9 of the Financial Regulations, we have also issued a long-form report on our audit of the Food and Agriculture Organization of the United Nations.



Michael G. Aguinaldo
Chairperson, Commission on Audit
Republic of the Philippines
External Auditor

Quezon City, Philippines
5 July 2019

FINANCIAL STATEMENTS 2018

CERTIFICATION OF FINANCIAL STATEMENTS

The amounts shown in the statements properly reflect the recorded financial transactions for the period:



Dilek Macit
Assistant Director-General
Corporate Services Department

Approved:



José Graziano da Silva
Director-General

5 July 2019

DIRECTOR-GENERAL'S STATEMENT

In accordance with Financial Regulation XI of the Food and Agriculture Organization of the United Nations (FAO), I have the honour to submit for adoption by the Conference the Financial Statements for the year ended 31 December 2018 prepared in accordance with International Public Sector Accounting Standards (IPSAS) and FAO's Financial Rules and Regulations.

Consolidation of IPSAS adoption has strengthened the financial reporting of FAO in the areas of Assets and Liabilities, which were a historically weak area of reporting across the UN system organizations.

Under Financial Regulation X.1, the Director-General is accountable to the Governing Bodies for the internal control of the Organization, in order to ensure effective financial administration and exercise of economy, and effective custody of the physical assets of the Organization.

Internal control and accountability processes are exercised continually at all levels within the organization in line with the requirements established in FAO's Accountability Policy. The Accountability Policy lays out the elements of FAO's system of internal control.

A Statement on Internal Control (SIC) has been issued with the annual financial statements. The SIC has been prepared based on a thorough and organization-wide review of internal controls by managers as well as on recommendations of FAO's internal and external oversight mechanisms.

The Organization continues to strengthen its commitment towards transparency and safeguarding of funds entrusted to the Organization through progressing on improvements to the process of safeguarding of assets, strengthening the Accountability Policy and diversified and prudent investment strategies.

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

The Director-General of the Food and Agriculture Organization is accountable for maintaining a sound system of internal control that supports the achievement of FAO's vision, goals and objectives, while safeguarding the funds and assets, in accordance with the responsibilities entrusted under FAO's Constitution, General Rules, Financial Regulations and by the Governing Bodies.

Purpose of the System of Internal Control

The system of internal control is designed to reduce and manage, rather than eliminate, risks and to increase the likelihood that FAO's policies, aims and objectives will be achieved. It therefore provides a reasonable assurance and not absolute guarantee of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritize the risks to the achievement of the Organization's mandate and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized, and to manage them efficiently, effectively, and economically. The system of internal control has been in place at FAO for the year 1 January 2018 through 31 December 2018, and up to the date of the signature of this document.

The system of internal control covers all aspects of FAO's activities. Managers and their staff throughout FAO are required to use internal controls to develop, implement, monitor and adjust strategies, policies, processes and plans with a view to the following benefits:

- a) Developing controls that efficiently and effectively respond to the operational and other risks faced in achieving FAO's objectives;
- b) Maintaining and improving the reliability, appropriateness and timeliness of financial and non-financial information;
- c) Improving the observance of legal, statutory or regulatory obligations; FAO's ethical standards; and of its internal rules;
- d) Reducing losses and waste of assets and resources, whether through misdirected effort, avoidable errors, mismanagement, abuse or fraud; and
- e) Sustaining and increasing the confidence among member countries and other stakeholders in the reliability and efficiency of FAO's management systems.

Risk and Control Framework

FAO operates its internal controls within a comprehensive policy framework in compliance with the COSO¹ framework's five components (control environment, risk assessment, control activities, information and communication and monitoring activities). The FAO framework covers all aspects of internal controls, including accountability, risk management, control activities, fraud prevention and detection and ethical behaviour. High-level oversight is provided by the *Executive Management Monitoring Team* (EMMT) with reporting and escalation responsibilities defined by FAO's internal management governance policies. The Internal Controls Board (ICB), chaired by the Deputy Director-General (Operations), provides coordination and internal governance of control-related initiatives while the Office of Strategy, Planning and Resource Management manages FAO's policies on accountability, risk management and the Internal Control Framework as well as leads the internal control reporting process.

The design of procedures and tools for control-sensitive business processes is assigned to specific *corporate business offices* that are also responsible for facilitating operational monitoring and reporting.

Compliance with the Internal Control Framework is the responsibility of the *line managers* in headquarters and the decentralized offices. As a basic premise, however, all FAO staff, consultants, subscribers, contractors and partners are expected to bring control issues to the attention of the

¹ Committee of Sponsoring Organizations of the Treadway Commission

Organization, through their supervisors or other established channels, such as the Office of the Inspector-General.

FAO is committed to managing risks efficiently and responsibly, ensuring that significant risks are identified, assessed, controlled/mitigated and reported in a way that enhances FAO's ability to meet its objectives and deliver the benefits and purpose expected by its stakeholders. Risk management must be embedded into existing practices and business processes so that it forms part of FAO culture.

Review of Effectiveness

As Director-General, I review the effectiveness of the system of internal control. My review is informed by:

- a) Letters of Representation from the Deputy Directors-General, Assistant Directors-General and Directeur de Cabinet, in which they provide assurance that FAO's management and control systems are being applied methodically and effectively across the organizational units under their command;
- b) analysis of the Internal Control Questionnaires completed by offices and divisions throughout FAO, and the resulting control improvement plans;
- c) conclusions and recommendations in the Annual Reports of the Inspector-General, the Audit Committee, the Ethics Officer and Ombudsperson and the Office of Evaluation;
- d) observations, conclusions and recommendations made by the External Auditor in their long form report, management letters and other reports; and
- e) other matters that have come to my attention during the year, for example data from corporate monitoring systems such as the Operational Monitoring Dashboard.

FAO further benefits from the activities of its Inspector-General, its Audit Committee, its External Auditor, its Office of Evaluation, the UN Joint Inspection Unit as well as from the work of its Governing Bodies that exercise oversight and support the implementation of the Internal Control Framework.

FAO is committed to a process of continuous development and improvement in risk management and internal control and reports below on action taken and improvements foreseen in five key areas.

Enterprise Risk Management (ERM)

Action taken in 2018

FAO has an approved corporate policy on risk management in place since several years and risk management is embedded into planning and business processes such as the extra-budgetary project cycle and country programming frameworks. A high level Corporate Risk Log was developed in 2016, outlining the Organization's key risks and its approach to mitigating their likelihood or impact. While FAO therefore has the basis of a solid Enterprise Risk Management Framework in place, it is recognized that further action is required to strengthen practices throughout the Organization. During 2018, a progressive approach to the introduction of a more formalised ERM and reporting process was agreed, taking into consideration the need for capacity building actions in order to ensure sustainability of processes. As part of these plans, the following actions were taken in 2018:

- a) awareness raising and capacity building for good risk management practices at the level of each region, as well as for the headquarters sectors;
- b) preparation of risk logs for the regional offices and the offices of the Deputy Directors-General and ES Department.

Action planned in 2019

The strengthening of FAO Risk Management will continue in 2019, with focused initiatives including:

- a) an extensive update of the Corporate Risk Log to provide integration with the risks identified in the preparation of sectoral and regional risk logs and through internal control reporting processes, ensuring reflection of changes in the risk environment;

- b) further actions aiming at building awareness of corporate risks and risk management practices, including workshops for concerned staff;
- c) promotion of systematic risk management through the preparation of risk registers for all FAO offices, including Headquarters functions and decentralized offices. The process will integrate risk identification, mitigation, monitoring and reporting in existing planning and reporting processes in order to ensure synergies;
- d) initiate a process leading to the formulation of a corporate risk appetite statement in 2020.

Fraud Prevention and Detection

Action taken in 2018

FAO has a “zero-tolerance” policy framework in place and an investigative capacity in the Inspector-General’s Office. Building on this foundation, two interrelated initiatives were undertaken in 2018 to improve fraud awareness, prevention and detection:

- a) a corporate-wide assessment of fraud risk vulnerabilities throughout the Organization, leading to the development and adoption of a corporate Anti-fraud Strategy and Action Plan;
- b) the development of guidance, tools and capacity development means for the preparation, monitoring and reporting on fraud prevention and detection plans, at corporate and country level.

Action planned in 2019

Further actions are planned in 2019 in continued support to the Organization’s commitment to zero-tolerance on fraud and implementation of its Anti-fraud Strategy and Action Plan. Most significantly:

- a) launch of a dedicated tool for the preparation of Fraud Prevention Plans, their monitoring and reporting by country offices and business processes;
- b) continue actions in awareness raising and improved knowledge of the Organization’s control measures to prevent, detect and report on fraud.

Competencies and Capacity in Control-Sensitive Positions

Action taken in 2018

FAO has continued to focus on upgrading capacity and competencies of critical roles in operating the internal control system in core programmatic, operations and administrative functions at all locations. During 2018, in particular:

- a) two new e-Learning courses were developed, one introducing the key concepts of internal controls and the related responsibilities of FAO employees and one on prevention of fraud, on how to prevent, detect and report fraud and other corrupt practices, compulsory for all staff.
- b) focused efforts were made to promptly fill positions critical for internal control, in particular in decentralized offices.

Action planned in 2019

Efforts to strengthen capacity, knowledge and skills of key control functions will continue in 2019 through:

- a) dedicated training and ad hoc support to country offices, delivered directly by concerned business process owners from headquarters functions or outposted officers;
- b) strengthened planning for human resources in particular for decentralized offices;
- c) systematic promotion of existing e-Learning courses on project cycle and budget management skills to employees with functional responsibilities for project and budget management and monitoring of compliance.

Accountability and Managerial Oversight

Action taken in 2018

The awareness of managers and staff of their accountability for implementing sound internal controls, in line with FAO's existing Accountability Policy and Internal Control Framework, is of great importance for a strong internal control environment. In 2018, the Organization has undertaken several related initiatives:

- a) revision of the FAO Internal Control Framework, reflecting up-to-date roles, responsibilities and organizational set-up;
- b) further dedicated capacity put in place in support of internal control and compliance, in particular as regards fraud prevention and key administrative processes;
- c) an enhanced dashboard functionality and systematic follow-up with responsible managers on timely implementation of audit recommendations, resulting in a very significant decrease in overdue internal audit recommendations.

Action planned in 2019

The actions planned under the above sections will also significantly contribute to awareness raising and accountability enforcement throughout the Organization.

Furthermore, in 2019:

- a review will be undertaken to map organizational capacity and practices for oversight over key operational and administrative processes (e.g. project cycle and resource mobilization, as well as HR, procurement and travel) and identify possible improvement actions;
- managerial dashboards will be refined and expanded to provide managers with further improved control monitoring possibilities (e.g. oversight recommendations, operational matters and administrative processes);
- there will be further reinforcement of integrity and ethical values, in particular through continued tone at the top and communication efforts, as well as further awareness building and training, as part of the implementation of the Action Plan related to the corporate policy, processes and measures on the prevention of sexual exploitation and abuse and sexual harassment, and authority abuse.

Programmatic planning and implementation

Action taken in 2018

Several actions have been undertaken to enhance the Organization's capacity in the areas of programmatic planning and programme implementation, including:

- a) reinforced compliance with training requirements in several areas of the Organization, including through the performance management systems;
- b) strengthened communication and coordination between Strategic Programmes, technical units and decentralized offices during the programmatic planning process.

These efforts will continue in 2019.

Action planned in 2019

Streamlined controls in the area of programme implementation are key to the achievement of the Organization's objectives. In addition to continued efforts on the actions started in 2018, further initiatives will be undertaken in 2019 to strengthen coherence between business requirements, processes and supporting tools:

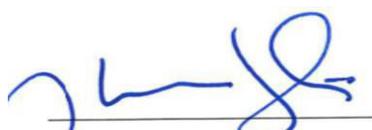
- a) refine the project cycle guidelines to further increase effectiveness and efficiency in project cycle management and monitoring at all stages;
- b) pursue ongoing efforts in systems integration to allow improved data aggregation and reporting;

- c) strengthening of the review process for systems improvement initiatives, to ensure that these are aligned with the Enterprise Resource Planning roadmap and adequately meet corporate business needs.

Conclusion

Effective internal control, no matter how well designed, has inherent limitations. Furthermore, the effectiveness of internal control may vary over time. I am committed to addressing any weaknesses in internal controls noted during the year brought to my attention.

Based on the aforementioned, I conclude that, to the best of my knowledge and information, FAO operated satisfactory systems of internal control for the year ended 31 December 2018.



The Director-General

Date: 5 July 2019

STATEMENT I – STATEMENT OF FINANCIAL POSITION			
AS AT 31 DECEMBER 2018			
<i>(thousands of US dollars)</i>	Note	31-Dec-18	31-Dec-17 (Restated)
Assets			
Current assets			
Cash and cash equivalents	3	961,939	690,629
Investments and derivative financial instruments	4	452,743	510,025
Receivables from non-exchange transactions	5	233,404	286,618
Receivables from exchange transactions	6	4,112	7,164
Prepayments and other current assets	7	50,945	40,306
Inventories	8	12,706	7,900
		1,715,849	1,542,642
Non-current assets			
Investments	4	480,370	522,784
Receivables from non-exchange transactions	5	2,087	637
Prepayments and other non-current assets	7	418	470
Property, plant and equipment	9	33,690	30,999
Intangible assets	10	5,603	5,225
		522,168	560,115
Total assets		2,238,017	2,102,757
Liabilities			
Current liabilities			
Accounts payable	11	26,119	23,666
Accrued expenses	11	144,671	150,397
Payments received in advance	12	298,277	313,972
Employee benefit obligations	13	18,415	17,630
Provisions	16	809	777
Other current liabilities	17	414	381
		488,705	506,823
Non-current liabilities			
Employee benefit obligations	13	1,364,500	1,527,419
Other non-current liabilities	17	41,718	45,429
		1,406,218	1,572,848
Total liabilities		1,894,923	2,079,671
Net assets		343,094	23,086
Equity			
Accumulated surplus / (deficit)		295,921	122,093
Reserves	18	47,173	(99,007)
Total equity		343,094	23,086

STATEMENT II – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2018			
<i>(thousands of US dollars)</i>	Note	31-Dec-18	31-Dec-17 (Restated)
Revenue			
Revenue from non-exchange transactions			
Assessments of Member Nations under Regular Programme	19	498,831	478,200
Voluntary contributions	19	1,049,735	1,056,853
Other non-exchange revenue	19	70,760	69,075
		1,619,326	1,604,128
Revenue from exchange transactions			
Exchange revenue	19	9,390	8,037
		9,390	8,037
Total revenue		1,628,716	1,612,165
Expenses			
Employee benefits and other personnel costs	20	406,077	399,390
Consultants	20	255,041	260,164
Travel costs	20	102,723	114,278
Depreciation, amortization and impairment of long-lived assets	20	11,061	9,320
Training expenses	20	40,049	42,480
Contractual services	20	366,580	347,339
Grants and other transfer payments	20	24,181	31,951
Supplies and consumables used	20	177,630	169,140
Other expenses	20	47,657	24,326
Total expenses		1,430,999	1,398,388
Non-operating income and expenses			
Investment income	21	35,202	69,954
Foreign exchange (losses) / gains	21	(7,297)	14,336
Finance (expenses) / income	21	(51,794)	(41,419)
Total non-operating income and (expenses)		(23,889)	42,871
Surplus		173,828	256,648

STATEMENT III – STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018						
<i>(thousands of US dollars)</i>						
	Note	Accumulated surplus / (deficit)	Special Reserve Account	Actuarial gains & (losses) reserve	Cumulative unrealized gains / (losses) on available- for-sale investments	Total equity / (deficit)
Balance year ended 31 Dec 2017		112,753	17,559	(167,666)	51,100	13,746
Application of PP&E transition provision		4,034	-	-	-	4,034
Correction of Error		5,306	-	-	-	5,306
Balance year ended 31 Dec 2017 (Restated)		122,093	17,559	(167,666)	51,100	23,086
Actuarial gains / (losses)	18	-	-	204,513	-	204,513
Unrealized holding gains / (losses)	18	-	-	-	(58,333)	(58,333)
Net revenue recognized directly in equity		-	-	204,513	(58,333)	146,180
Surplus for the period		173,828	-	-	-	173,828
Balance year ended 31 Dec 2018		295,921	17,559	36,847	(7,233)	343,094

STATEMENT IV – CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018			
<i>(thousands of US dollars)</i>	Notes	31-Dec-18	31-Dec-17 (Restated)
Cash flows from operating activities			
Surplus / (deficit) for the period		173,828	256,648
Adjustments required to reconcile surplus / (deficit) for the period to cash flows from operating activities:			
Depreciation and amortization	20	11,061	9,320
Provision for doubtful accounts	20	803	(6,207)
Provision for contingent liabilities	20	137	(629)
Internal Project Support Costs		220	847
(Gains) / losses on sale or disposal of fixed assets		984	1,660
(Gains) / losses on trading and derivative investments	21	(19,768)	(14,073)
(Gains) / losses on Available-for-sale investments	21	(15,434)	(55,883)
Changes in assets and liabilities:			
Receivables from non-exchange transactions		51,764	(106,303)
Receivables from exchange transactions		3,052	1,003
Inventories		(4,806)	1,447
Other current and non-current assets		(9,295)	(962)
Accounts payable and accrued expenses		(3,273)	41,872
Staff related liabilities		42,378	40,729
Advances		(15,695)	(173,463)
Other current and non-current liabilities		(3,678)	(6,541)
Net cash flows from operating activities		212,278	(10,534)
Cash flows from investing activities			
Net purchases of property, plant and equipment		(13,708)	(11,294)
Purchases of intangible assets		(358)	(1,988)
Net (purchases) / sales of trading and derivative investments		68,665	24,679
Net (purchases) / sales of available-for-sale investments		4,433	5,053
Net cash flows from investing activities		59,032	16,450
Net increase / (decrease) in cash and cash equivalents		271,310	5,916
Cash and cash equivalents at beginning of period		690,629	684,713
Cash and cash equivalents at end of period		961,939	690,629

Please note that there were no cash flows from financing activities during the year.

STATEMENT V – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (a)
FOR THE YEAR ENDED 31 DECEMBER 2018

<i>(thousands of US dollars)</i>											
Chapter	Approved Budget (b)	Amounts brought forward (c)	Transfers (d)	Amounts carried forward (e)	Revised Budget	Actual Other Income (f)	Actual Expenditure (g)	Currency variance (h)	Budget rate net expenditure (i)	Budget vs. actual variance (j)	
1	Contribute to the eradication of hunger, food insecurity and malnutrition	41,225	-	-	-	41,225	(9,377)	46,127	532	37,282	3,943
2	Make agriculture, forestry and fisheries more productive and sustainable	98,559	-	-	-	98,559	(19,117)	106,344	1,224	88,451	10,108
3	Reduce rural poverty	33,264	-	-	-	33,264	(4,745)	35,432	413	31,100	2,164
4	Enable more inclusive and efficient agricultural and food systems	52,940	-	-	-	52,940	(12,674)	59,663	695	47,684	5,256
5	Increase the resilience of livelihoods to threats and crises	27,175	-	-	-	27,175	(9,650)	32,401	367	23,118	4,057
6	Technical quality, statistics and cross cutting themes (climate change, gender, governance and nutrition)	34,325	1,079	-	-	35,404	(884)	30,557	461	30,134	5,270
7	Technical Cooperation Programme	70,394	73,965	-	(86,032)	58,327	-	57,978	349	58,327	-
8	Outreach	39,315	-	-	-	39,315	(3,709)	40,732	553	37,576	1,739
9	Information Technology	18,122	-	-	-	18,122	(7,581)	19,652	378	12,449	5,673
10	FAO Governance, Oversight and Direction	35,273	-	-	-	35,273	(10,984)	40,149	534	29,699	5,574
11	Efficient and Effective Administration	32,268	-	-	-	32,268	(26,156)	52,551	962	27,357	4,911
12	Contingencies	300	-	-	-	300	-	-	-	-	300
13	Capital Expenditure	8,446	-	-	(5,800)	2,646	-	2,613	33	2,646	-
14	Security Expenditure	11,211	-	-	(15)	11,196	(4,861)	15,937	120	11,196	-
	Sub-total	502,817	75,044	-	(91,847)	486,014	(109,738)	540,136	6,621	437,019	48,994
	Transfer to Tax Equalization Fund	43,725	-	(43,725)	-	-	-	-	-	-	-
	TCP deferred income (Chapter 15)	73,965	(73,965)	-	86,032	86,032	-	-	-	-	86,032
	SFDFA deferred income	3,868	(1,079)	-	-	2,789	-	-	-	-	2,789
	Capital expenditure account	38,181	-	-	5,800	43,981	-	-	-	-	43,981
	Security expenditure account	21,424	-	-	15	21,439	-	-	-	-	21,439
	Total	683,980	-	(43,725)	-	640,255	(109,738)	540,136	6,621	437,019	203,235

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17 (Restated)
Actual expenses as per Statement V	540,136	636,074
Basis differences		
In-kind / in-service expenses	46,130	44,856
Accruals basis	39,272	(45,200)
PP&E, intangibles and inventory	(2,110)	(2,659)
Consolidation	(863)	(864)
Total basis differences	82,429	(3,867)
Presentation differences		
Provision expenses	803	(6,836)
SCV and Pool distributions	(846)	(489)
Classification of income / expenditure items	30,871	616
Total presentation differences	30,828	(6,709)
Entity differences		
Expenses under Other Fund, excluding TCP	(17,991)	(48,670)
Expenses under Trust Fund and UNDP	819,486	778,687
Total entity differences	801,495	730,017
Expenses and non-operating income and expenses as per the Statement of Financial Performance	1,454,888	1,355,516
Of which: Total expenses	1,430,999	1,398,387
Non-operating income and expenses	23,889	(42,871)

Refer to Note 24 for further information on the Statement of Comparison of Budget and Actual Amounts.

Notes to Statement V: Statement of Comparison of Budget and Actual Amounts

(a) The budget and accounting basis is different. This statement of Comparison of Budget and Actual Amounts is prepared on the budget basis. The budget is prepared on a modified cash basis.

(b) Annualized share (at 50%) of the Conference resolution 12/2017 net appropriation of USD 1,005.6 million with budget distribution by Chapter reflecting adjustments as approved by Council in Adjustments to the Programme of Work and Budget (PWB) 2018-19 (CL 158/3 and CL 158/REP Report of the 158th Council, paragraph 7). As authorised by the Conference Resolution 12/2017 and the Council, which allow for any unspent balance of the 2016-17 appropriations to be carried forward for one-time use to support programmes of the Organization, including for the Special Fund for Development Finance Activities (SFDFA), in agreement with the Joint Meeting of the Programme and Finance Committees, and the Council at their meetings in November and December 2017, the underspending of USD 3.9 million in the 2016-17 net budgetary appropriations expenditure is entirely transferred to the SFDFA and brought forward as deferred income (C 2017/REP paragraph 76, Conference Resolution 12/2017 paragraph 1, CL 158/REP paragraph 10 a), CL 159/REP paragraph 6 h), and C 2019/6A Statement VA).

(c) USD 74.0 million of TCP 2017 appropriation deferred until 2018. USD 1.1 million of the USD 3.9 million unspent balance of the 2016-17 appropriation carried forward as authorized by Conference Resolution 12/2017 and Council was applied, through replenishment of the SFDFA, towards costs to advance financing to provide technical assistance and investment programming for development finance in 2018. None of the USD 38.2 million unspent balance from 2016-17 in the Capital Expenditure Facility

(Chapter 13) was made available for use in 2018, and none of the USD 21.4 million unspent balance from 2016-17 in the Security Expenditure Facility (Chapter 14) was made available for use in 2018.

(d) The Tax Equalization Fund was established as of 1 January 1972. In line with the practice followed since 1972-73, the 2018 budget is presented on a gross basis, by adding to the total effective working budget an appropriation for staff assessment. This has no effect on the contributions payable by Members not levying tax on FAO staff emoluments; their full share of the staff assessment appropriation is refunded by deduction from the contributions payable by them. Members which levy tax on FAO staff emoluments have their shares of the appropriation for staff assessment reduced by the amount estimated to be required to meet claims from the FAO staff concerned for tax reimbursement.

(e) USD 86.0 million of TCP 2018 appropriation deferred until 2019 (at budget rate of exchange). USD 5.8 million deferred until 2019 under Capital Expenditure Facility, and USD 0.02 million deferred until 2019 under Security Expenditure Facility (both at budget rate of exchange).

(f) Actual Other Income is comprised of the following items:

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Voluntary contributions	78,775	70,366
Funds received under inter-organizational arrangements	55	105
Jointly financed activities	18,943	18,582
Other sundry income	11,965	10,639
Total actual other income	109,738	99,693

(g) Represents amounts charged to the Regular Programme budget and the TCP prior biennium appropriation (USD 482.1 million and USD 58.0 million, respectively, for 2018). The Organization accounts for payments for health insurance premiums on behalf of retirees differently for financial reporting than for budgetary reporting. For 2018, USD 11.5 million (USD 10.9 million in 2017) of payments for health insurance premiums on behalf of retirees are recognized as expenditure but are recorded as reduction of ASMC liability for financial reporting purposes.

(h) Currency Variance represents adjustments to the actual expenditure to reflect the translation of Euro-denominated transactions at the Budget Rate of Exchange rather than the UN Operational Rate of exchange in effect at the date of the transactions.

(i) Budget rate net expenditure represents actual net expenditure adjusted by currency variance.

(j) Variance between adjusted net budget and budget rate net expenditure in 2018, carried forward to the second year of the 2018-19 biennium.

STATEMENT V – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017											
<i>(thousands of US dollars)</i>											
Chapter	Approved Budget	Amounts brought forward	Transfers	Amounts carried forward	Revised Budget	Actual Other Income	Actual Expenditure	Currency variance	Budget rate net expenditure	Budget vs. actual variance	
1	Contribute to the eradication of hunger, food insecurity and malnutrition	42,196	265	-	-	42,461	(9,123)	55,064	1,374	47,315	(4,854)
2	Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner	100,368	653	-	-	101,021	(17,265)	123,242	3,246	109,223	(8,202)
3	Reduce rural poverty	32,854	353	2,850	-	36,057	(5,475)	44,189	999	39,713	(3,656)
4	Enable more inclusive and efficient agricultural and food systems at local, national and international levels	52,633	117	1,400	-	54,150	(14,998)	72,779	1,820	59,601	(5,451)
5	Increase the resilience of livelihoods to threats and crises	25,421	174	2,500	-	28,095	(8,610)	37,739	844	29,973	(1,878)
6	Technical Quality, Knowledge and Services	29,607	-	1,850	-	31,457	(826)	35,794	1,022	35,990	(4,533)
7	Technical Cooperation Programme	69,065	81,505	-	(73,965)	76,605	(39)	75,865	779	76,605	-
8	Outreach	38,870	134	1,800	-	40,804	(2,733)	46,841	1,235	45,343	(4,539)
9	Information Technology	17,718	47	-	-	17,765	(8,006)	28,491	536	21,021	(3,256)
10	FAO Governance, Oversight and Direction	38,491	561	(7,900)	-	31,153	(6,148)	44,221	1,162	39,235	(8,082)
11	Efficient and Effective Administration	35,637	330	(2,500)	-	33,467	(21,101)	56,127	1,757	36,783	(3,316)
12	Contingencies	300	-	-	-	300	-	-	-	-	300
13	Capital Expenditure	8,446	-	-	(5,934)	2,512	-	2,466	46	2,512	-
14	Security Expenditure	11,210	-	-	(3,016)	8,194	(5,369)	13,256	307	8,194	-
	Sub-total	502,818	84,139	-	(82,915)	504,042	(99,693)	636,074	15,127	551,509	(47,467)
	Transfer to Tax equalization Fund	45,050	-	(45,050)	-	-	-	-	-	-	-
	TCP deferred income (Chapter 15)	81,505	(81,505)	-	73,965	73,965	-	-	-	-	73,965
	Transformational Change deferred income	2,634	(2,634)	-	-	-	-	-	-	-	-
	Capital expenditure account	32,246	-	-	5,934	38,181	-	-	-	-	38,181
	Security expenditure account	18,408	-	-	3,016	21,424	-	-	-	-	21,424
	Total	682,661	-	(45,050)	-	637,612	(99,693)	636,074	15,127	551,509	86,103

Note 1. The Organization***Objectives and activities***

1.1 The Food and Agriculture Organization of the United Nations ('FAO' or 'the Organization'), was established pursuant to its Constitution originally adopted on 16 October 1945. The headquarters of the Organization is located in Rome, Italy. In addition, there are Representation Offices throughout the world, in charge of implementing the values, mission and vision of the Organization. The purpose of the Organization is to raise levels of nutrition and standards of living, secure improvements in the efficiency of the production and distribution of all food and agricultural products, better the condition of rural populations and thus contribute toward an expanding world economy and ensure humanity's freedom from hunger.

Funding

1.2 The Organization's "Regular Programme" Programme of Work is approved by the Conference of Member Nations. The related budget appropriations voted are financed by annual contributions based on an assessment on Member Nations and Associate Members by the Conference. Unutilized appropriations at the close of the financial period are cancelled, except for the Technical Cooperation Programme (TCP) appropriation which remains available for obligations during the financial period following that for which the funds were voted and Capital Expenditure and Security Expenditure appropriations, which are transferred to the Capital Expenditure Account and the Security Expenditure Account, respectively, to be carried forward for use in subsequent financial periods.

1.3 Voluntary contributions for special purposes, which are consistent with the policies, aims and activities of the Organization, may be accepted by the Director-General and Trust and Special Funds established accordingly. In addition, the Organization receives funds under an inter-organizational arrangement with the United Nations Development Programme (UNDP) to participate as an executing agency for UNDP technical cooperation projects or act as implementing agency for UNDP funded projects executed by other executing agencies. Voluntary contributions and funds received include payment towards recovering certain costs relating to technical, managerial and administrative services (support costs) which are a necessary part of extra-budgetary projects.

1.4 The statements on segment reporting by fund provide further detail on how these activities are managed and financed.

Note 2. Significant accounting policies***Basis of preparation***

2.1 These are the fifth set of financial statements prepared on the accrual basis of accounting in accordance with the requirements of International Public Sector Accounting Standards (IPSAS) using the historic cost convention, other than certain investments and liabilities for employee benefits which are carried at fair value. The Cash Flow Statement has been prepared using the indirect method.

2.2 The accounting policies set out below are applied consistently in the preparation and presentation of these financial statements.

Use of estimates

2.3 The financial statements include certain reasonable estimates based on nature and assumptions by management. Estimates include, but are not limited to: fair value of donated goods, other post-employment benefits obligations, amounts for litigations, financial risk on inventories and accounts receivables, accrued charges, contingent assets and liabilities, and degree of impairment of fixed assets. Changes in estimates are reflected in the period in which they become known.

Functional currency

2.4 The financial statements are presented in United States Dollars, which is the functional currency of the Organization.

Presentation

2.5 These financial statements present the results of FAO as a single entity consisting of: (a) General and Related Funds and (b) Trust and UNDP Funds.

Foreign currency transactions

2.6 Foreign currency transactions are translated into United States Dollars using the United Nations Operational Rate of Exchange (UNORE), which approximates the exchange rates prevailing at the dates of the transactions. The UNORE are set once a month, and revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

2.7 Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars using the closing rate of the UNORE as at the end of the reporting period. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date when the item was recognized and non-monetary items held at fair value are translated using the exchange rate at the date of the re-valuation.

2.8 Realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

Cash and cash equivalents

2.9 Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly-liquid investments with original maturities of three months or less.

2.10 Bank overdrafts for which the right of offset does not exist are recorded within other current liabilities on the Statement of Financial Position.

Investments***Classification***

2.11 The Organization classifies its investments in the following two categories:

- i) *Held-for-trading* investments are acquired principally for the purpose of selling in the short-term and classified as current assets; and
- ii) *Available-for-sale* investments are not considered trading or the Organization does not have the ability or intent to hold until maturity. They are designated to fund the Organization's post-employment liabilities and classified as non-current assets.

Accounting treatment of investments

2.12 Purchases and sales of investments are recognized on the trade-date, which is the date on which the Organization enters into a legally binding agreement to purchase or sell the investment. Investments are initially recognized at fair value. The carrying value of Held-for-trading investments and Available-for-sale investments are subsequently adjusted to reflect the current fair market value on a periodic basis. Gains and losses arising from changes in the market value of Held-for-trading investments are recognized in the Statement of Financial Performance during the period in which they arise. Changes in the market value of Available-for-sale investments are recorded as unrealized gains and losses within reserves in the Statement of Financial Position with the exception of unrealized foreign exchange gains and losses on debt securities, which are recognised in the Statement of Financial Performance during the period in which they occur. When Available-for-sale investments are subsequently sold or impaired, any cumulative market value

adjustments previously recognized in the unrealized gains and losses account within reserves are recognized in the Statement of Financial Performance.

2.13 Interest on Available-for-sale fixed income investments and dividends on Available-for-sale equity investments are recognized in the Statement of Financial Performance during the period earned and when the right to receive dividend payments is established, respectively.

2.14 The fair values of all investments are based on quoted prices in active financial markets.

Derecognition

2.15 The Organization derecognizes an investment when:

- a) The rights to receive cash flows from the investment have expired or are waived; or
- b) The Organization has transferred its rights to receive cash flows from the investment or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:
 - (a) the Organization has transferred substantially all the risks and rewards of the asset; or
 - (b) the Organization has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of investments

2.16 The Organization assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired, other than those classified as Held-for-trading investments. An investment or a group of investments is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the investment (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the investment or a group of investments that can be reliably estimated.

2.17 The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

2.18 For Available-for-sale financial assets at each reporting date, the Organization assesses whether there is objective evidence that an investment or a group of investments is impaired. In the case of investments classified as Available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value was below its original cost. Where there is evidence of impairment, the cumulative loss that had been recognized directly in Net Assets / Equity – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that investment previously recognized in the surplus or deficit – is removed from the reserve in net assets and recognized in surplus or deficit.

Derivative financial instruments

2.19 Derivative financial instruments are financial instruments that contains all three of the following characteristics:

- i) value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- ii) requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- iii) settled at a future date.

2.20 Derivative financial instruments are recognized at fair value on their trade-date. The carrying value of derivative financial instruments is adjusted to reflect the current fair market value on a periodic basis. Gains and losses arising from changes in the market value of derivative financial instruments are recorded directly in the Statement of Financial Performance.

Receivables

2.21 The Organization classifies its receivables as ‘loans and receivables’. Receivables are stated at nominal value unless the effect of discounting is material.

Allowance for doubtful accounts

2.22 The Organization records an allowance for doubtful accounts for voluntary contributions based on a review of receivables at the reporting date when there is objective evidence of its impairment. Assessed contributions are provided for after being outstanding for more than two years. Other allowances can be calculated individually or by application of a statistical method.

2.23 The Organization reports allowance for doubtful accounts in the Statement of Financial Position. The recognition of an allowance for doubtful accounts and the recognition of an expense associated with the write-off of a receivable are both reflected as expenses within the Statement of Financial Performance.

Prepaid and other assets

2.24 The Organization classifies its prepayments and other assets as ‘loans and receivables’. These items are recognized in the Statement of Financial Position at their nominal value unless the effect of discounting is material. Agreements with Service Providers or beneficiaries that require the provision of service, will be recognized on a pro-rata temporis method straight-lined over the estimated period.

Inventories

2.25 Inventories are stated at the lower of cost, current replacement cost or net realizable value. Current replacement cost, is utilized for inventories to be distributed to beneficiaries and is the cost the Organization would incur to acquire the asset on the reporting date. Net realizable value, which is utilized for inventories to be sold by the Organization, is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Estimated freight costs for inventories is added to the cost of project inputs when calculating the total value.

2.26 Inventories held for distribution for specific projects shall be measured utilizing the specific identification method. Inventories held for sale not identified for use by a specific project shall be measured utilizing the FIFO method. Field office publications will not be valued as inventory.

2.27 If recorded value of the inventories falls below the current replacement costs due to obsolescence, damage, price changes, etc. then impairment is recorded in the Statement of Financial Performance in the year in which the inventories are deemed to be impaired.

Property, plant and equipment

2.28 Property, plant and equipment (PP&E) are stated at historical cost less accumulated depreciation and any recognized impairment loss. For donated assets, fair value as of the date of acquisition is utilized as a proxy for historical cost. Heritage assets are not capitalized.

2.29 Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Organization and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they incur.

2.30 Depreciation is charged to write off the cost of assets over their estimated useful lives using the straight-line method. The useful lives of major classes of PP&E are:

Class	Estimated useful lives
Office furniture and fixtures	5 – 7 years
Machinery and equipment	5 – 7 years
Computer and IT equipment	3 years
Motor vehicles	3 – 5 years
Buildings	5 – 40 years
Leasehold improvements	Shorter of lease term or useful life

2.31 FAO has utilized the transitional provision to recognize items of PP&E gradually over the five-year transition period. Assets purchased starting 2014 will be recognized on the financial statements, while assets purchased prior to 2014 have been transitioned in over a five year period from 2014 onwards. The transition period ended on 31 December 2018, and now all items of PP&E have been recognized accordingly.

2.32 The cost, accumulated depreciation and accumulated impairment losses of an item of PP&E shall continue to be reflected in the financial statements until the time the item meets the criteria for derecognition. An item of PP&E shall be derecognized from the financial statements when the item is disposed or no future economic benefit or service potential is expected from its use or disposal.

2.33 Project assets are derecognized upon final disposal or upon transfer to designated beneficiaries, by FAO. Vehicles (automobiles, station wagons or vans) in the field will only be derecognized when title and restrictions on use as documented in mutual agreements, have officially been transferred from FAO to a government, an Implementing Partner or a beneficiary. Gains or losses on the disposal or derecognition of items of PP&E shall be disclosed through surplus or deficit when the asset is derecognized.

Intangible assets

2.34 Intangible assets are carried at historical cost less accumulated amortization and any recognized impairment loss. For donated intangible assets, fair value as of the date of acquisition is utilized as a proxy for historical cost.

Amortization

2.35 Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will write off the cost or value of the assets to their estimated residual values. Residual values in most cases are expected to be zero. The useful lives of major classes of intangible assets are:

Class	Estimated useful life
Software acquired separately	Contractual obligation or up to 5 years
Software internally developed	Based on business case up to 5 years
Intangible assets under development	No amortization
Other intangible assets	Based on expected asset life

Software acquisition and development

2.36 Acquired computer software licenses are capitalized based on costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for use by the Organization are capitalized as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

2.37 Gains or losses on the disposal or derecognition of items of intangible assets shall be disclosed through surplus or deficit when the asset is derecognized.

2.38 FAO has utilized the transitional provision to recognize intangible assets purchased or put to use starting in 2014.

Impairment

2.39 Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Leases

Operating leases

2.40 Leases where the lessor retains a significant portion of the risks and rewards inherent in ownership are classified as operating leases. Expenditures incurred under operating leases are charged to the Statement of Financial Performance as expense, on a straight-line basis, over the period of the lease.

Borrowings

2.41 Borrowings are accounted for on the amortized cost basis and borrowing costs are expensed as incurred. Where the Organization holds interest-free loans or does not pay interest on loans, the benefit to FAO of the arrangement is treated as an in-kind contribution.

Provisions and contingencies

2.42 Provisions are recognized for contingent liabilities when the Organization has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.43 The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of the provision is the present value of the expected expenditures to settle the obligation.

2.44 Contingent liabilities for which the possible obligations are uncertain, or yet to be confirmed whether the Organization has a present obligation that could lead to an outflow of resources, are disclosed.

Employee benefit obligations

2.45 The organization recognises expenses and liabilities in respect of the following employee benefits:

- i) *Short-term employee benefits* comprise of wages, salaries, allowances, paid annual leave and paid sick leave. They are due to be settled within 12 months after the end of the period in which the employees render the related service and are measured at their value based on accrued entitlements at current rates of pay;
- ii) *Post-employment benefits* are employee benefits that are payable after the completion of employment. They comprise of defined benefit plans, consisting of the Separation Payments Scheme (SPS), the Terminal Payments Fund (TPF) and the After Service Medical Coverage plan (ASMC). The post-employment benefit obligations are calculated annually by independent actuaries. All actuarial gains and losses are recognized immediately in reserves; and
- iii) *Other non-current employee benefits* comprise of Compensation Payments which are due to staff members and their dependents in case of death, injury or illness attributable to the performance of official duties and, in certain circumstances, to supplement the disability and survivors' pensions paid by the United Nations Joint Staff Pension Fund. The Compensation Payments benefit obligations are calculated annually by independent actuaries. All actuarial gains and losses are recognized immediately in the Statement of Financial Performance.

2.46 FAO recognizes the following categories of employee benefits:

- short-term employee benefits due to be settled within twelve months after the end of the accounting period in which employees render the related service;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

United Nations Joint Staff Pension Fund

2.47 FAO 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 to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

2.48 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. FAO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify FAO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, FAO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39 Employee Benefits. The FAO's contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

Revenue recognition

Non-exchange revenue

2.49 Assessed contributions are assessed and approved for a two-year budget period. The amount of these contributions is then apportioned between the two years for invoicing and payment. Assessed contributions are recognized as revenue at the beginning of the apportioned year in the relevant two-year budget period.

2.50 Voluntary contributions and other transfers which are supported by enforceable agreements are recognized as revenue at the time the agreement becomes binding and when control over the underlying asset is obtained, unless the agreement establishes a condition on the transferred asset that requires recognition of a liability. In such cases, revenue is recognized as the conditional liability is discharged.

Donated and in-kind contributions

2.51 In-kind contributions of goods that directly support approved operations and activities and can be reliably measured, are recognized at fair value. These contributions include the use of premises, project inputs, utilities and interest on concessionary loans under the Working Capital Fund.

2.52 The Organization is provided the use of buildings and facilities for no or nominal charge from the government owning such facilities. The Organization recognizes this "right to use" of such buildings and facilities as a donated operating lease. As such, revenue and expense will be recorded equally based on rental market value. As each of the facilities and the related agreements to utilize such facilities, is unique, fair value of right to use agreements is generally determined based upon valuation techniques such as local market conditions and estimated cash flows, assuming an arms-length transaction.

2.53 Certain services are donated or provided in-kind to the Organization to assist the Organization in carrying out its mandate. These in-kind contributions of services are not recognized on the financial statements, due primarily to the practical challenges of estimating the fair value of such donations and related

uncertainties associated with determining the Organization's control over them. These services primarily include:

- Administrative and security personnel provided by host governments, primarily in the Organization's decentralized offices;
- Technical staff provided by either Member Nations and educational institutions;
- Volunteer staff providing primarily administrative support;
- Services of volunteers;
- Maintenance and repair for the Organization's facilities.

Exchange revenue

2.54 Revenue from exchange transactions are measured at the fair value of the consideration received or receivable and are recognized as goods and services are delivered.

Unearned revenue

2.55 The Organization receives funds in the form of voluntary contributions, which are used to finance specific projects agreed between the Organization and the donor. Some agreements have conditions such that the Organization has a present obligation to return the funds or related assets to the donor to the extent that the conditions are not met. Consequently, where such conditions exist, a corresponding liability is recognized upon receipt of the funds. This liability is reduced as the conditions are satisfied.

Expense recognition

Exchange expense

2.56 The Organization recognizes exchange expense arising from the purchase of goods and services at the point the supplier performs its contractual obligations, which is when the goods and services are delivered and accepted. For some service contracts, this process may occur in stages.

Non-exchange expense

2.57 Transactions with service providers and beneficiaries requiring the provision of service will be recognized under the pro-rata temporis method and agreements with beneficiaries without the provision of service will be recognized upon payment. Project inventories are recognized upon delivery to beneficiaries.

Restatement of Financial Statements as a result of a Correction of an Error

2.58 During the preparation of the 2018 Financial Statements the Organization identified an error in the a reclassification as at 31 December 2017, of Trust Fund project balances between Accounts receivable non-exchange, net, and Advances, within the current liabilities, which, due to the end of the IPSAS 23 transitional provision for voluntary contributions, was no longer required. The effect of this error was the overstatement of the Accounts receivable non-exchange, net, balance of USD 34.8 million and an overstatement of 2017 Advances by the same amount.

2.59 As a consequence of the error noted above, the Organization miscalculated the 2017 provision for bad debt arising on Trust Fund activities. The effect of this error was the understatement of the Accounts receivable non-exchange, net, balance of USD 5.3 million and an overstatement of 2017 other expenses for the same amount.

2.60 During 2018, in the context of the transition provisions allowed under IPSAS 17, Property, Plant and Equipment, the Organization recognized the Sheikh Zayed Centre Meeting Room as a leasehold improvement. The asset was recognized and the comparative period financial statements were revised

accordingly, thus increasing 2017 PP&E by USD 4.0 million net book value and opening retained earnings by an equal amount.

2.61 During 2018, the Organization has corrected the Financial Statements accordingly, by restating the following 2017 comparative balances for the effect of these errors. The two tables below show the restatement of each line item affected.

31 December 2017 Comparative year Financial Statement Line Item/ Balance Affected

		<u>Correction of Error / Adjustment</u>				Restated 31-Dec-17
		Reclassification of project balances with deficits	Provision for TF projects	IPSAS 17 Application of Transition provision		
<i>(thousands of US dollars)</i>	Note	Reported 31-Dec-17				
Statement of Financial Position (Extract)						
Current assets						
Accounts receivable non-exchange, net	5	316,139	(34,827)	5,306	-	286,618
Current assets		1,572,162	(34,827)	5,306	-	1,542,642
Non-current assets						
Property, plant and equipment	9	26,965	-	-	4,034	30,999
Non-current assets		556,081	-	-	4,034	560,115
Total assets		2,128,244	(34,827)	5,306	4,034	2,102,757
Current liabilities						
Advances received	12	348,799	(34,827)	-	-	313,972
Current Liabilities		541,649	(34,827)	-	-	506,823
Total liabilities		2,114,498	(34,827)	-	-	2,079,671
Net assets		13,746	-	5,306	4,034	23,086
Equity						
Accumulated surplus / (deficit)	18	112,753	-	5,306	4,034	122,093
Total Equity		13,746	-	5,306	4,034	23,086

<i>(thousands of US dollars)</i>	Note	Reported 31-Dec-17	Correction of Error / Adjustment			Restated 31-Dec-17
			Reclassification of project balances with deficits	Provision for TF projects	IPSAS 17 Application of Transition provision	
Statement of Financial Performance (Extract)						
Expenses						
Depreciation, amortization and impairment of long-lived		9,032	-	-	288	9,320
Other expenses	20	29,632	-	(5,306)	-	24,326
Total Expenses		1,403,406	-	(5,306)	288	1,398,388
Surplus for the period		251,630	-	5,306	(288)	256,648
Statement of Changes in Equity (Extract)						
Accumulated surplus / (deficit)	18	112,753	-	5,306	4,034	122,093
Total Equity		13,746	-	5,306	4,034	23,086

Note 3. Cash and cash equivalents

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Cash at banks and money market funds	103,031	163,730
Short-term time deposits	580,000	355,002
Cash equivalents held with investment managers	278,908	171,897
Total cash and cash equivalents	961,939	690,629

3.1 Due to the short-term, highly liquid nature of cash and cash equivalents, there is no significant interest rate or credit risk associated with these balances.

3.2 Of the total cash and cash equivalents, USD (0.1) million (USD (0.1) million in 2017) is held in currencies that are not readily convertible into other currencies. These balances are held in order to satisfy general business and project-related requirements in the various countries in which the Organization operates. Approximately, USD 0.1 million (USD 0.1 million in 2017) of cash at banks is currently restricted due to various operational reasons. Additional information on operational cash and cash equivalents restricted to be utilized for Trust Fund projects is presented in Note 23. Segment Reporting.

3.3 Cash equivalents held with investment managers includes USD 9.8 million (USD 10.4 million in 2017) of cash and cash equivalents pertaining to the Organization's available-for-sale investment portfolio. These amounts are earmarked towards funding the Organization's Staff Related Schemes.

Note 4. Investments and derivative financial instruments**Investments**

4.1 The investments of the Organization are comprised of:

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Current		
Held-for-trading investments		
Government bonds	406,516	477,666
Corporate bonds	22,133	24,984
Mortgage backed securities	18,207	6,628
Other	7,497	-
Total held-for-trading investments	454,353	509,278
Derivative financial instruments	(1,610)	747
Total current	452,743	510,025
Non-current		
Available-for-sale investments		
Government bonds	201,629	192,386
Corporate bonds	45,374	43,762
Equities	233,367	286,636
Total available-for-sale investments	480,370	522,784
Total non-current	480,370	522,784

4.2 The held-for-trading investments are current investments at year-end due to the fact that these investments are managed on a short-term basis to ensure preservation of capital for Trust Fund donors while providing a return. Additionally, these investments are generally available and required for use in current operations and carried at fair value. The unrealized gains and losses on the trading portfolio are recognized in the Statement of Financial Performance as incurred.

4.3 The Organization's available-for-sale investments are classified as non-current investments at year-end and carried at fair value. The unrealized gains and losses on the available-for-sale investments are recognized in the Statement of Financial Position. The available-for-sale investments are not for use in the Organization's current operations and have been designated for funding the Organization's post-employment benefits. The investments are not subject to separate legal restrictions and do not qualify as Plan Assets as defined in IPSAS 39, *Employee Benefits*.

4.4 Principal movements in all investments during the year were:

<i>(thousands of US dollars)</i>	Balance 31-Dec- 17	Net additions / (deductions)	Management fees	Interest received	Realized	Unrealized Gains/ (Losses) change other	Unrealize d Gains/ (Losses) change FX	Balance 31-Dec- 18
Held-for-trading investments								
Fixed income	509,278	(62,956)	(788)	6,455	816	1,548	-	454,353
Available-for-sale investment								
Equities	286,636	(26,763)	(631)	6,264	8,888	(41,027)	-	233,367
Fixed income	236,148	28,487	(525)	3,287	(5,000)	(18,441)	3,047	247,003
Total investments	1,032,062	(61,232)	(1,944)	16,006	4,704	(57,920)	3,047	934,723

4.5 The cost, unrealized gains or losses and fair value of the available-for-sale investments by investment type were:

<i>(thousands of US dollars)</i>	31-Dec-18			31-Dec-17		
	Cost	Unrealized gains / (losses) on available-for-sale investments	Fair value	Cost	Unrealized gains / (losses) on available-for-sale investments	Fair value
Available-for-sale investments						
Government bonds	205,604	(3,974)	201,630	185,107	7,278	192,385
Corporate bonds and other	47,336	(1,963)	45,373	42,725	1,037	43,762
Equities	231,229	2,138	233,367	243,471	43,165	286,636
Total available-for-sale investments	484,169	(3,799)	480,370	471,303	51,480	522,783

4.6 The unrealized losses of USD 4.0 million as at 31 December 2018 (USD 51.5 million gains in 2017) are the result of a combination of adverse market performance affecting equities and fixed income. In addition, EUR / USD foreign rate impact on the fixed income investment portfolio during 2018 was unfavourable, as the EUR lost 8% of its value to the USD over the year. Unrealized losses of USD 7.2 million are recorded within equity and the cumulative remainder USD 3.4 million of unrealized foreign exchange net gains generated on the debt portfolios are recorded directly in the Statement of Financial Performance during the period in which they occur.

Derivative financial instruments

4.7 The Organization uses derivative financial instruments within its investment portfolio for the purpose of mitigating the foreign currency risk in the portfolio. The Organization utilizes forward contracts, options and swaps in order to mitigate this risk. There are no non-current derivatives in this category.

4.8 The face value represents the value of the contract. The face value and the fair value of the derivative financial instruments are as follows:

<i>(thousands of US dollars)</i>	31-Dec-18		31-Dec-17	
	Face value	Fair value	Face value	Fair value
Assets				
Forward contracts	-	-	-	-
Swaps	-	-	227,246	1,134
Total derivative financial asset instruments	-	-	227,246	1,134
Liabilities				
Forward contracts	-	-	(10,674)	(130)
Swaps	(256,463)	(1,610)	(18,952)	(257)
Total derivative financial liability instruments	(256,463)	(1,610)	(29,626)	(387)

Note 5. Receivables from non-exchange transactions

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17 (Restated)
Current receivables		
Assessed contributions receivable		
Assessments on Member Nations	128,481	182,174
Working Capital Fund	34	36
Special Reserve Account	2,288	2,288
Allowance for doubtful accounts	(19,803)	(19,338)
Total assessed contributions receivable	111,000	165,160
Voluntary contributions receivable		
Voluntary contributions	125,460	124,044
Allowance for doubtful accounts	(3,527)	(3,527)
Total voluntary contributions receivable	121,933	120,517
Other receivables		
Other receivables	3,634	4,100
Allowance for doubtful accounts	(3,163)	(3,159)
Total other receivables	471	941
Total current receivables	233,404	286,618
Non-current assessed contributions receivable		
Assessment of Member Nations under Regular Programme	2,087	637
Total non-current assessed contributions receivable	2,087	637
Total receivables from non-exchange transactions	235,491	287,255

5.1 Certain Member Nations have payment plans for their assessments which are due after more than one year from 31 December 2018. Amounts due subsequent to 31 December 2018 of USD 2.1 million, have been classified as non-current. The decrease of USD 53.7 million in the value of outstanding assessments

on Member Nations from 31 December 2017 is primarily due to the delayed payment by the Organization's major donors in 2017 of their current assessments, subsequently settled in 2018.

5.2 The 2017 data has been restated due to the correction of the prior period errors presented in notes 2.58 and 2.59.

5.3 The allowance for doubtful amounts is based on the estimate of amounts that are not probable of collection under the original terms of the receivables.

<i>(thousands of US dollars)</i>	Balance at 31-Dec-17 (Restated)	Increase	Amounts written off	Allowance reversed	Balance at 31- Dec-18
Assessed contributions receivable					
Assessments on Member Nations	(17,015)	(4,574)	-	4,108	(17,481)
Working Capital Fund	(35)	-	-	1	(34)
Special Reserve Account	(2,288)	-	-	-	(2,288)
Total assessed contributions receivable	(19,338)	(4,574)	-	4,109	(19,803)
Voluntary contributions receivable					
Voluntary contributions	(3,527)	-	-	-	(3,527)
Total voluntary contributions receivable	(3,527)	-	-	-	(3,527)
Other receivables					
Other receivables	(3,159)	(21)	-	17	(3,163)
Total other receivables	(3,159)	(21)	-	17	(3,163)
Total allowance for doubtful accounts	(26,024)	(4,595)	-	4,126	(26,493)

5.4 The aging of receivables is:

<i>(thousands of US dollars)</i>	Carrying amount	< 1 year	1 – 3 years	3 – 5 years	> 5 years
Current receivables					
Assessed contributions receivable					
Assessments on Member Nations	128,481	102,560	13,014	728	12,179
Working Capital Fund	34	-	-	-	34
Special Reserve Account	2,288	-	-	-	2,288
Allowance for doubtful accounts	(19,803)	-	(4,574)	(728)	(14,501)
Total assessed contributions receivable	111,000	102,560	8,440	-	-
Voluntary contributions receivable					
Voluntary contributions	125,460	42,012	43,625	26,554	13,269
Allowance for doubtful accounts	(3,527)	-	-	-	(3,527)
Total voluntary contributions receivable	121,933	42,012	43,625	26,554	9,742
Other receivables					
Other receivables	3,634	27	444	43	3,120
Other allowance for doubtful accounts	(3,163)	-	-	(43)	(3,120)
Total other receivables	471	27	444	-	-
Total current receivables	233,404	144,599	52,509	26,554	9,742
Non-current assessed contributions receivable					
Assessment of Member Nations under Regular Programme	2,087	2,087	-	-	-
Total non-current assessed contributions receivable	2,087	2,087	-	-	-
Total receivables	235,491	146,686	52,509	26,554	9,742

5.5 Contributions in arrears related to 21 countries facing voting rights issues amount to USD 3.7 million for assessed contributions. FAO does not have collateral for any of the assessments, however, FAO rules and regulations require that Member Nations cannot be in arrears in payment of its financial contributions to the Organization in an amount equal to or exceeding the contributions due from it for the two preceding calendar years. Actions specified by the rules and procedures include a loss of voting rights, ineligibility for election to the Council and loss of seat in the Council.

5.6 The main types of other receivables are in relation to the Government Counterpart Cash Contribution (GCCC) and jointly financed projects with other international organizations, in which the Organization makes payments on behalf of such third parties.

Note 6. Receivables from exchange transactions

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Due from UN and other organizations	5,083	8,297
Less: Allowance for doubtful accounts	(971)	(1,133)
Total receivables from exchange transactions	4,112	7,164

6.1 Receivables from exchange transactions are in relation to recoveries due from the Rome based international organizations, e.g. IFAD and World Food Programme for the administrative services which FAO provides; utility recharges to be recovered from businesses which have offices within the FAO headquarters e.g. the bookshop, the travel agent etc., and others.

Allowance for doubtful accounts

<i>(thousands of US dollars)</i>	Balance at 31-Dec-17	Expense	Amounts written off	Allowance reversed	Balance at 31-Dec-18
Due from UN and other organizations	(1,133)	(237)	-	399	(971)
Total allowance for receivables from exchange transactions	(1,133)	(237)	-	399	(971)

6.2 The aging of receivables is:

<i>(thousands of US dollars)</i>	Carrying amount	< 1 year	1 – 3 years	3 – 5 years	> 5 years
Due from UN and other organizations	5,083	4,112	291	235	445
Less: Allowance for doubtful accounts	(971)	-	(291)	(235)	(445)
Total receivables from exchange transactions	4,112	4,112	-	-	-

Note 7. Prepayments and other assets

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Employee receivables	21,047	19,910
Prepayments	19,847	12,793
Other assets	11,825	9,394
Less: Allowance for doubtful accounts	(1,356)	(1,321)
Total prepayments and other assets	51,363	40,776
Total current	50,945	40,306
Total non-current	418	470
Total prepayments and other assets	51,363	40,776

7.1 The total prepayments and other assets as of 31 December 2018 consist of employee receivables, prepayments and other assets. The employee receivables represents advances given to employees such as salary advances, education grants, and travel advances, whereas prepayments are primarily comprised of advances to service providers under the approved Letters of Agreements. Other assets are predominantly accrued interest income on the Organizations cash and cash equivalents and investment portfolios.

7.2 Current commitments are expected to be utilized or collected within a year of the balance sheet date.

Allowance for doubtful accounts

<i>(thousands of US dollars)</i>	Balance at 31-Dec-17	Expense	Amounts written off	Allowance reversed	Balance at 31-Dec-18
Employee receivables	(722)	(41)	-	6	(757)
Other assets	(599)	-	-	-	(599)
Total allowance for prepayments and other assets	(1,321)	(41)	-	6	(1,356)

Note 8. Inventories

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Project inputs	12,311	7,155
Publications	354	694
Other	41	51
Total inventories	12,706	7,900

8.1 For the year ended 31 December 2018, the Organization recognizes USD 145.9 million (USD 144.7 million in 2017) in expense associated with project inputs and USD 5.8 million (USD 3.7 million in 2017) associated with publications utilized during the period. The increase in project inputs is largely due to inventories held for distribution in response to the Level 3 and other emergencies. The project inputs consumed in 2018 did not include donated inventories (USD 0.6 million in 2017). None of the agricultural inputs became obsolete due to changes in project requirements during 2018 (none in 2017).

Note 9. Property, plant and equipment

<i>(thousands of US dollars)</i>	Balance at 31-Dec-17	Additions	Disposals / Transfers	Depreciation	Balance at 31-Dec-18
	(Restated)				
Cost of PP&E					
Office furniture and fixtures	1,981	523	(317)	-	2,187
Machinery and equipment	6,320	737	(261)	-	6,796
Computer and IT equipment	17,067	980	(4,659)	-	13,388
Motor vehicles	59,557	8,984	(7,014)	-	61,527
Buildings	3,817	371	(174)	-	4,014
Leasehold improvements	9,468	341	(64)	-	9,745
Assets under construction	800	2,799	(546)	-	3,053
Total cost of PP&E	99,010	14,735	(13,035)	-	100,710
Accumulated depreciation					
Office furniture and fixtures	(1,423)	(330)	299	(155)	(1,609)
Machinery and equipment	(4,374)	-	119	(649)	(4,904)
Computer and IT equipment	(15,869)	-	4,619	(924)	(12,174)
Motor vehicles	(43,443)	-	5,470	(6,747)	(44,720)
Buildings	(583)	-	6	(178)	(755)
Leasehold improvements	(2,319)	-	2	(541)	(2,858)
Total accumulated depreciation	(68,011)	(330)	10,515	(9,194)	(67,020)
Net PP&E	30,999	14,405	(2,520)	(9,194)	33,690

9.1 The Organization has applied transitional provisions under IPSAS 17. In 2018 a total of USD 12.6 million was transitioned onto the financial statements and included in the opening balances (USD 7.9 million in 2017), comprising office furniture and fixtures with a cost and accumulated depreciation of USD 0.03 million, machinery and equipment with a cost and accumulated depreciation of USD 0.3 million, computer and IT equipment with a cost and accumulated depreciation of USD 1.1 million, motor vehicles with a cost and accumulated depreciation of USD 5.4 million, and leasehold improvements with a cost of USD 5.8 million and accumulated depreciation of USD 1.7 million. FAO has used the full five years under transition provisions to ensure the underlying process is in place to support complete and accurate information regarding those PP&E.

9.2 In 2018, construction in progress in the value of USD 0.5 million was completed and placed in service (USD 0.7 million in 2017).

9.3 Additions of USD 14.2 million were purchased in 2018 (USD 12.3 million in 2017). Disposals from PP&E in the amount of USD 2.0 million (USD 2.3 million in 2017) were realized in 2018, which were property transfers to beneficiaries (host governments, NGOs or other recipient organizations) involved in special projects (USD 2.3 million in 2017). Fully-depreciated assets with a cost of USD 61.0 million are in use at the end of 2018 (USD 38.7 million in 2017).

9.4 The Organization reviews PP&E for indicators of impairment. These reviews did not identify any impairment during the year.

9.5 Accrual for purchase commitments for PP&E at 31 December 2018 is USD 0.7 million (USD 0.7 million in 2017). Assets on the financial statements of the Organization that are being held for disposal have a total cost and accumulated depreciation of USD 0.2 million (USD 1.1 million in 2017).

Note 10. Intangible Assets

<i>(thousands of US dollars)</i>	Balance at 31-Dec-17	Additions	Disposals / Transfers	Amortization	Balance at 31-Dec-18
Cost of intangible assets					
Software acquired separately	987	456	(43)	-	1,400
Software internally developed	7,032	902	-	-	7,934
Intangible assets under development	1,204	1,805	(902)	-	2,107
Total cost of intangible assets	9,223	3,163	(945)	-	11,441
Accumulated amortization					
Software acquired separately	(514)	-	27	(237)	(724)
Software internally developed	(3,484)	-	-	(1,630)	(5,114)
Total accumulated amortization	(3,998)	-	27	(1,867)	(5,838)
Net intangible assets	5,225	3,163	(918)	(1,867)	5,603

10.1 At 31 December 2018, the cost and related accumulated amortization of intangible assets purchased or developed by the Organization are USD 11.4 million (USD 9.2 million in 2017) and USD 5.8 million (USD 4.0 million in 2017) respectively. During 2018, USD 0.9 million of software development projects were completed and placed in service (USD 0.9 million in 2017).

10.2 FAO performs an impairment review when conditions arise indicating the need as such. These reviews did not identify any impairment during the year.

Note 11. Accounts payable and accrued expenses

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Accounts payable		
Accounts Payable	23,369	19,348
Money Vendor	2,913	4,362
Pass through transactions	(163)	(44)
Total accounts payable	26,119	23,666
Accrued expenses		
Purchase order accrued expenses	111,957	111,818
NSHR accrued expenses	21,263	26,298
Travel accrued expenses	8,218	9,228
Payroll accrued expenses	112	354
Other accruals	3,121	2,699
Total accrued expenses	144,671	150,397
Total accounts payable and accrued expenses	170,790	174,063

11.1 Accounts payable constitute amounts due for goods and services for which invoices have been received. Accruals are liabilities for goods and services that have been received or provided to FAO during the period but not invoiced for payment.

Note 12. Payments received in advance

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17 (Restated)
Assessments on Member Nations received in advance	14,122	45,521
Voluntary contributions received in advance	244,597	225,446
SFERA contributions	39,558	43,005
Total payments received in advance	298,277	313,972

12.1 Assessments on Member Nations received in advance are funds received from Member Nations against future year's assessment.

12.2 Voluntary contributions received in advance represent funds received from donors related to a contribution agreement.

12.3 Voluntary contributions received which are subject to conditions will be recognized as revenue, as and when the conditions are satisfied.

12.4 The Trust Funds also include activities under the Special Fund for Emergency and Rehabilitation Activities (SFERA), which was established in May 2003 to support a rapid response to emergency and rehabilitation activities. The SFERA is funded by voluntary contributions.

12.5 The 2017 data has been restated due to the correction of the prior period errors presented in note 2.58.

Note 13. Employee benefit obligations

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Current employee benefit obligations		
Annual leave	11,680	11,845
Home leave travel	1,751	1,757
Other short term employee benefits	4,984	4,028
Total current employee benefit obligations	18,415	17,630
Non-current employee benefit obligations		
Post-employment benefit obligations		
After Service Medical Coverage	1,243,361	1,395,850
Termination Payment Fund	55,643	58,107
Separation Payment Scheme	46,858	52,462
Total post-employment benefit obligations	1,345,862	1,506,419
Other non-current employee benefit obligations		
Compensation Payment Fund	18,638	21,000
Total non-current employee benefit obligations	1,364,500	1,527,419
Total employee benefit obligations	1,382,915	1,545,049

Valuation of employee benefit obligations

13.1 Employee benefit obligations for post-employment and other non-current employee benefit obligations are determined by independent professional actuaries. Current employee benefit obligations are calculated by FAO based on personnel data and past payment experience. As at 31 December 2018, total employee benefit obligations amounted to USD 1,382.9 million (USD 1,545.0 million in 2017), of which USD 1,364.5

million (1,527.4 million in 2017) were calculated by the actuaries and USD 18.4 million (17.6 million in 2017) were calculated by FAO. FAO has elected to report all the actuarially valued employee benefit obligations within non-current liabilities due to the impracticality of allocating these using an alternative method.

Current employee benefit obligations

13.2 Current employee benefit obligations relate to wages, salaries, allowances, paid annual leave and paid sick leave.

Post-employment benefit obligations

Separation Payments Scheme

13.3 Separation Payments Scheme (SPS) are due to General Service category staff at Headquarters who are entitled to receive a separation payment equivalent to 1/12th of the staff member's Final Net Annual Salary rate multiplied by years of service between 1 January 1975 and 31 December 1990, plus 1/13.5th of the staff member's Final Net Annual Salary rate multiplied by years of service after January, 1, 1991. SPS are subject to actuarial review to ascertain the liabilities and recommend rates of contribution.

Terminal Payments Fund

13.4 Terminal Payments Fund (TPF) relate to payment of accrued annual leave, repatriation grant, cost of repatriation travel and the removal of household goods for all eligible staff, and death grant. TPF are subject to actuarial review to ascertain the related liabilities and recommend rates of contribution. Termination indemnity is not included in the valuation, in accordance with IPSAS.

After Service Medical Coverage

13.5 After Service Medical Coverage (ASMC) provides for worldwide coverage of necessary medical expenses of eligible former staff members and their eligible dependants. The ASMC liability represents the present value of the share of the Organization's medical insurance costs for retirees and active staff post-retirement benefits accrued to-date. ASMC is subject to actuarial review to ascertain the related liabilities and recommend rates of contribution.

Other non-current employee benefit obligations

Compensation Payments Fund

13.6 Compensation Payments Fund (CPF) are due to staff members and their dependants in case of death, injury or illness attributable to the performance of official duties and, in certain circumstances, to supplement the disability and survivors' pensions paid by the United Nations Joint Staff Pension Fund. CPF are subject to actuarial review to ascertain the liabilities and recommend rates of contribution.

Actuarial Assumptions and Methods

13.7 The following assumptions and methods have been used to determine the value of post-employment benefit obligations and other non-current employee benefit obligations:

		Details	
Actuarial Methods			
ASMC	Projected Unit Credit Cost with service prorate.		
SPS	Projected Unit Credit Cost method.		
TPF	Commutation of Accrued leave and Repatriation Travel and Removal use projected unit credit with an attribution period from the entry on duty date to separation; Repatriation Grant, Death Grant and Termination Indemnity payable before retirement eligibility use projected unit credit with an attribution based on the actual benefit formula; Termination Indemnity payable after retirement eligibility is excluded from the valuation and accounted for as it occurs.		
CPF	One Year Term Cost.		
FAO used a yield curve approach based on Aon Hewitt AA Bond Universe Curve outside of the Euro Zone and the iBoxx Euro Zone curve for the discount rate in the Euro Zone.			
Discount rates		2018	2017
SPS		1.3%	1.1%
TPF		3.2%	2.7%
ASMC		2.9%	2.5%
CPF		4.4%	3.7%
General Inflation rate		2018	2017
SPS		1.8%	1.8%
TPF		2.1%	2.1%
ASMC		1.9%	1.9%
CPF		2.2%	2.2%
Medical cost inflation rate	At 31 December 2018, the assumed increases in medical costs are 4.6% for 2019, and 4.5% during 2020, decreasing 0.1% every 2 years to 4.0% in 2030, and then decreasing 0.1% every year to 3.7% in 2033 and later years.		
	At 31 December 2017, the assumed increases in medical costs are 4.6% for 2018, decreasing 0.1% every 2 years to 4.1% in 2029, and then decreasing 0.1% every year to 3.7% in 2033 and later years.		
Year-end spot rate €/USD	1.142 (1.195 in 2017)		
Life Expectancy	Based on the mortality tables of the UN Joint Staff Pension Fund		

Reconciliation of defined benefit obligation

13.8 The following tables provide additional information and analysis in relation to employee benefit obligations, as calculated by the actuaries:

<i>(thousands of US dollars)</i>	ASMC	TPF	SPS	CPF	Total
Net defined benefit obligation at 31-Dec-17	1,395,850	58,107	52,462	21,000	1,527,419
Service cost for year ended 31 Dec 2018	36,615	6,243	3,141	420	46,419
Interest cost for year ended 31 Dec 2018	34,502	1,462	556	752	37,272
Actual gross benefit payments for the year 31 Dec 2018	(26,642)	(6,314)	(5,608)	(1,466)	(40,030)
Remeasurements (demographic) for the year ended 31 Dec 2018	(17,143)	828	(87)	(446)	(16,848)
Remeasurements (financial) for the year ended 31 Dec 2018	(179,821)	(4,683)	(3,606)	(1,622)	(189,732)
Net defined benefit obligation at 31-Dec-18	1,243,361	55,643	46,858	18,638	1,364,500

13.9 Demographic remeasurements relate principally to a reduction in the assumed impact of aging on claims, which have a favourable impact on the valuation. Financial remeasurements with a significant impact on the value of the employee benefit obligations for the year ending 31 December 2018 include an increase in the discount rates, fewer claims and administrative expenses than expected, and a favourable movement in the Euro-Dollar exchange rate causing an overall decrease to the value of liabilities.

Annual expense recognized

13.10 The annual expense amounts recognized in the Statement of Financial Performance, within employee benefits and other personnel costs, and finance income / (expenses), and are as follows:

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Service cost	46,419	42,510
Past Service (credit) / cost / Prior Service (credit) recognition	-	-
Remeasurements (demographic and financial)	(2,068)	3,901
Interest cost	37,272	34,643
Total expense recognized	81,623	81,054

13.11 During 2018, the Organization recorded USD (2.1) million of plan remeasurements in the Statement of Financial Performance (USD 3.9 million in 2017) in relation to the Compensation Payment Fund, and a further USD (204.5) million of remeasurements on the post employment benefits plans were recorded within equity (USD 167.2 million in 2017).

13.12 In 2018, the Organization adopted changes to its cost sharing provisions that would reduce the cost to the plan in the long run by approximately 5%. These changes have been reflected beginning with the 31 December 2018 valuation.

ASMC plan – sensitivity analysis

13.13 Following are the three principal assumptions in the valuation of the ASMC plan:

- i) exchange rate between the Euro and the US Dollar;
- ii) discount rate used to determine the present value of benefits that will be paid from the plan in the future; and

iii) medical inflation rate.

13.14 A 1% change in the discount and medical inflation rate would have the following effects on the defined benefit obligation:

<i>(thousands of US dollars)</i>		Ultimate medical inflation rate	
Exchange rate	Discount rate	3.7% per year	4.7% per year
1.142 USD Per EUR	2.9%	1,243,361	1,502,457
1.042 USD Per EUR	2.9%	1,315,702	1,589,871
1.142 USD Per EUR	1.9%	1,515,969	1,831,871
1.042 USD Per EUR	1.9%	1,604,169	1,938,450

13.15 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i>		Ultimate medical inflation rate	
Exchange rate	Discount rate	3.7% per year	4.7% per year
1.142 USD Per EUR	2.9%	29,958	41,479
1.042 USD Per EUR	2.9%	31,701	43,892
1.142 USD Per EUR	1.9%	41,547	57,524
1.042 USD Per EUR	1.9%	43,964	60,871

TPF plan – sensitivity analysis

13.16 The principal assumption in the valuation of the TPF plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

13.17 A 1% reduction in the discount rate would have the following effect on the defined benefit obligation:

<i>(thousands of US dollars)</i>	Defined Benefit Obligation
Discount rate	
3.2%	55,643
2.2%	59,830

13.18 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i>	Current service cost
Discount rate	
3.2%	5,852
2.2%	6,314

SPS plan – sensitivity analysis

13.19 The principal assumption in the valuation of the SPS plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

13.20 A 1% reduction in the discount rate would have the following effect on the defined benefit obligation:

<i>(thousands of US dollars)</i> Discount rate	Defined Benefit Obligation
1.3%	46,858
0.3%	50,532

13.21 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i> Discount rate	Current service cost
1.3%	2,891
0.3%	3,192

CPF plan – sensitivity analysis

13.22 The principal assumption in the valuation of the CPF plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

13.23 A 1% reduction in the discount rate would have the following effect on the defined benefit obligation:

<i>(thousands of US dollars)</i> Discount rate	Defined Benefit Obligation
4.4%	18,638
3.4%	21,064

13.24 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i> Discount rate	Current service cost
4.4%	408,340
3.4%	483,000

Future funding

13.25 There was no assessment for ASMC Funding in 2018. Additionally, during 2018 no funds were received in respect of prior years' assessments. Assessed funds are typically transferred into the investment portfolio based on the percentage of total Member contributions actually received (USD 1.5 million and EUR 2.9 million in 2017). Long-term investments and any generated income are applied first to ensure the adequacy of funding of the SPS and CPRF. Any additional investments and related income then is earmarked for the ASMC and subsequently for the TPF. As of 31 December 2018, both the ASMC and TPF continue to be underfunded. The diversification of asset classes, currency composition and duration of FAO's long term investments is determined in accordance with the parameters effecting the valuation of its liabilities.

13.26 The earmarking of the long-term investments and the SPS advances to the plans is shown in the below table:

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Fully funded by earmarked long-term investments		
CPF	18,638	21,000
SPS	46,858	52,462
Total fully funded by earmarked long-term investments	65,496	73,462
Partially funded by earmarked long-term investments		
ASMC	423,101	460,882
Total partially funded by earmarked long-term investments	423,101	460,882
Total funded liabilities	488,597	534,344
Unfunded by earmarked long-term investments		
ASMC	820,260	934,968
TPF	55,643	58,107
Total unfunded by earmarked long-term investments	875,903	993,075

Maturity profile

13.27 The table below presents the maturity profile of the Organization's post-employment benefit obligations and other non-current employee benefit obligations as at 31 December 2018, expressed in nominal value:

<i>(thousands of US dollars)</i>	ASMC	TPF	SPS	CPF	Total
Years					
Due in 0-5 Years	178,874	26,418	19,674	6,477	231,443
Due in 6-10 Years	224,489	18,154	16,469	5,863	264,975
Due in 11-15 Years	261,204	12,331	7,555	5,010	286,100
Due in 16-20 Years	282,326	8,448	5,273	4,112	300,159
Due in 21-25 Years	287,183	4,098	2,204	3,347	296,832
Due in 26-30 Years	276,013	1,457	415	2,740	280,625
Due in More than 30 Years	823,400	533	142	8,796	832,872
Total	2,333,489	71,439	51,732	36,345	2,493,006

Note 14. United Nations Joint Staff Pension Fund

14.1 The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

14.2 The Agency's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the 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. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

14.3 During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biennial cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements.

14.4 The actuarial valuation as of 31 December 2017 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 139.2% (150.1% in the 2016 roll forward). The funded ratio was 102.7% (101.4% in the 2016 roll forward) when the current system of pension adjustments was taken into account.

14.5 After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2017, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

14.6 Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2015, 2016 and 2017) amounted to USD 6,931.39 million, of which 2.3% was contributed by the Agency.

14.7 During 2018, contributions paid to UNJSPF amounted to USD 53.8 million (2017 USD 53.0 million). Expected contributions due in 2019 are approximately USD 56.7 million.

14.8 Membership of the Fund may be terminated by decision of the United Nations General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the United Nations Joint Staff Pension Board based on an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities are included in the amount.

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

Note 15. *Operating lease commitments*

15.1 For the year ended 31 December 2018, total rental expense under operating leases are USD 7.7 million (USD 6.3 million in 2017). At 31 December 2018, obligations for property leases to be paid in the subsequent years aggregated to USD 6.3 million (USD 5.3 million in 2017). The commitments below do not include nominal lease transactions. The total aggregate lease payments for the periods are due to be paid as follows:

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Within twelve months	3,834	2,887
More than one to five years	2,415	2,394
Beyond five years	2	8
Total lease commitments	6,251	5,289

Note 16. Provisions and contingencies

16.1 The provisions of the Organization are comprised of:

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Labour-related and other claims	809	777
Pending negotiations and arbitrations	-	-
Total provisions and contingencies	809	777

16.2 The movement in the provisions during 2018 were as follows:

<i>(thousands of US dollars)</i>	Balance at 31-Dec-17	Increases	Amounts charged	Amounts reversed	Balance at 31-Dec-18
Labour-related and other claims	777	148	(106)	(10)	809
Pending negotiations and arbitrations	-	-	-	-	-
Total provisions	777	148	(106)	(10)	809

Labour-related and other claims

16.3 As part of its normal ongoing operations, FAO receives claims related to labor or contract disputes. The Organization intends to defend itself fully in all cases, however the possibility that it will incur liabilities related to these complaints is not remote. Included within the USD 0.8 million is USD 0.7 million for which there is a corresponding receivable recorded within prepayments and other assets that the Organization considers may be recoverable.

Pending negotiations and arbitrations

16.4 As at 31 December 2018, the Organization has no pending litigations with suppliers.

Note 17. Other liabilities

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Current		
Settlements with employees	29	29
Other accounts payables	385	352
Total current	414	381
Non-current		
Staff fiduciary accounts	15,973	19,684
Working Capital Fund	25,745	25,745
Total non-current	41,718	45,429
Total other liabilities	42,132	45,810

17.1 Settlements with employees represent Staff Credit Union recovery related transactions.

17.2 Other accounts payable represent deposits received from suppliers and insurance premiums payable on behalf of retired and active staff of IFAD, one of the Agencies participating in the Medical Insurance Plans.

17.3 Staff fiduciary accounts represent funds related to the operation of the contributory medical and insurance arrangements for staff.

17.4 The purposes of the Working Capital Fund are (i) to advance money on a reimbursable basis to the General Fund in order to finance budgetary expenditures pending receipt of contributions to the budget, (ii) finance emergency expenditures not provided for in the current budget, and (iii) make loans for such purposes as the Council may authorize in specific cases. The authorized level for the Fund was set by Conference resolution 15/91 at USD 25 million and is increased by the Working Capital Assessments on new Member Nations. The Fund is presented as a liability since it is refundable to Member Nations who withdraw from the Organization, after liquidation of any financial obligations such nation may have to the Organization.

Working Capital Fund

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Authorized level at beginning and end of period	25,793	25,793
Balance at beginning and end of period	25,745	25,745

17.5 During 2018 no new Member Nations joined the Organization and the Working Capital Fund was not utilized during the year. The authorized level is part of the assessments to Member Nations and the balance comprises the receipts of those assessments.

Note 18. Reserves

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Special Reserve Account	17,559	17,559
Unrealized (losses) / gains on investments	(7,233)	51,100
Actuarial gains / (losses) reserve	36,847	(167,666)
Total reserves	47,173	(99,007)

18.1 The purpose of the Special Reserve Account (SRA) is to protect the Organization's Programme of Work against the effects of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary effects. The authorized level of the SRA is set by Conference Resolution 13/81 at up to 5% of the effective working budget for the respective subsequent biennium, amounting to USD 50.3 million at 31 December 2018.

18.2 Unrealized gains on investments relate to the available-for-sale portfolios. USD 58.3 million unrealized losses on investments (USD 26.3 million gains in 2017) are recognized in equity during 2018. The cumulative foreign exchange rate portion of unrealized gains arising on debt portfolios amounted to USD 3.4 million (USD 0.4 million gains at 31 December 2017), and has been charged to the Statement of Financial Performance in line with accounting standards in the period in which it has arisen. The increase in the value of unrealized gains on investments is due to current market values.

18.3 Actuarial gains and losses reserve results from the increase or decrease in either the present value of a defined benefit obligation or the fair value of any related plan assets. There were USD 204.5 million (USD 167.2 million losses in 2017) actuarial gains recognized in equity during the year ended 31 December 2018, and a further USD 2.1 million of gains (USD 3.9 million gain in 2017) was recognized in the Statement of Financial Performance in relation to the CPF.

Note 19. Revenue

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Non-exchange revenue		
Assessments on Member Nations	498,831	478,200
Voluntary contributions		
TF contributions	1,048,481	1,052,703
UNDP contributions	1,254	4,150
Total voluntary contributions	1,049,735	1,056,853
Other non-exchange revenue		
Associate Member Assessments	21	21
Jointly Financed Activities	18,444	19,541
Government counterpart cash contributions	1,570	1,463
In-kind donations	50,725	48,050
Total other non-exchange revenue	70,760	69,075
Total non-exchange revenue	1,619,326	1,604,128
Exchange revenue	9,390	8,037
Total revenue	1,628,716	1,612,165

19.1 Assessments from Member Nations Conference Resolution CR 12/2017 approved appropriations of USD 1,005.6 million to be used for the Programme of Work as proposed by the Director General for 2017-18. Such appropriations, minus estimated Miscellaneous Income of USD 5.0 million, were budgeted to be financed by contributions from Member Nations of USD 1,000.6 million. The contributions are comprised of split assessments in US Dollars of USD 546.4 million and in Euros of EUR 376.4 million (equivalent to USD 459.2 million at the budget rate of exchange of USD 1.22 to Euros 1.00). The difference between actual Assessments on Member Nations of USD 498.8 million and amounts approved under the Conference Resolution, of USD 1,005.6 million, reflect the recognition of only one year of the biennial revenue and the difference between the average UNORE of USD 1.19 to Euros 1.00 at the time the Euros 376.4 million was assessed and the rate of exchange applied in the budget.

19.2 The split assessment arrangement was approved by Conference Resolution 11/03, in 2003 and this arrangement was first used for the assessments on Member Nations in 2004-05. Based on total assessments expressed in USD as reported in the Statement of Financial Performance, the actual split of assessments in USD and Euro for 2018 was approximately 54% and 46%, respectively (2017; 54% and 46% respectively).

19.3 Other Non-exchange revenue is driven by the recognition of income for in-kind donated facilities located in Rome of USD 27.8 million (USD 31.7 million in 2017) and USD 22.1 million (USD 14.8 million in 2017) for in-kind donated facilities world-wide; and Jointly Financed Activities, principally established with the World Bank, the African Development Bank and the Asian Development Bank. A counterpart expense of USD 49.9 million (USD 46.5 million in 2017) is recorded as in-kind donated facilities.

19.4 Of the remainder in-kind donated goods of USD 0.8 million (USD 1.5 million in 2017), USD 0.7 million (USD 0.6 million in 2017) relates to donated interest revenue on the Working Capital Fund concessionary loan of USD 25.7 million (USD 25.7 million in 2017) granted by Member Nations. A counterpart expense of USD 0.7 million (USD 0.6 million in 2017) is recorded in interest expense calculated at 2.9 % (2.5% in 2017) using the ASMC discount rate. Other donated goods received represent USD 0.1 million in PP&E (USD 0.3 million in 2017).

19.5 Exchange revenue mainly represents payments to the Organization of expenditure incurred on behalf of third parties, including other international organizations to which services such as medical, social security, legal and administrative are provided.

Note 20. Expenses

20.1 Employee benefits and other personnel costs include all compensation entitlements for Regular Programme and Project Professional and General Service category staff.

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Employee benefits and other personnel costs		
Base salary	186,583	186,102
Post adjustment	49,636	46,177
Staff medical insurance	39,408	36,027
Pension plan	53,806	52,981
Staff Compensation Plan	418	393
Staff Termination Plan	6,485	6,144
Staff Separation Scheme	3,099	3,059
Education grant	15,510	15,285
Locally hired non-professional staff	3,177	2,852
Entitlement travel	7,140	7,415
Income Tax Reimbursement	1,615	2,542
Dependents Allowance	12,850	12,631
Installation, assignment and mobility allowance	11,378	12,154
Other employee benefits and staff costs	14,972	15,628
Total employee benefits and other personnel costs	406,077	399,390

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Consultants		
Internationally recruited	89,691	90,912
Locally recruited	84,853	90,851
National projects personnel	77,313	66,917
Other consultants expenses	3,184	11,484
Total consultants	255,041	260,164

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Travel costs		
Duty travel	20,786	25,014
Consultants	41,549	43,397
Governing body meetings	34,607	40,042
Other travel costs	5,781	5,825
Total travel costs	102,723	114,278

20.2 Governing body meetings include travel-related costs associated with sessions of the Conference, the Council, the Council committees, Technical committees, and other statutory meetings.

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17 (Restated)
Depreciation, amortization and impairment of long-lived assets		
Depreciation of PP&E	9,194	7,830
Amortization of intangible assets	1,867	1,490
Impairment of long-lived assets	-	-
Total depreciation, amortization and impairment of long-lived assets	11,061	9,320

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Training expenses		
In-service	6,552	5,850
Other training expenses	33,497	36,630
Total training expenses	40,049	42,480

20.3 In-service training represents the cost of on-site training carried out at the local office in relation to projects in the field. Other training expenses include the costs of training materials and expenses incurred with participation in off-site training courses, including lodging and daily subsistence.

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Contractual services		
Services	114,590	105,306
Repairs and maintenance	17,797	21,525
Rental expense	9,831	8,510
In-kind donated facilities	49,883	46,502
Communications and IT	8,238	7,450
Letters of Agreement	154,825	145,674
Other contracted services	11,415	12,372
Total contractual services	366,580	347,339

20.4 Services mainly represents contracts entered into by projects, and include amongst others statistical services, contracts for environmental protection and waste, agriculture, crop protection and irrigation services, and fisheries and aquaculture services.

20.5 Letters of agreement mainly comprise of the following items; USD 49.3 million (USD 39.6 million in 2017 in relation to agreements for distribution of inputs and community micro infrastructure, USD 28.6 million (USD 33.7 million in 2017) for scientific research services and surveys, USD 24.8 million (USD 27.6 million in 2017) for training beneficiaries, and USD 23.4 million (USD 25.0 million in 2017) for capacity development of national public institutions.

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Grants and other transfer payments		
National execution with governments	15,377	25,910
Contributions to joint UN administrative activities	8,105	5,815
Other grants and transfer payments	699	226
Total grants and other transfer payments	24,181	31,951

20.6 National execution with governments relates to funds transferred in advance to operations partners for the implementation of parts of, or an entire, project entrusted to FAO.

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Supplies and consumables used		
Utilities	3,614	4,054
Vehicles maintenance and running costs	5,031	5,070
Inventories distributed	151,689	148,345
Inventories sold	2,420	121
Inventories write-down	-	-
Supplies and consumables	14,876	11,550
Total supplies and consumables used	177,630	169,140

20.7 During the year ended 31 December 2018, FAO incurred USD 30.1 million of expenses for Plants and Seeds (USD 31.8 million in 2017), USD 10.8 million of expenses for expendable equipment (USD 16.9 million in 2017), USD 3.7 million of expenses for Fertilizers (USD 8.3 million in 2017), USD 12.7 million for Animal Feed (USD 10.5 million in 2017), USD 28.0 million for Medical and Veterinary Supplies (USD 21.0 million in 2017), USD 5.6 million for Other Field Supplies and Equipment (USD 7.9 million for 2017), USD 17.6 million for Agricultural tools (USD 12.8 million in 2017), and USD 8.0 million for Livestock (USD 10.3 million in 2017). These costs have been included within the category “Inventories distributed”.

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17 (Restated)
Other expenses		
Provisions for receivables	803	(6,206)
Provisions for contingent liabilities	137	(629)
Actuarial (gains) / losses	(2,068)	3,902
Insurance	1,691	1,252
Bank charges	1,096	1,458
Other operating expenses	45,998	24,549
Total other expenses	47,657	24,326

20.8 The actuarial (gains) reported in 2018 was due to remeasurements from changes in financial and demographic assumptions relating to the Compensation Payment Fund. The increase in other operating expenses was primarily due to the increase in closure of finalized Trust Fund projects, as accounting for projects that close with cash balances repayable to donors results in the recognition of an expense (USD 32.3 million in 2018, USD 9.2 million in 2017) to off-set the associated revenue recognized in prior periods.

20.9 Expenses relating to the provision for receivables in 2017 have been restated in 2018 as explained in Note 2.59.

Note 21. Non-operating income and expenses

Investment income

21.1 The investment income recorded within other income and expenses represents the returns earned on the held-for-trading and the available-for-sale investment portfolios, inclusive of the cash and cash equivalent portion reallocated in the Statement of Financial Position to cash and cash equivalents, as well as the losses in fair value of derivative financial instruments.

21.2 Net returns generated on the held-for-trading and available-for-sale investment portfolios represent the investment income earned, in addition to gains and losses of market value realized in 2018.

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Return on investments, held-for-trading		
Interest income	19,750	11,542
Gains / (losses) on disposal	1,530	(684)
Fees and commissions charged	(1,485)	(1,743)
Unrealized gains	2,261	555
Total return on investments, held-for-trading	22,056	9,670
Return on investments, available-for-sale		
Interest and dividend income	9,654	9,776
Unrealized foreign exchange gains	3,047	18,375
Gains on disposal	3,888	29,128
Fees and commissions charged	(1,155)	(1,397)
Total return on investments, available-for-sale	15,434	55,882
Fair value loss on derivative financial instruments		
Fair value (losses) / gains on derivative financial instruments	(2,288)	4,402
Total fair value (losses) / gains on derivative financial instruments	(2,288)	4,402
Total investment income	35,202	69,954

21.3 In 2018, given FAO's prudent, low risk investment style and low but gradually increasing interest rate environment the total return on the held-for-trading investment portfolio was 1.98 % (1.0% in 2017), exceeding the benchmark return by 0.16%.

21.4 The available-for-sale investment portfolio represents the accumulated assets set aside over a period of decades to fund the Organization's share of staff-related liabilities. The current investment policy sets a strategic asset allocation for the long-term portfolio of 50% equities and 50% fixed income. The fixed income portion is in Euros, while the equities are in US Dollars. During 2018 the available-for-sale investment portfolio yielded an annual return of negative 8.31%, versus a benchmark return of negative 8.09%.

Foreign exchange gains and losses

21.5 USD 7.3 million (USD 14.3 million gain in 2017) net foreign exchange losses represents the net amount exchange differences incurred by the Organization during the year ended 31 December 2018. The majority

of the exchange differences have been generated by the Euro portion of the Assessments on Member Nations and the revaluation of monetary assets and liabilities at the reporting date.

Finance income and expenses

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
Interest expenses	(14,522)	(6,776)
Interest cost of staff related liabilities	(37,272)	(34,643)
Total finance income / (expenses)	(51,794)	(41,419)

21.6 The finance expenses of the Organization are predominantly borne in relation to operating the staff related schemes. These costs represent the increase in the present value of the defined benefit obligation because the benefits are one period closer to settlement.

Note 22. Financial instruments

22.1 This note presents information about the Organization's exposure to various risks, policies and processes for measuring and managing the risks, and its management of capital. Further quantitative disclosures are included throughout these financial statements.

Value of financial instruments

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17
	Fair value & Carrying amount	(Re-stated) Fair value & Carrying amount
Financial assets		
Held-for-trading financial instruments	454,353	509,278
Available-for-sale financial instruments	480,370	522,784
Derivative financial instruments	-	747
Receivables from non-exchange transactions	235,491	287,255
Receivables from exchange transactions	4,112	7,164
Other assets	11,351	8,955
Cash and cash equivalents	961,939	690,629
Total financial assets	2,147,616	2,062,812
Financial liabilities		
Derivative financial instruments	1,610	-
Accounts payable and accruals	170,791	174,102
Other liabilities	1,408,383	1,578,974
Total financial liabilities	1,580,784	1,753,076

22.2 The fair value of the financial assets and liabilities are included at the amount at which the instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The fair value and carrying amounts of the investment portfolio are the same because they are marked to market. The item "Other liabilities" excludes non-cash items such as advances and accruals for annual leave that are not settled in the short term with cash payments.

22.3 The following methods and assumptions are used to estimate the fair values:

- i) Cash and short-term deposits, trade receivables, trade payables and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- ii) Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Organization based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics. Based on this evaluation, allowances are taken to account for the incurred losses of these receivables and market related interest rates. As at 31 December 2018, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values;
- iii) Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities; and
- iv) Fair value of financial assets is derived from quoted market prices in active markets.

22.4 The 2017 data for Receivables from non-exchange transactions and Other liabilities has been restated due to the correction of the prior period errors presented in notes 2.58 and 2.59.

The fair value hierarchy

22.5 The fair value hierarchy represents the categorization of market pricing to indicate the relative ease with which the value of investments held can be realized.

22.6 The Organization uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- i) Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices); and
- iii) Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

22.7 The majority of FAO's financial instruments have quoted prices in active markets and are classified as Level 1. Derivative instruments that are "over-the-counter" are classified as Level 2 because their fair value is observable either directly as a price, or indirectly after being derived from prices. The instruments shown under the Level 2 fair value measurement category consist of the forward contracts for foreign currency hedges and the derivative contracts in the externally managed portfolios.

Financial instruments measured at fair value

<i>(thousands of US dollars)</i>	31-Dec-18			Total
	Level 1	Level 2	Level 3	
Current assets				
Financial assets at fair value through surplus or deficit	454,353	-	-	454,353
Financial assets at fair value through equity	480,370	-	-	480,370
Current liabilities				
Derivative financial instruments	-	(1,610)	-	(1,610)
Total financial instruments measured at fair value	934,723	(1,610)	-	933,113

<i>(thousands of US dollars)</i>	31-Dec-17			Total
	Level 1	Level 2	Level 3	
Current assets				
Financial assets at fair value through surplus or deficit	509,278	-	-	509,278
Financial assets at fair value through equity	522,784	-	-	522,784
Derivative financial instruments	-	747	-	747
Current liabilities				
Derivative financial instruments	-	-	-	-
Total financial instruments measured at fair value	1,032,062	747	-	1,032,809

22.8 During the reporting period ending 31 December 2018, there were no transfers between level 1 and level 2 fair value measurements.

Financial risks of the Organization

22.9 FAO has developed risk management policies in accordance with its Financial Rules and Regulations. The Organisation is exposed to a variety of financial risks, including market (foreign currency exchange and price), liquidity, interest rate and credit risks. The primary objective of the Investment Policy of FAO is to maximise the long term return on the portfolio. The Organization considers the maximisation of risk-adjusted returns and the use of applicable benchmarks to evaluate investment manager performance.

Financial risk management

22.10 The Organization's financial risk management is carried out by a central treasury function using guidelines set out by the FAO Investment Committee and advice from the World Bank. The Organization manages the risks associated with its investment portfolio through providing strict guidelines, and then actively managing compliance with these guidelines, to each of the Organization's investment managers who are responsible for the management of assets in the equity and fixed-income markets. These guidelines include limits on the investment managers' level of exposure to currencies, asset classes, interest rate risk, credit quality, credit concentration of equity investments and their level of investment in derivative financial instruments. Additionally, a detailed strategic asset allocation review for non-current investments is conducted by specialized firms within the context of an Asset and Liability study (ALM). Reviews are conducted approximately every five years and the last study was undertaken and finalized in 2018. The results were presented to the Investment Committee in late 2018 and are currently under review for possible changes in the asset allocation.

Foreign currency exchange risk

22.11 FAO's principal headquarters is located in the Euro zone and the Organization operates field offices on a global level, where it incurs expenses in local currency. Consequently, a significant amount of FAO's expenses are in other currencies (principally Euro), and the Organization is therefore exposed to foreign currency exchange risk arising from fluctuations in currency exchange rates. In 2003, in order to mitigate its foreign currency risk associated with Regular Programme Euro denominated expenses, the Organization began assessing a portion of Member Nation contributions in US Dollars and a portion in Euro. With the introduction of split assessments on Member Nations, the Organization has entered into US Dollar / Euro swaps with banks as counterparty, to fund delays of Euro receipts of these assessments. Given the worldwide geographical representation of the Organization, FAO maintains a minimum level of assets in local currencies, and holds accounts in US dollars, Euros and other currencies at Headquarters.

22.12 Additionally, the Organization receives voluntary contributions in both US Dollars and other currencies. The Organization generally converts these amounts to US Dollars immediately upon receipt of the funds. Expenditures under projects funded by voluntary contributions are made in both US Dollars and

other currencies. The US Dollar funds held are converted to local currency when necessary, to satisfy the obligations of the organization. No derivative financial instruments are utilized to mitigate the risk associated.

22.13 The carrying amount of the Organization's foreign currency denominated financial assets and financial liabilities, translated to US Dollars at the year-end are set out below. Some of the financial assets are denominated in difficult to use currencies ('illiquid currencies') that cannot be readily converted to US dollars:

<i>(thousands of US dollars)</i>	31-Dec-18				Total
	US Dollar	Euro	Others	Illiquid	
Cash and cash equivalents	825,186	80,765	56,123	(135)	961,939
Held-for-trading investments	454,353	-	-	-	454,353
Available-for-sale investments	223,059	115,937	141,374	-	480,370
Derivative financial instruments	(99,062)	158,510	(61,058)	-	(1,610)
Total financial assets	1,403,536	355,212	136,439	(135)	1,895,052

<i>(thousands of US dollars)</i>	31-Dec-17				Total
	US Dollar	Euro	Others	Illiquid	
Cash and cash equivalents	651,104	36,439	3,214	(128)	690,629
Held-for-trading investments	632,129	-	(122,851)	-	509,278
Available-for-sale investments	236,871	103,293	182,619	-	522,783
Derivative financial instruments	(88,798)	167,405	(77,860)	-	747
Total financial assets	1,431,306	307,137	(14,878)	(128)	1,723,438

22.14 FAO enters into forward foreign exchange contracts and swap contracts to manage short-term cash flows of foreign currency balances to minimize the foreign currency transaction risk. At 31 December 2018 there were no open derivative positions with the internally managed investment portfolios. As at 31 December 2017, the total amount of open derivative positions with the internally managed investment portfolios were as follows:

<i>(thousands of US dollars)</i>	31-Dec-17					
	Currency forward purchased (LCY)	Currency forward purchased (USD)	Unrealized gains / (losses) (USD)	Currency forward sold (LCY)	Currency forward sold (USD)	Unrealized gains / (losses) (USD)
Net purchased/ sold amount						
Euro	-	-	-	(25,000)	(30,013)	(387)
Total		-	-		(30,013)	(387)

22.15 In accordance with the investment guidelines set up for each externally managed portfolio, the external investment managers use forward foreign exchange contracts to manage the currency risk of groups of securities within each portfolio. The net values of these instruments as at 31 December 2018 and 31 December 2017 that were in place to hedge foreign exchange risk in the available-for-sale investment portfolios have been reclassified to "derivative financial instruments" in the Statement of Financial Position and summarized below:

<i>(thousands of US dollars)</i>		31-Dec-18					Unrealized gains / (losses) (USD)	Total unrealized gains / (losses) (USD)
Net purchased / sold amount	Currency forward bought (LCY)	Currency forward bought (USD)	Un-realized gains / (losses) (USD)	Currency forward sold (LCY)	Currency forward sold (USD)			
Australian Dollar	4,684	3,299	(76)	(8,456)	(5,955)	103	27	
Canadian Dollar	1,708	1,251	(40)	(6,982)	(5,114)	232	192	
Danish Krone	-	-	-	(21,224)	(3,257)	102	102	
British Pound sterling	11,447	14,593	(227)	(46,093)	(58,758)	1,626	1,399	
Swiss Franc	589	598	(2)	(591)	(600)	3	1	
Euro	153,368	175,583	(3,366)	(14,913)	(17,073)	103	(3,263)	
Japanese Yen	315,337	2,878	62	(530,501)	(4,841)	(130)	(68)	
Norwegian Krone	6,531	755	(18)	(5,145)	(595)	15	(3)	
New Zealand Dollar	2,460	1,650	4	(3,829)	(2,569)	(20)	(16)	
Swedish Krona	1,919	217	3	(41,150)	(4,649)	16	19	
United States Dollar	53,754	53,754	-	(152,816)	(152,816)	-	-	
Mexican Peso	5,441	276	(2)	(4,657)	(236)	2	-	
Total		254,852	(3,662)		(256,463)	2,052	(1,610)	

<i>(thousands of US dollars)</i>		31-Dec-17					Unrealized gains / (losses) (USD)	Total unrealized gains / (losses) (USD)
Net purchased / sold amount	Currency forward bought (LCY)	Currency forward bought (USD)	Un-realized gains / (losses) (USD)	Currency forward sold (LCY)	Currency forward sold (USD)			
Australian Dollar	1,179	922	24	(7,332)	(5,735)	(58)	(34)	
Canadian Dollar	1,047	836	17	(11,244)	(8,981)	(206)	(189)	
Danish Krone	-	-	-	(21,024)	(3,406)	(58)	(58)	
British Pound sterling	687	930	10	(42,422)	(57,479)	(939)	(929)	
Swiss Franc	197	203	2	(532)	(546)	(10)	(8)	
Euro	143,740	173,065	2,519	(4,385)	(5,272)	(111)	2,408	
Japanese Yen	318,893	2,834	(8)	(651,052)	(5,786)	2	(6)	
Norwegian Krone	9,890	1,210	9	(7,868)	(963)	(9)	-	
New Zealand Dollar	2,023	1,438	39	(2,570)	(1,827)	(44)	(5)	
Swedish Krona	10,427	1,275	30	(23,126)	(2,834)	(74)	(44)	
United States Dollar	44,037	44,037	-	(132,835)	(132,835)	-	-	
Mexican Peso	9,745	496	(14)	(8,847)	(450)	13	(1)	
South African Rand	-	-	-	-	-	-	-	
Total		227,246	2,628		(226,114)	(1,494)	1,134	

22.16 Foreign exchange exposures on future payroll costs are hedged by the Organization through the utilization of the split assessment regime. Consequently, the Organization does not use financial instruments to mitigate the foreign currency exposure associated with payroll costs. The Organization does not use financial instruments to hedge the foreign exchange exposures on receivables and payables. Currency exchange risk also arises as a result of the differences in timing of recording the foreign currency receivables or payables and the cash receipt or payment in subsequent periods. Any receipts in currencies other than the United States Dollar are exchanged in the spot market.

Equity price risk

22.17 Equity price risk is the risk of a decline in the value of a security or a portfolio, and is dependent on the volatility of the securities held within a portfolio. The Organization seeks to mitigate this risk by

maintaining well-diversified equity investment portfolios. The table below shows the diversification of the Organization's equity portfolios as at the period end, as well as the asset allocation between other types of externally managed investments:

<i>(thousands of US dollars)</i>		31-Dec-18					
Sector	Cost	Unrealized gains / (losses)	Market value	Accruals	Market including accruals	% of Equities	% of Total
Equities							
Consumer discretionary	20,625	1,599	22,224	40	22,264	10%	1%
Consumer staples	17,686	(911)	16,775	53	16,828	7%	1%
Energy	12,719	(1,506)	11,213	26	11,239	5%	1%
Financials	38,322	(3,593)	34,729	34	34,763	15%	2%
Health care	33,424	793	34,217	37	34,254	15%	2%
Industrials	21,553	616	22,169	23	22,192	9%	1%
Information technology	26,430	5,288	31,718	28	31,746	14%	2%
Materials	12,990	(844)	12,146	10	12,156	5%	1%
Equities ETF	11,149	(86)	11,063	13	11,076	5%	1%
Telecommunication services	17,137	850	17,987	73	18,060	8%	1%
Utilities	11,797	279	12,076	52	12,128	5%	0%
Real Estate	7,549	(347)	7,202	52	7,254	2%	0%
Taxes	-	-	-	301	301	0%	0%
Fee accrual	(152)	-	(152)	-	(152)	0%	0%
Total equities	231,229	2,138	233,367	742	234,109	100%	13%
Non-equities							
Fixed income	706,409	(5,053)	701,356	3,325	704,681		38%
Cash and cash equivalents	882,438	902	883,340	105	883,445		49%
Derivative financial instruments	-	(1,610)	(1,610)	-	(1,610)		0%
Total non-equities	1,588,847	(5,761)	1,583,086	3,430	1,586,516		87%
Total assets in externally managed portfolios	1,820,076	(3,623)	1,816,453	4,172	1,820,625		100%

<i>(thousands of US dollars)</i>		31-Dec-17					
Sector	Cost	Unrealized gains / (losses)	Market value	Accruals	Market including accruals	% of Equities	% of Total
Equities							
Consumer discretionary	27,963	5,335	33,298	45	33,343	12%	2%
Consumer staples	20,484	920	21,404	38	21,442	7%	1%
Energy	15,520	2,756	18,276	20	18,296	6%	1%
Financials	42,808	7,168	49,976	74	50,050	17%	3%
Health care	26,829	3,006	29,835	36	29,871	10%	2%
Industrials	27,712	5,753	33,465	10	33,475	12%	2%
Information technology	28,976	12,857	41,833	11	41,844	16%	3%
Materials	14,513	2,578	17,091	10	17,101	6%	1%
Equities ETF	10,290	1,624	11,914	2	11,916	4%	1%
Telecommunication services	8,172	23	8,195	33	8,228	3%	1%
Utilities	11,852	(36)	11,816	55	11,871	4%	1%
Other	8,488	1,181	9,669	48	9,717	3%	0%
Performance fee accrual	(136)	-	(136)	-	(136)	0%	0%
Total equities	243,471	43,165	286,636	382	287,018	100%	18%
Non-equities							
Fixed income	737,774	7,651	745,425	2,887	748,312		47%
Cash and cash equivalents	553,288	196	553,484	34	553,518		35%
Derivative financial instruments	-	1,134	1,134	-	1,134		0%
Total non-equities	1,291,062	8,981	1,300,043	2,921	1,302,964		82%
Total assets in externally managed portfolios	1,534,533	52,146	1,586,679	3,303	1,589,982		100%

Interest rate risk

22.18 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization seeks to earn a competitive market rate of return on its investment portfolio, however, capital preservation and liquidity are emphasized over the rate of return.

22.19 The investing horizon is based upon the anticipated liquidity needs of the Organization, including the requirement that the principal objective of the Organization's non-current available-for-sale investment portfolio is to fund the Organization's share of staff-related liabilities. Within this context and following FAO's prudent, conservative, low risk investment style and the prevailing market conditions in 2018, the Organization earned a total return of 1.98% for the year (1.0% in 2017) on its trading portfolio versus 1.82% for the benchmark. Instead, the non-current portfolio designated as available-for-sale earned negative 8.31%, versus a benchmark of negative 8.09%, due to a combination of adverse market performance and foreign exchange rates. The Organization is exposed to changes in interest rates on floating rate financial and fixed income assets.

Credit risk

22.20 Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to FAO, and it arises principally on the Organization's investments, loans, receivables, and cash and cash equivalents. The maximum exposure to credit risk at 31 December 2018 and 31 December 2017 are:

<i>(thousands of US dollars)</i>	31-Dec-18	31-Dec-17 (Restated)
Investments	701,356	745,425
Cash and cash equivalents	961,939	690,629
Receivables from non-exchange transactions	235,491	287,255
Receivables from exchange transactions	4,112	7,564
Other assets	11,351	8,955
Maximum exposure to credit risk	1,914,249	1,739,828

22.21 The 2017 data for Receivables for non-exchange transactions has been restated due to the correction of the prior period errors presented in notes 2.58 and 2.59.

Organizational policy on allowable financial instruments

22.22 To manage credit risk, the Organization assesses the credit quality of those parties with whom the Organization invests in based on the investment policy that restricts investments to particular types of financial instruments along with investment ceilings per issuer depending on the credit quality of the issuer.

22.23 Credit risk associated with cash and cash equivalents is managed through specific bank selection criteria designed to evaluate the bank security, reputation, adherence and compliance to local and international laws and regulations, and where applicable, ratings of recognized rating agencies. The table below shows the Organization's concentration of credit risk by credit rating:

<i>(thousands of US dollars)</i>	31-Dec-18					Total by Instrument
	Aaa	Aa	A	Baa	NR	
Corporate bonds	-	11,506	26,015	30,019	-	67,540
Government agencies	89,841	119,599	-	-	7,698	217,138
Government bonds	24,481	20,497	1,976	124,847	-	171,801
Index linked government bonds	22,767	101,963	4,453	37,196	-	166,379
Government MBS	1,491	9,417	1,988	-	-	12,896
Municipal/ provincial bonds	16,044	19,756	22,629	-	-	58,429
Other fixed income	-	-	2,000	-	5,500	7,500
Fee accrual	-	-	-	-	(328)	(328)
Total instruments	154,624	282,739	59,062	192,061	12,870	701,356

<i>(thousands of US dollars)</i>	31-Dec-17					Total by Instrument
	Aaa	Aa	A	Baa	NR	
Corporate bonds	3,539	11,737	23,579	29,916	-	68,771
Government agencies	119,914	89,876	4,999	-	2,800	217,589
Government bonds	36,345	231,736	-	1,808	-	269,889
Index linked government bonds	15,465	124,851	2,411	8,065	-	150,792
Government MBS	1,883	2,106	2,640	-	-	6,629
Municipal/ provincial bonds	17,960	5,588	8,480	-	-	32,028
Fee accrual	-	-	-	-	(273)	(273)
Total instruments	195,106	465,894	42,109	39,789	2,527	745,425

Liquidity risk

22.24 Liquidity risk is the risk that the Organization will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial assets. The liquidity risk of the Organization is primarily managed on an individual fund basis. For the Extra Budgetary Programme, commitment can generally only be made once funds are available and therefore liquidity risk is minimal. For the Regular Programme, the appropriation based budget for incurring expenditures ensures that expenses do not exceed revenue streams for any given year, and monthly cash flow forecasting ensures that the Organization has sufficient cash on demand to meet expected operating expenses as they arise. Furthermore, the Working Capital Fund and the Special Reserve Account can both advance monies to the General Fund on a reimbursement basis to finance expenditures pending receipt of assessed contributions and in the event of adverse currency fluctuations and unbudgeted inflationary trends. The combined balance on the Working Capital Fund and the Special Reserve Account provides a liquidity cushion to the Organization's Regular Programme of approximately one month. The contractual policy of both the Organization's receivables and payables is within 30 days of invoice.

Interest rate risk

22.25 If the weighted average interest rate had been 100 basis points higher or lower, the value of the investment portfolios would have been affected as follows in the sensitivity analysis:

<i>(thousands of US dollars)</i>	31-Dec-18	
	Increase / (decrease) in basis points	Effect on surplus / (deficit)
Held-for-trading	100	(3,172)
Held-for-trading	(100)	3,172
Available-for-sale investments	100	(25,344)
Available-for-sale investments	(100)	25,344

<i>(thousands of US dollars)</i>	31-Dec-17	
	Increase / (decrease) in basis points	Effect on surplus / (deficit)
Held-for-trading	100	(3,023)
Held-for-trading	(100)	3,023
Available-for-sale investments	100	(25,815)
Available-for-sale investments	(100)	25,815

Foreign exchange rate risk

22.26 All of the Organization's foreign currency investments in the fixed income available-for-sale investment portfolios that are non US Dollar denominated are hedged to the Euro. If the Euro / USD exchange rate at 31 December 2018 and 31 December 2017 had been 5% higher or lower the value of the Euro denominated investment portfolios would have been affected as follows:

<i>(thousands of US dollars)</i>	31-Dec-18	
	Increase / (decrease) in EUR/USD exchange rate	Effect on surplus / (deficit)
Available-for-sale investments (fixed income only)	5%	12,815
Available-for-sale investments (fixed income only)	(5%)	(12,815)

<i>(thousands of US dollars)</i>	31-Dec-17	
	Increase / (decrease) in EUR/USD exchange rate	Effect on surplus / (deficit)
Available-for-sale investments (fixed income only)	5%	12,335
Available-for-sale investments (fixed income only)	(5%)	(12,335)

Equity price risk

22.27 If the equity market risk at 31 December 2018 and 31 December 2017 had been 10% higher or lower, the value of the equity investment portfolios would have been affected as follows:

<i>(thousands of US dollars)</i>	31-Dec-18	
	Increase / (decrease) in Equity Market Risk	Effect on surplus / (deficit)
Available-for-sale investments	10%	23,475
Available-for-sale investments	(10%)	(23,475)

<i>(thousands of US dollars)</i>	31-Dec-17	
	Increase / (decrease) in Equity Market Risk	Effect on surplus / (deficit)
Available-for-sale investments	10%	27,923
Available-for-sale investments	(10%)	(27,923)

Note 23. Segment Reporting

23.1 The Organization operates, and generally reports financial information to the Director-General and the Governing Bodies in two segments, the General and Related Fund and the Trust Funds and UNDP.

23.2 Amounts received by the Organization with respect to the General and Related Fund are utilized in the execution of the Organization's mandate based upon the Programme of Work supporting the appropriations approved by the Member Nations and funded through assessed contributions.

23.3 Amounts received by the Organization with respect to the Trust Funds and UNDP are utilized in the execution of the Organization's mandate based upon specific project activities in addition to the Programme of Work and are funded through voluntary contributions from countries, other organization and under an inter-organizational arrangement with the UNDP.

23.4 For the year ended 31 December 2018, the Organization acquired for the General Fund and the Trust Fund and UNDP, PP&E for internal use amounting to USD 7.6 million (USD 4.9 million in 2017) and USD 7.1 million (USD 8.1 million in 2017), respectively.

23.5 The accumulated deficit under the General and Related Fund mainly represents the unfunded liability associated with the After Service Medical Coverage Plan, offset in part by the unexpended portion of assessed contributions, including cash received and accounts receivable from Member Nations, to be utilized for future operational requirements.

23.6 The accumulated surplus under the Trust Funds and UNDP represented the unexpended portion of voluntary contributions to be utilized for future project related operational requirements.

23.7 The 2017 data has been restated due to the correction of the prior period errors presented in notes 2.58 to 2.60.

23.8 The Statement of Financial Position at 31 December 2018 and 31 December 2017, on a segment basis, are as follows:

<i>(thousands of US dollars)</i>	31-Dec-18		
	General and Related	Trust and UNDP	Total
Assets			
Current assets			
Cash and cash equivalents	303,384	658,555	961,939
Investments and derivative financial instruments	(1,610)	454,353	452,743
Receivables from non-exchange transactions	111,471	121,933	233,404
Receivables from exchange transactions	4,112	-	4,112
Prepayments and other current assets	31,972	18,973	50,945
Inventories	444	12,262	12,706
	449,773	1,266,076	1,715,849
Non-current assets			
Investments	480,370	-	480,370
Receivables from non-exchange transactions	2,087	-	2,087
Prepayments and other non-current assets	418	-	418
Property, plant and equipment	25,045	8,645	33,690
Intangible assets	4,828	775	5,603
	512,748	9,420	522,168
Total assets	962,521	1,275,496	2,238,017
Liabilities			
Current liabilities			
Accounts payable	26,173	(54)	26,119
Accrued expenses	25,049	119,622	144,671
Payment received in advance	14,095	284,182	298,277
Employee benefits obligations	18,415	-	18,415
Provisions	809	-	809
Other current liabilities	414	-	414
	84,955	403,750	488,705
Non-current liabilities			
Employee benefit obligations	1,364,500	-	1,364,500
Other non-current liabilities	41,718	-	41,718
	1,406,218	-	1,406,218
Total liabilities	1,491,173	403,750	1,894,923
Net assets	(528,652)	871,746	343,094
Equity			
Accumulated surplus / (deficit)	(575,825)	871,746	295,921
Reserves	47,173	-	47,173
Total equity / (deficit)	(528,652)	871,746	343,094

<i>(thousands of US dollars)</i>	31-Dec-17 (Restated)		
	General and Related	Trust and UNDP	Total
Assets			
Current assets			
Cash and cash equivalents	232,781	457,848	690,629
Investments and derivative financial instruments	746	509,279	510,025
Receivables from non-exchange transactions	166,187	120,431	286,618
Receivables from exchange transactions	7,164	-	7,164
Prepayments and other current assets	36,246	4,060	40,306
Inventories	749	7,151	7,900
	433,873	1,098,769	1,542,642
Non-current assets			
Investments	522,784	-	522,784
Receivables from non-exchange transactions	637	-	637
Prepayments and other non-current assets	470	-	470
Property, plant and equipment	23,292	7,707	30,999
Intangible assets	4,905	320	5,225
	552,088	8,027	560,115
Total assets	995,961	1,106,796	2,102,757
Liabilities			
Current liabilities			
Accounts payable	23,666	-	23,666
Accrued expenses	38,089	112,308	150,397
Payment received in advance	45,520	268,452	313,972
Employee benefits obligations	17,630	-	17,630
Provisions	777	-	777
Other current liabilities	382	(1)	381
	126,064	380,759	506,823
Non-current liabilities			
Employee benefit obligations	1,527,419	-	1,527,419
Other non-current liabilities	45,429	-	45,429
	1,572,848	-	1,572,848
Total liabilities	1,698,912	380,759	2,079,671
Net assets	(702,951)	726,037	23,086
Equity			
Accumulated surplus/(deficit)	(603,944)	726,037	122,093
Reserves	(99,007)	-	(99,007)
Total equity / (deficit)	(702,951)	726,037	23,086

23.8 The Statement of Financial Performance for the year ended 31 December 2018 and 31 December 2017, on a segment basis, are as follows:

<i>(thousands of US dollars)</i>	31-Dec-18		
	General and Related	Trust and UNDP	Total
Revenue			
Revenue from non-exchange transactions			
Assessments of Member Nations under Regular Programme	498,831	-	498,831
Voluntary contributions	88,421	961,314	1,049,735
Other non-exchange revenue	67,141	3,619	70,760
	654,393	964,933	1,619,326
Revenue from exchange transactions			
Exchange revenue	9,135	255	9,390
	9,135	255	9,390
	663,528	965,188	1,628,716
Total revenue			
Expenses			
Staff related costs	312,645	93,432	406,077
Consultants	90,071	164,970	255,041
Travel costs	31,838	70,885	102,723
Depreciation, amortization and impairment of long-lived assets	7,340	3,721	11,061
Training expenses	7,496	32,553	40,049
Contracted services	123,169	243,411	366,580
Grants and other transfer payments	7,340	16,841	24,181
Supplies and consumables used	30,239	147,391	177,630
Other expenses	1,846	45,781	47,657
Total expenses	612,014	818,985	1,430,999
Non-operating income and expenses			
Investment income / (expenses)	20,900	14,302	35,202
Foreign exchange gains / (losses)	(6,804)	(493)	(7,297)
Finance income / (expenses)	(37,492)	(14,302)	(51,794)
Total non-operating income and expenses	(23,396)	(493)	(23,889)
Surplus	28,118	145,710	173,828

<i>(thousands of US dollars)</i>	31-Dec-17 (Restated)		Total
	General and Related	Trust and UNDP	
Revenue			
Revenue from non-exchange transactions			
Assessments of Member Nations under Regular Programme	478,200	-	478,200
Voluntary contributions	70,484	986,369	1,056,853
Other non-exchange revenue	66,401	2,674	69,075
	615,085	989,043	1,604,128
Revenue from exchange transactions			
Exchange revenue	7,854	183	8,037
	7,854	183	8,037
Total revenue	622,939	989,226	1,612,165
Expenses			
Staff related costs	304,129	95,261	399,390
Consultants	106,045	154,119	260,164
Travel costs	45,446	68,832	114,278
Depreciation, amortization and impairment of long-lived assets	6,299	3,021	9,320
Training expenses	12,464	30,016	42,480
Contracted services	112,990	234,349	347,339
Grants and other transfer payments	5,365	26,586	31,951
Supplies and consumables used	26,096	143,044	169,140
Other expenses	1,644	22,682	24,326
Total expenses	620,478	777,910	1,398,388
Non-operating income and expenses			
Investment income	63,433	6,521	69,954
Foreign exchange gains / (losses)	15,113	(777)	14,336
Finance income / (expenses)	(34,897)	(6,522)	(41,419)
Total non-operating income and expenses	43,649	(778)	42,871
Surplus	46,110	210,538	256,648

Note 24. Statement of Comparison of Budget and Actual Amounts (Statement V)

24.1 The budget is prepared and approved on a modified cash basis. Under the modified cash basis of accounting, income and expenditures are recognized when a commitment to purchase the goods or services has been raised. The expenditures are classified by chapter as designated and approved in the Programme of Work. The budget level was approved in Conference Resolution 12/2017 and the budget distribution by chapter was approved by Council in Adjustments to PWB 2018-19 in December 2017. The approved budget represents the “net appropriation” for the fiscal biennial period from 1 January 2018 to 31 December 2019 and provides funding for the Regular Programme activities of the Organization. The expenditures recorded on the Trust Fund and UNDP accounts are included in Statement II of this document. As the approved budget covers a fiscal biennial period, the budgets presented in Statement V are based upon “calendarised” budget¹ at 50% of the biennial budget. The actual expenditures, prepared on the same basis as the budget,

¹ The breakdown of the approved budget between 2018 and 2019 takes account of the one-time costs associated with climate change negotiations and development of Green Fund projects, which were incurred in 2018, and assumes that all other programmes incur expenditures evenly throughout the biennium.

represent actual expenditures for the year ended 31 December 2018 on the modified cash basis of accounting.

Reconciliation between the actual amounts on a comparable basis and the cash flow statement

24.2 The financial statements have been presented on an accrual basis. Under the accrual basis of accounting, income and expenses are recognized when the underlying transactions occur. Additionally, the financial statements are classified based upon the nature of the transactions. As a result, the budget and the accounting bases differ. For the year ended 31 December 2018 and 31 December 2017, the actual amounts prepared on the same basis as the revised budget have been reconciled to the actual amounts presented in the Cash Flow Statement. The 2017 data has been restated due to the correction of the prior period error presented in note 2.58 to 2.60. The reconciliations are presented here:

<i>(thousands of US dollars)</i>	31-Dec-18			Total
	Operating	Investing	Financing	
Actual amount on comparable basis	540,136	-	-	540,136
Basis differences	82,429	-	-	82,429
Presentation differences	(1,211,782)	59,032	-	(1,152,750)
Entity differences	801,495	-	-	801,495
Actual amount on the Cash Flow Statement	212,278	59,032	-	271,310

<i>(thousands of US dollars)</i>	31-Dec-17 (Restated)			Total
	Operating	Investing	Financing	
Actual amount on comparable basis	636,074	-	-	636,074
Basis differences	(4,153)	-	-	(4,153)
Presentation differences	(1,372,473)	16,450	-	(1,356,023)
Entity differences	730,017	-	-	730,017
Actual amount on the Cash Flow Statement	(10,534)	16,450	-	5,916

24.3 Basis differences occurred due to differences between the modified cash basis supporting the actual amounts on a comparable basis to the budget and the accrual basis supporting the financial statements.

24.4 Timing differences have arisen as the current year cash flows include expenditures budgeted for in the prior period.

24.5 Presentation differences occurred due to differences in the format and classification methods adopted for presentation of the Cash Flow Statement and the Statement of Comparison of Budget and Actual Amounts, including the use of the budget rate of exchange in the Statement of Comparison of Budget and Actual Amounts. Presentation differences also include those resulting for classes of transactions not included within the budget. The most significant component of presentation differences arise from the fact that revenues are not included in the budget. Additionally, few investing activities and no financing activities are budgeted for by the Organization.

24.6 The entity differences arise due to the fact that all funds are required to be reported for financial reporting purposes, but are not included in the approved final budget. For example, the Trust Funds and UNDP are not included in the approved final budget, however they are presented in these financial statements.

Budget to actuals variance analysis

24.7 Material differences between the approved budget and the revised budget represent the amounts brought forward from the previous biennium and the amounts carried forward to 2019, as there are no annual chapter transfers effected in 2018. Budget utilization levels in 2018 were driven by a combination of the

following factors: (a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) implementation of the FAO Programme of Work and Budget 2018-19 (FC 175/8).

24.8 In 2018 there was a shortfall in expenditure of USD 49.0 million compared with the revised “calendarised” budget, which implies an overall expenditure of 89.9%. Spending in the first year of the biennium is habitually lower than in the second year. This is partly due to the management of budget on biennial basis on account of actions such as carry-over of divisional under-spending, through the allotments, into the second year of the biennium. The under-expenditure is also influenced by shifts in implementation.

24.9 The spending by budgetary chapter in 2018 follows the biennial forecasted trends reported to the Finance Committee in March 2019 (FC 175/8). These spending patterns when compared to the revised “calendarised” budget are due to the realignment of detailed work plans to address implementation realities in 2018.

Accordingly, the budget utilization level in 2018 for all chapters is the difference between the revised budget and budget rate net expenditure, as follows:

- i) Chapter 1 “Contribute to the eradication of hunger, food insecurity and malnutrition” budget rate net expenditure amounted to USD 37.3 million, representing 90.4% of the revised budget of USD 41.2 million;
- ii) Chapter 2 “Make agriculture, forestry and fisheries more productive and sustainable” budget rate net expenditure amounted to USD 88.5 million, representing 89.7% of the revised budget of USD 98.6 million;
- iii) Chapter 3 “Reduce rural poverty” budget rate net expenditure amounted to USD 31.1 million, representing 93.5% of the revised budget of USD 33.3 million;
- iv) Chapter 4 “Enable more inclusive and efficient agricultural and food systems” budget rate net expenditure amounted to USD 47.7 million, representing 90.1% of the revised budget of USD 52.9 million;
- v) Chapter 5 “Increase the resilience of livelihoods to threats and crises” budget rate net expenditure amounted to USD 23.1 million, representing 85.1% of the revised budget of USD 27.2million;
- vi) Chapter 6 “Technical quality, statistics and cross-cutting themes (climate change, gender, governance, nutrition)” budget rate net expenditure amounted to USD 30.1 million, representing 85.1% of the revised budget of USD 35.4 million;
- vii) Chapter 8 “Outreach” budget rate net expenditure amounted to USD 37.6 million, representing 95.6% of the revised budget of USD 39.3 million;
- viii) Chapter 9 “Information Technology” budget rate net expenditure amounted to USD 12.4 million, representing 68.7% of the revised budget of USD 18.1 million;
- ix) Chapter 10 “FAO governance, oversight and direction” budget rate net expenditure amounted to USD 29.7 million, representing 84.2% of the revised budget of USD 35.3 million; and
- x) Chapter 11 “Efficient and effective administration” budget rate net expenditure amounted to USD 27.4 million, representing 84.8% of the revised budget of USD 32.3 million.

24.10 The unspent balances on Chapter 7 Technical Cooperation Programme, Chapter 13 Capital Expenditure, and Chapter 14 Security Expenditure are fully carried forward for use in the subsequent financial period in line with the Financial Regulations, and therefore do not result in a variance against budget.

Note 25. Related parties

25.1 Total compensation and remuneration to key management personnel and other senior management for the year ended 31 December 2018 and 31 December 2017 were as follows:

(thousands of US dollars)

Employee Group	Number of Individuals	Number of Positions	Compensation	Entitlements	Pension and Health Plans	Total Compensation	Outstanding Loans
2018	4	4	1,079	275	206	1,560	-
2017	4	4	968	252	154	1,374	-

25.2 Key management personnel include the Director-General and the Deputy Director-Generals, as they have the authority and responsibility for planning, directing and controlling the activities of the Organization. The Conference consists of 194 Member Nations without personal appointment.

25.3 Compensation includes net salaries and post adjustment. Entitlements include allowances such as assignment and other grants, rental subsidies, education grants and personal effect shipment costs. Pension and health plans include the Organization's contribution with respect to the pension plan and health plan.

25.4 Each of the key management personnel, their close family members and other senior management are also qualified for other post-employment benefits at the same level as other employees. These personnel are also ordinary members of the UNJSPF. As these benefits cannot be reliably quantified on an individual or sub-group level, they have not been included in the above disclosure.

25.5 Advances are those made against entitlements, such as education grants, in accordance with staff rules and regulations and none have been made to the key management personnel. Such advances are widely available to the Organization's staff.

Note 26. *Interests in other entities*

Joint FAO / IAEA Division

26.1 The Joint Division of Nuclear Techniques in Food and Agriculture was established to operate in areas of common interest between the Organization and the International Atomic Energy Agency (IAEA), to avoid duplication of activities and promote synergy. As such, the Joint Division implements a Programme drawn up biennially in consultation between the two organizations. The operations and governance of the Joint Division are established by the Revised Arrangements between the Directors General of FAO and IAEA for the Joint FAO/IAEA Division of Nuclear Techniques in Food and Agriculture (the Arrangements). The Arrangements establish a binding arrangement whereby the two organizations are committed to undertake an activity that is subject to joint control. The Joint Division is not considered to be structured as a separate vehicle for the purposes of IPSAS 37 and is consequently accounted for as a Joint Operation.

Codex Alimentarius Commission

26.2 The Codex Alimentarius, or "Food Code" is a collection of standards, guidelines and codes of practice adopted by the Codex Alimentarius Commission. The Commission, also known as CAC, is the central part of the Joint FAO/WHO Food Standards Programme and was established by FAO and the World Health Organization (WHO) to protect consumer health and promote fair practices in food trade. Membership of the Commission is open to all Member Nations and Associate Members of FAO and WHO which are interested in international food standards. The Commission is a binding arrangement whereby the two organizations are committed to undertake an activity that is subject to joint control. The Commission is not considered to be structured as a separate vehicle for the purposes of IPSAS 37 and is consequently accounted for as a Joint Operation.

<http://www.fao.org/fao-who-codexalimentarius/en/>

Note 27. Events after the reporting date

27.1 The Organization's reporting date is 31 December for the 2018 IPSAS Financial Statements. The financial statements were authorized for issue on 31 March 2019, the date at which they were submitted to the External Auditor by the Director General. On the date of approval and signing of these accounts, there have been no material events, favorable or unfavorable, incurred between the reporting date and the date when the financial statements were authorized for issuance that would have impacted these statements.