United Nations

Corporate Guidance

for

International Public Sector Accounting Standards

Funding Arrangements

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1. INTRODUCTION

Revenues received by the United Nations Secretariat (United Nations) arise both from exchange and non-exchange transactions. A significant portion of the United Nations operations is financed from non-exchange transactions, including assessed contributions from Member States and voluntary contributions in cash and in kind from Member States, business organizations or the community at large.

The United Nations at times provides funds to an intermediary implementing partner or to an end beneficiary in the process of achieving its aims of facilitating cooperation in international law, international security, economic development, social progress, human rights, and achievement of world peace.

The arrangements of receiving funds (grants in) are referred to as **donor agreements**, while providing funds to implementing partners or end beneficiaries (grants out) are generally referred to as **funding agreements**. Both of these arrangements are covered under this guidance on non-exchange transactions.

The objective of this document is to present relevant guidance on accounting for donor and funding arrangements and briefly touch upon certain other accounting aspects like programme support costs, foreign currency impact and project assets in order for the United Nations to apply a comprehensive and consistent accounting treatment of revenue from non-exchange transactions across its entities. This document does not cover revenue recognition for exchange transactions.

This paper is primarily based on guidance under IPSAS 23 *Revenue from non-exchange transactions (Taxes and Transfers),* which deals with issues that need to be considered in recognizing, measuring and presenting revenue from non-exchange transactions.

2. DEFINITIONS

Exchange transactions: Transactions in which the United Nations receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services or use of assets) to another entity in exchange.

Non-exchange transactions: Transactions which do not meet the definition of exchange transactions. In a non-exchange transaction, the United Nations either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Donor agreement: In cases where the United Nations is a grantee, that is the United Nations receives contributions from donors, the terms of the transfer of funds are detailed in a contractual document with the donor referred to as the donor agreement.

Funding agreement: In cases where the United Nations is a grantor, that is the United Nations gives money to an implementing partner or end beneficiary, the terms of the transfer of funds are detailed in a contractual document referred to as a funding agreement.

Transfers are inflows or outflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the United Nations which may be classified as 'Restrictions' or 'Conditions'.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the United Nations can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.

Monetary items: Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Functional currency is the currency of the primary economic environment in which the United Nations operates.

Implementing Agency / Executing Agency: Substantive offices may operate in both roles. In the role of an implementing agency, the substantive office identifies the executing agency and enters into an agreement which facilitates effective oversight throughout the project implementing period. The timing of related cash flows is defined in the agreement with the executing agency. In these arrangements, the implementing agency retains the responsibility for reporting to the donor on the progress and eventual completion of the project.

The substantive office acts in the role of executing agency when that office executes the project directly and coordinates all related reporting to the donor in accordance with the terms of the related agreement with the donor.

The Global Environment Facility Trust Fund (GEF) Implementing Agency - An agency making the funding available and providing oversight during the entire project cycle and being held accountable to the GEF Council for delivering global environmental benefits. Responsibilities include ensuring fiduciary standards are applied, and supervising the development and implementation of projects, including monitoring and evaluation, on behalf of the GEF.

Goods in kind are tangible assets transferred to the United Nations in a non-exchange transaction.

Services in kind are services provided to the United Nations in a non-exchange transaction.

Contingent liability is a possible obligation that arises from past events but whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the United Nations, or a present obligation that arises from past events but is not recognized because: (a) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (b) the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the United Nations.

3. REVENUE RECOGNITION FOR NON-EXCHANGE TRANSACTIONS (GRANTS IN)

3.1 Overview of non-exchange arrangements at the United Nations

The programmes and activities of the United Nations are funded from assessed and voluntary contributions.

- **Assessed Contributions:**

  Assessed contributions cover the mandated activities of the United Nations Secretariat at all duty stations, the regional commissions, special political missions, the peacekeeping operations, the international tribunals and the capital master plan.

- **Voluntary Contributions:**

  Activities of United Nations that are not financed by assessed contributions are financed by voluntary contributions. Voluntary contributions are received by the United Nations from Member States, non-member states and other donors - private sector organizations (under international partnerships and/or global compact arrangements) and individuals.

  Voluntary contributions can be contributions:

  - In cash: The contribution is monetary normally made by funds transfer through a bank or by cheque.
  - In kind (Gifts and Donations): An in-kind contribution is a contribution in a form other than money. In-kind contributions include services in-kind, goods in-kind, or “right-to-use" assets (e.g. land, building, etc.).

Assessed and voluntary contributions are accounted for as non-exchange transactions because the United Nations receives value from donors without directly giving approximately equal value in exchange.

3.2 Revenue recognition for assessed contributions

3.2.1 ASSESSED CONTRIBUTIONS

Assessed contributions refer to the appropriations voted by the General Assembly to cover activities that are approved for funding from the main fund (also known as the regular budget), for peacekeeping operations, the international tribunals and the capital master plan. Assessments on Member States to finance the regular budget are calculated annually based on a scale of assessment which is determined triennially by the General Assembly on the advice of the Committee on Contributions. The annual appropriations relating to peacekeeping operations are financed from Member States' contributions assessed at a rate of assessment applicable to peacekeeping operations.

The appropriation approved for Tribunals is funded from Member States' contributions - 50 per cent of which is assessed at the scale of assessment applicable to the regular budget and 50 per cent at the rates of assessment applicable to peacekeeping operations.

The scale of assessment for the capital master plan is based on the regular budget scale of assessment for 2007.

Additionally assessed contributions also include contributions from certain non-member states which are party to the Statute of the International Court of Justice or treaty bodies financed from the United Nations appropriations.

3.2.2 RECOGNITION PRINCIPLE FOR ASSESSED CONTRIBUTIONS

An inflow of resources from a non-exchange transaction that is recognized as an asset should be recognized as **revenue**, except to the extent that a liability is also recognized in respect of the same inflow.

Revenue = Asset - Liability

Revenue recognition is based on an assessment of whether an asset or a liability has been created.

Since there is no specific condition (liability) attached to assessed contributions it must be determined when assessed contributions meet the criteria for recognition of an asset.

3.2.2.1 Asset recognition criteria

Assessed contribution will be recognized as an asset when:

a) **The United Nations controls the funds as a result of a past event:**

Assessed contributions represent legal obligations of Member States; accordingly the balances of unpaid assessed contributions due from Member States are recognized as receivables on the date the United Nations has legal right to claim the assessed contribution.

Assessed contributions are approved to be assessed for a one-year budget period or a portion thereof or for multiple years. Where budgets and/or appropriations are approved for multiple years, the related contributions are apportioned between the years of the budget period for payment and are recorded as revenue in the year to which the contribution relates, even if billed to Member States in a subsequent financial period. Assessed contributions are considered to be without conditions as they primarily pertain to expenses of the United Nations which are shared among by Member States.

and

b) **It is probable that the United Nations expects to receive an inflow of future economic benefits or service potential from the funds:**

This criterion has historically always been met for assessed contributions as the United Nations expects to receive the respective share of assessed contribution from a Member State. However, if there is an anticipated delay in the settlement of the assessed contribution - for instance, a Member State is temporarily excluded due to suspension - then the revenue to be recognized will be net of the anticipated arrears.

and

c) **The fair value of the funds can be reliably measured:**

Assessed contributions are in cash; accordingly, this criterion has always been met.

Example – Revenue recognition for assessed contribution

On 27 December 2013 under General Assembly resolution, assessed contribution of XYZ (Member State) for the year 2014 was $1,000,000.

Based on the above facts:

- The United Nations has a right to receive $1,000,000 from country XYZ on 1 January 2014.
- Country XYZ by way of acceptance of the budget has expressed its willingness to transfer funds to the United Nations.
- Country XYZ has historically transferred agreed upon funds to the United Nations without default.

Analysis:

On the basis of the binding agreement an asset of $1,000,000 should be recognized in the period to which it relates (2014 year). Contributions are considered due in full on the first day of the calendar year to which it relates. As the arrangement imposes no conditions on the transfer, a liability need not be recognized. Revenue for the increase in net assets of $1,000,000 should be recognized on 1 January 2014.

Accounting:

1 January 2014

Dr	Assessed Contribution Receivable – Current Asset	$1,000,000	
Cr	Assessed Contribution Revenue		$1,000,000

On the day of the cash receipt

Dr	Bank – Current Asset	$1,000,000	
Cr	Assessed Contribution Receivable – Current Asset		$1,000,000

Assessed contributions from non-member states will be presented as part of Assessed Contribution Receivable in the statement of financial position and the accounting entry will be same as above.

Note:

- For guidance on allowances for estimated irrecoverable receivables refer to UN IPSAS Corporate Guidance paper # 9 Financial Instruments.
- If contributions are paid in other currencies, the equivalent USD is calculated at the UN operational rate of exchange as of the date of transaction.

3.2.2.2 Adjustments to revenue from assessed contributions

Appropriations are financed by contributions from Member States that are assessed according to the scale of assessments determined by the General Assembly. These assessments are subject to adjustments in respect of, among other things, supplementary appropriations for which contributions have not previously been assessed, revenue attributable to Member States, contributions resulting from the assessment of new Member States, any uncommitted balances of the appropriations at the end of the budget period and expired balances of the appropriations retained from prior periods that are due to be surrendered to Member States, and credits in the Tax Equalization Fund not required to meet charges for tax reimbursements.

For the purposes of IPSAS, any supplementary appropriations not assessed shall be reported as receivables increasing assessed revenue in the year to which they relate, while any uncommitted balances of the appropriations at the end of the budged period and expired balances of the appropriations retained from prior periods shall be reported as provisions reducing assessed revenue. These provisions will continue to remain in the accounting records until the General Assembly decides the manner of their disposal.

Example – Adjustment to assessed revenue

Unencumbered balance of $120 million reflecting the difference between the final budget and actual expenditure (budget basis) for the biennium 2014-2015 of the United Nations is accounted as decrease in assessed revenue and a corresponding additional provision made to credits to Member States.

Note:

- Refer to UN IPSAS Corporate Guidance paper # 7 Provisions for details on accounting for provisions.

3.3 Revenue recognition for voluntary contributions

3.3.1 Voluntary Contributions

In addition to the programme work financed from assessed contributions (regular budget, peacekeeping operations, tribunals), additional activities are carried out by the United Nations in connection with those areas of work that are financed from **voluntary contributions**. These are extra budgetary resources that generally support or supplement the substantive work programme of the United Nations, provide humanitarian and/or other relief assistance, and provide technical assistance to developing countries either through multilateral arrangements or through the United Nations System.

3.3.2 RECOGNITION PRINCIPLE FOR VOLUNTARY CONTRIBUTIONS

The basic revenue recognition principle remains the same as explained above in section 3.2.2.

Revenue = Asset - Liability

Revenue recognition is based on an assessment of whether an asset or a liability has been created.

3.3.2.1 Asset recognition criteria

Voluntary contributions will be recognized as an **asset** when:

a) **The United Nations controls the funds as a result of a past event:**

The ability to exclude the access of others to the benefits of an asset is an essential element of control that distinguishes the Organization's assets from those public goods that any other entities have access to and benefit from.

The "past event" which gives rise to the control in the context of donor agreements is generally the point at which the binding agreement is entered into. Therefore, control can occur earlier than the actual transfer of funds, which would lead to recognition of a receivable.

The term binding agreement is important, for example, where a contribution letter is received and acknowledged, but the allocation of the funds to specific projects is not specified or agreed until a later date, it can be considered that a binding agreement is in place.

Control of an asset is also subject to the presence of stipulations in the donor agreement. If there are certain conditions that limit the usage of the funds and impose on the United Nations a return obligation, it may be difficult to state that the Organization has control of those funds, and therefore no asset should be recognized for those contributions, but a liability should be recognized instead.

and

b) **It is probable that the United Nations expects to receive an inflow of future economic benefits or service potential from the funds:**

The probability criteria, more than 50%, is applied as a recognition criteria to refer to the degree of certainty that the future economic benefits or service potential associated with the item will flow to the United Nations. Asset cannot be recognized at all if the probability criterion is not met.

Assessment of the degree of uncertainty attached to the flow of future economic benefits is made on the basis of the available evidence.

An example could be where the receipt of consideration is dependent on whether the donor can obtain funding, in which case recognition of asset would be delayed until that uncertainty was removed.

Past experience is one of the important indicators in the assessment of probability criteria. The United Nations bases this determination on its past experience with similar types of flows of resources and its expectations regarding the donor.

and

c) **The fair value of the funds can be reliably measured:**

Typically donor agreements have contributions in cash; accordingly, this criterion has historically always been met for cash contributions. Refer to section 3.4.4 for contributions in kind.

As compared to assessed contribution, where the United Nations has control over the manner in which the funds are managed, voluntary contributions usually have certain stipulations with regard to the usage of the transferred assets.

From an accounting perspective, it is very critical that all the stipulations are identified and further assessed to determine whether the stipulation is a condition or a restriction on the transferred asset. This is critical because a liability should be recorded for all conditions on the transferred assets but not for restrictions on the transferred assets. All stipulations on the transferred assets should be analyzed based on the following guidance.

3.3.2.2 Stipulations on transferred assets

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed by external entities on the use of a transferred asset.

Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations. In other words, if a term is unenforceable it cannot be considered as a stipulation on the transferred assets.

Stipulations imposed by donors on the use of transferred assets are classified as either **conditions** or **restrictions**.

Restrictions on transferred assets:

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but may not specify that the asset is required to be returned to the donor if not deployed as specified (i.e. no return obligation exists in case the stipulation is breached).

Restriction = Performance obligation

Restrictions on transferred assets may not include a requirement that the transferred asset is to be returned to the donor if the asset is not deployed as specified. Therefore, gaining control of an asset that is subject to a restriction may not impose on the United Nations a return obligation to third parties when control of the asset is initially gained.

Conditions on transferred assets:

Conditions on transferred assets are stipulations that specify that the asset is required to be consumed by the United Nations as specified, or the asset must be returned to the donor and/or the donor's participation is to be renegotiated (i.e. a return obligation or other renegotiation of the asset exists in case the stipulation is breached).

Condition = Performance obligation + Return obligation/renegotiation for non-compliance

A stipulation will be a condition if it imposes both the performance and return obligation/renegotiation of the level of participation for non-compliance. The assessment will be based on four criteria explained in section 3.3.2.3.

To identify whether a stipulation is a 'condition' or a 'restriction', it is necessary to assess whether it meets all the criteria of a 'condition' as explained in section 3.3.2.3, if not, then the stipulation would be categorized as a 'restriction'. Revenue recognition for a non-exchange transaction will depend upon whether there is a condition attached or not to a transferred asset. Sections 3.3.2.3 and 3.4 explain steps for determining if a condition exists on the transferred asset and accounting for non-conditional arrangements, respectively. Guidance on accounting for 'conditional' assets is provided in section 3.4.3.

3.3.2.3 Conditions on transferred assets

A condition only exists if **all** of the following criteria are met:

a) The asset should be used/ consumed for a particular purpose (performance obligation) and the performance obligation is one of substance not merely form; **and**

b) A condition must be specific on such matters as the nature or quantity of the goods and services to be provided, or the nature of assets to be acquired as appropriate and, if relevant, the periods within which performance is to occur; **and**

Example – Performance obligation

A national government makes a cash transfer of $50 million to a social housing entity (reporting entity), specifying that it:

- Increases the stock of social housing by additional 1,000 units over and above any other planned increases; or
- Uses the cash transfer in other ways to support its social housing objectives.

If neither of these stipulations is satisfied, the recipient entity must return the cash to the national government.

Analysis:

The stipulation of using cash for social housing project in the transfer agreement is stated so broadly that it does not impose a performance obligation on the social housing entity. Accordingly, it does not qualify as a condition on the transferred asset despite the fact that there is an obligation to return funds if the objectives are not achieved.

c) An enforceable return obligation exists in case the stipulation is breached and would be enforced by the donor; **and**

Example – Enforcement of return obligation by the donor

A United Nations reporting entity receives a grant of $500,000 from the bilateral aid agency of Country B. The grant agreement stipulates that the grant is used to rehabilitate deforested areas of Country A's existing wilderness reserves, but if the money is not used for the stated purpose, it must be returned to Country B. This is the thirteenth year that the United Nations has received a grant of this type from the same donor. In prior years, the grant was not used as stipulated, but was used to acquire additional land adjacent to national parks for incorporation into the parks. The United Nations did not conduct any rehabilitation of deforested areas in the past thirteen years. Country B's bilateral aid agency is aware of the breach of the agreement term.

Analysis:

The United Nations entity analyzes the transaction and concludes that, although the terms of the grant agreement are enforceable, because the bilateral aid agency did not enforce the condition in the past, and given no indication that it ever would, the terms have the stipulation and condition in form, but not in substance.

However, if the United Nations entity has no experience with the donor, or has not previously breached stipulations, it should be assessed, based on the facts and circumstances, whether the donor would enforce the stipulation and, therefore, whether the stipulation should be treated as a condition. Additionally, if the donor has historically requested back the amount unduly spent in the past, then it would be an important factor indicating that the stipulation should be treated as a condition.

d) Performance against the condition is monitored by the donor on an ongoing basis and the donor has the ability to assess the performance. The standard does not define the frequency of monitoring by the donor, however it should be determined based on contractual terms and other surrounding facts and circumstances, and non-compliance requires the return of the full contribution and/or other reassessment of the donor's participation in funding the project.

Examples of return obligations clauses in an agreement:

- "If the Organization fails to supply a final report by the final report deadline laid down in Article 2.6, and fails to furnish an acceptable written explanation of the reasons why it is unable to comply with this obligation, the Contracting Authority may refuse to pay any outstanding amount and recover any amounts unduly paid." – Agreement with the European Commission (FAFA).
- "Where the Organization undergoes legal, financial, technical or organizational change that is liable to affect this Agreement substantially or to call the award decision into question, the Contracting Authority will enter into discussions with the Organization and, failing a proper solution within one month, may terminate this Agreement without prior notice and without paying compensation of any kind. In that event the Contracting Authority may demand full or partial repayment of any amounts unduly paid, after allowing the Organization to submit its observations." – Agreement with the European Commission (FAFA).
- "If, at any time during the life of the award, or as a result of final audit, it is determined that DOS / USAID funds provided under this award have been expended for purposes not in accordance with the terms of this award, the recipient must refund such amounts to DOS / USAID." – Agreement with the United States.
- "The Department reserves the right to reduce its contribution, stop transfers prematurely or claim repayment of all or part of the funds transferred, amongst others, if contractual obligations are not met." – Agreement with Ireland.

3.4 Accounting for voluntary contributions

Voluntary contributions, pledges, promised donations and other transfers are recognized as revenue at the time when the agreement becomes binding, which is the point when the United Nations is deemed to acquire control of the asset:

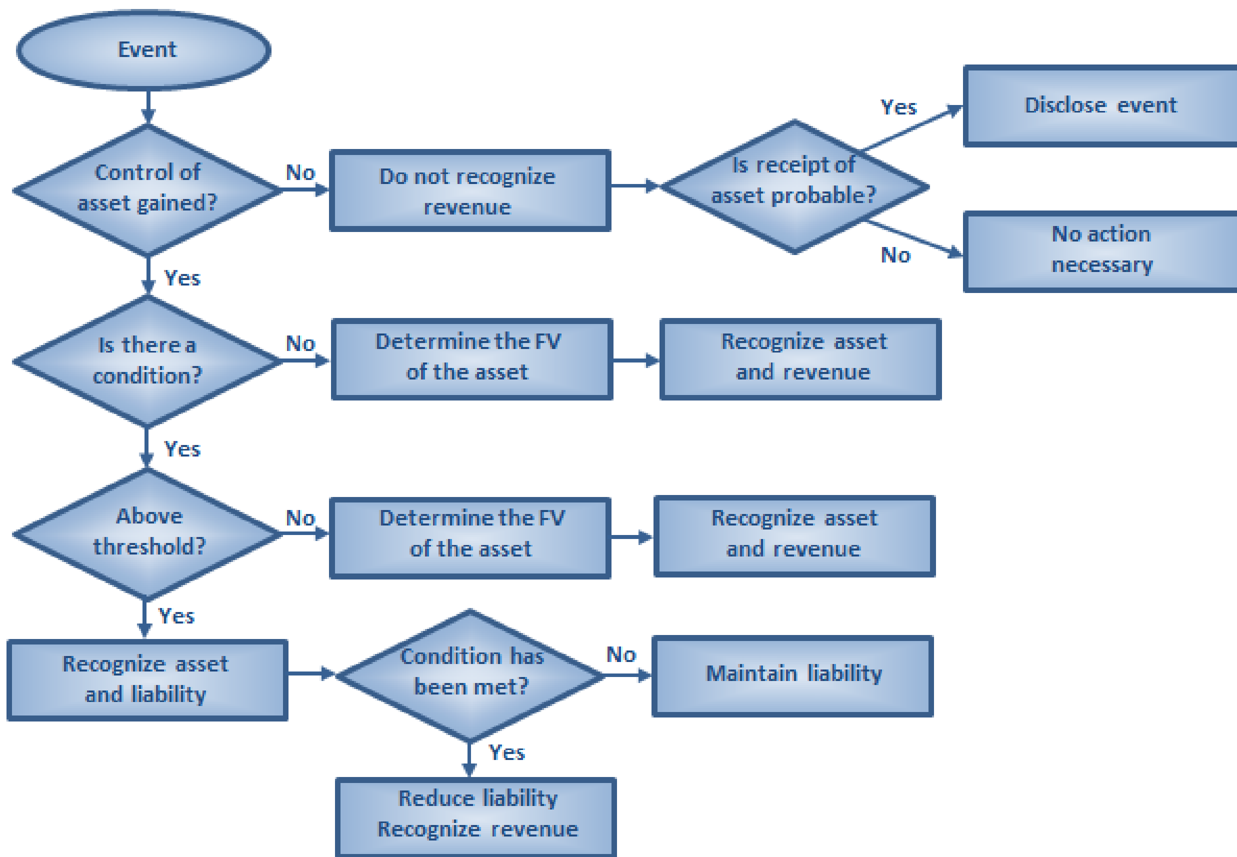
a) When voluntary contributions and transfers are supported by legally enforceable agreements, unless the agreement establishes a condition that requires the recognition of a liability if above a threshold – in such cases, revenue is recognized as the liability is discharged (guidance on accounting for conditional arrangements is provided in section 3.4.3);
b) When a contribution/pledge letter is accepted and acknowledged;
c) When contribution is received along with the pledge letter, but have not yet been formalized by acceptance;
d) When contribution is received without the pledge letter, but is formalized by acceptance, and the origin and purpose of funds are known.

Therefore, for voluntary contributions, not supported by legally enforceable agreements, the point for revenue recognition will be the earlier of the acceptance letter or transfer of funds.

For instances, where cash is received in advance of a binding agreement, the advance should be recorded as an asset with a corresponding liability, if the origin and the purpose of funds credited remains unknown.

There are particular cases of fundraising activities conducted by another party over which the United Nations does not have control, such as the United Nations Foundation (UNF) contributions to the United Nations Fund for International Partnerships (UNFIP), where both the Terms and Conditions and the Project Document indicate a higher amount of contributions than that actually contributed to the UNFIP. Since the UN is not in a position to reliably measure the revenue based on the amount indicated in the Terms and Conditions, revenue shall be recognized at the time of receipt of Cash Disbursement Authorization (CDA), which indicates exactly the amount to be contributed to UNFIP. The remaining portion of the funding will be disclosed in the notes to the financial statements.

Flowchart – Revenue recognition for voluntary contributions



Example –- Voluntary contribution in non-USD denominated currency

The United Nations is receiving funding of €1,000,000 to support the implementation and monitoring of projects specified in the United Nations Flash Appeal for assistance to Country A. First installment of €500,000 is to be received on the date of signing the agreement upon request from the United Nations on 30 November 2014 and the balance of the funding was received on 28 February 2015. The United Nations treasury converts EUR to USD on the day cash is received.

The United Nations Operational Rates of Exchange (UNORE) announced by the United Nations Treasury:
30 November 2014: €1 = $1.25
31 December 2014: €1 = $1.40
28 February 2015: €1 = $1.50

Analysis:

Revenue recognition:
On the basis of the signed, binding agreement, an asset of €1,000,000 should be recognized. As the agreement imposes no stipulation on the transferred asset, there is no liability requiring recognition. Instead, revenue for the increase in net assets of €1,000,000 is recognized on the date of the signing of the binding agreement (30 November 2014).

Currency impact:
Initial recognition of non-USD denominated currency transaction:

IPSAS Guidance:

- A non-USD denominated currency transaction is recorded, on initial recognition in the functional currency, by applying to the non-USD denominated currency amount the spot exchange rate between the functional currency and the non-USD denominated currency at the date of the transaction. The date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IPSAS.

Application at the United Nations:

- The functional currency and the presentation currency of the United Nations is the US dollar. At the date of transaction, a non-USD denominated transaction shall be recorded in US dollars (functional currency) by applying to the non-USD denominated amount the exchange rate between that currency and the US dollar announced by the United Nations Treasury for that period.

- On 30 November 2014, €1,000,000 will be recognized as revenue with €500,000 as cash received and €500,000 as receivable at the UNORE rate of $1.25 per €. The foreign exchange adjustment on the amount received in cash - arising from the difference between the (€/USD) spot rate and the UNORE on the date of the deposit is posted to the exchange gain/loss account at the project level.

Subsequent measurement of non-USD denominated currency transaction:
IPSAS Guidance:

- Foreign currency monetary items outstanding at the end of the period end date are translated using the closing rate. Monetary items are units of currency held and assets and liabilities to be received or paid in fixed or determinable number of units of currency.
- Exchange differences arising on the settlement of monetary items[1], or on translating monetary items are recognized in the statement of financial performance in the period in which they arise, except in certain specific situations.

Application at the United Nations:

- At each reporting date, non-USD denominated monetary items in the statement of financial position (other than the functional currency), shall be translated using the official closing rate for that reporting date.
- Exchange gains and losses resulting from the settlement of transactions other than in the functional currency and from translation shall be included in the statement of financial performance.
- On 31 December 2014, Receivable of €500,000, a monetary item, will be converted at $1.40 per €. Because the value of € has appreciated since the recognition of receivable there will be an exchange gain recognized in the statement of financial performance for the year ended 31 December 2014.
- On 1 January 2015, the unrealized exchange gain recorded at the end of prior period will be reversed.
- On 28 February 2015, €500,000 received will be converted to $ at the UNORE rate and exchange gain recognized in the statement of financial performance for the year ended 31 December 2015. Note also that an additional gain/loss adjustment will be required to record any difference between the spot rate and the UNORE on the settlement date.

[1] *Monetary Items*
Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Accounting entries:

30 November 2014: On the day of signing agreement and receipt of cash

		Dr	Cr
Dr	Voluntary Contribution Receivable – Current Asset	$625,000	
Dr	Bank – Current Asset	$625,000	
Cr	Voluntary Contribution Revenue		$1,250,000

31 December 2014: Year end (($ 1.4-1.25)* €500,000)

		Dr	Cr
Dr	Voluntary Contribution Receivable – Current Asset	$75,000	
Cr	Exchange gain		$75,000

Option 1: The United Nations **reverses** the entry to record unrealized foreign exchange gain recorded at the end of previous period.

1 January 2015: Reversal of exchange gain recorded on 31 December 2014: (($ 1.4-1.25)* €500,000)

		Dr	Cr
Dr	Exchange gain	$75,000	
Cr	Voluntary Contribution Receivable – Current Asset		$75,000

28 February 2015: On the day of cash receipt (($ 1.5-1.25)* €500,000)

		Dr	Cr
Dr	Bank – Current Asset	$750,000	
Cr	Voluntary Contribution Receivable – Current Asset		$625,000
Cr	Exchange gain		$125,000

Option 2: The United Nations **does not reverse** the entry to record unrealized foreign exchange recorded at the end of previous period.

28 February 2015: On the day of cash receipt (($ 1.5-1.40)* €500,000)

		Dr	Cr
Dr	Bank – Current Asset	$750,000	
Cr	Voluntary Contribution Receivable – Current Asset		$700,000
Cr	Exchange gain		$50,000

3.4.1 PLEDGED CONTRIBUTIONS

The first step will be to assess whether the pledge meets the recognition criteria for an asset. Since the pledges are non-conditional, revenue should be recognized on the date the asset can be recognized as per the asset recognition criteria mentioned above in section 3.2.2.1.

Example – Contributions to Central Emergency Response Fund (CERF)

Following are the scenarios of pledges to the programme activities in 2016 and the explanation of their accounting treatment as of 1 February 2016:

Pledge	Date of the Pledge Letter	Date of the Receipt of Funds	Acknowledgement* by the United Nations of the Contribution	Accounting Treatment of the Pledges
1	15 December 2015	21 December 2015	28 December 2015	The pledge letter together with the receipt of funds and/or with the acceptance letter, give rise to a binding agreement, the earlier of the dates of the acceptance letter or transfer of funds will be taken as a basis for revenue recognition – 21 December 2015
2	15 December 2015	20 January 2016	28 December 2015	The point for revenue recognition will be the earlier of the acceptance letter or transfer of funds - 28 December 2015
3	15 December 2015	20 January 2016	No acceptance letter	Revenue should be recognized on 20 January 2016. At year end a disclosure will be made in 2015 financial statements, if the receipt of funds is probable and measurable.
4	15 December 2015	No receipts	28 December 2015	Revenue will be recorded on 28 December 2015, when the pledge is formalized by acceptance.
5	15 December 2015	Not receipt	20 January 2016	Revenue will be recorded on 20 January 2016, when the pledge letter is formalized by acceptance. At year end a disclosure will be made, if the receipt of funds is probable and measurable.

6	15 December 2015	No receipts	No acceptance letter	If the receipt of funds is probable and measurable, a disclosure should be made in the notes to 2015 financial statements.
7	No pledge letter	21 December 2015	21 December 2015	When contribution is received without the pledge letter, and is formalized by acceptance, since the origin and purpose of funds are known, revenue is recorded as at the date of the acceptance letter - 21 December 2015
8	No pledge letter	31 December 2015	No acceptance letter	There could be cases when donors would transfer the yearly contributions without formal communication. Based on prior history with the donor and providing that the origin and purpose of funds are known, the professional judgment could be applied to consider recording revenue in 2015 (even though not formalized by acceptance at year end – substance over form). That is why it is highly encouraged that all the receipts of funds are formalized by acceptance. If the origin and the purpose of funds credited remains unknown, an advance receipt liability is recognized.

* Acknowledgement represents the date the United Nations accepts the pledge money – it could be either the confirmation of the funds receipt or/and confirmation that the funds will be used for the purpose specified by the donor (prior the receipt of funds), which together with the pledge letter gives rise to a binding agreement.

Example – Pledged contributions

In 2016, a UN programme received a Note Verbale from a government for $1,000,000 in pledge for the year 2017. There are no conditions or restrictions. Cash was received in the amount of $600,000 in 2016. How should the pledge and contributions be accounted for if:

(a) the letter of acceptance is issued by the UN in 2016

Analysis:
The total amount of $1,000,000 is recognized as revenue in 2016, since the binding agreement is in place once the pledge is accepted, this is also the point when a receivable of $400,000 is recorded:

Year 2016:

Dr Cash	$600,000
Dr Voluntary Contribution Receivable	$400,000
Cr Voluntary Contribution Revenue	$1,000,000

(b) the UN issues the letter of acceptance in 2017

Analysis:
Only $600,000 is recognized as revenue in 2016 (the Note Verbale together with the cash receipt give rise to the binding agreement), the remaining amount of $400,000 is recognized as revenue at the earlier of the dates when the UN issues the acceptance letter or receives $400,000 in 2017, bringing the total revenue to $1,000,000 from this particular donor for the programme, however only $400,000 is recognized as revenue in 2017 (another part of $600,000 is recognized before in 2016)

Year 2016:

Dr Cash	$600,000
Cr Voluntary Contribution Revenue	$600,000

Year 2017:

Dr Voluntary Contribution Receivable	$400,000
Cr Voluntary Contribution Revenue	$400,000

3.4.2 Unconditional multi-year voluntary donor agreements

Agreements with donors in which the undertaking to provide funding is spread across more than one accounting period are referred to as **multi-year donor agreements**. Revenue from a multi-year donor agreement is generally in the nature of voluntary contributions. Multi-year voluntary contribution agreements are usually unconditional; however there are certain multi-year voluntary contribution agreements that are conditional. Refer to sections 3.3.2.3 and 3.4.3 for revenue recognition of conditional funding agreements. This section discusses revenue recognition guidance for unconditional multi-year voluntary contribution donor agreements.

The full amount relating to these unconditional multi-year agreements is recognized as revenue when the agreement becomes binding.

There are cases where multi-year donor agreements include a clause indicating that future installments under the agreement are subject to parliamentary law/approval or any similar actions by a third party. For these cases, provided that in the past those agreements with such type of clause have been honored by the donors, revenue should be recognized for those future installments upfront when the agreement becomes binding.

In cases of fundraising activities conducted by another party over which the United Nations does not have control (such as the UN Foundation contributions to the UNFIP), revenue shall be recognized at the time of receipt of cash disbursement authorization and the remaining portion of the funding will be disclosed in the notes to the financial statements.

In a specific case, such as the Junior Professional Officer (JPO) programme, revenue shall be recognized in the period where the JPO provides service to the United Nations and yearly contribution shall be recorded upfront once the services commence (i.e. if an agreement is signed in July with annual amounts outlined, a yearly contribution will not be prorated, but one year contribution will be recorded as revenue once yearly services commence). Any contributions received for services commencing in the future periods shall be recorded as an advance liability.

Transactions arising from the return of unused funds should be recorded as a reduction of revenue in the current financial period when the outflow is probable and measurable. The same accounting treatment is applicable to return of unused funds relating to revenues recorded in a previous financial year.

Example – Multi-year voluntary donor agreement

In 2016 a memorandum of understanding was signed with a donor who pledged $1,000,000 yearly from 2016 through 2018 subject to parliamentary appropriations (amounts are earmarked to these years as opposed to installments payment schedule). There are no conditions or restrictions. The donor paid $1,000,000 in 2016 as planned.

Analysis:

Since the parliamentary approval does not preclude upfront recognition of revenue, control of the asset is in place once the MoU is signed by both parties, this is when revenue is recognized for the full amount.

Accounting entries in 2016:

Dr	Cash	$1,000,000	
Dr	Accounts Receivable	$2,000,000	
Cr	Voluntary Contribution Revenue		$3,000,000

Note:

A review of the collectability of voluntary contributions receivable should be performed to identify amounts, which are no longer receivable/deemed irrecoverable:

- Accounting adjustments can be made if the receivable is no longer a receivable due to amendment in the agreement or when project is complete and no more funding is required or communication is received from the donor for decrease in funding or cancellation of pledge. These adjustments should be recorded as a reduction of revenue in the current financial period, and the same accounting treatment is applicable for revenues and the corresponding receivables recorded in a previous financial year;
- A write off of receivable will be required when the expected contribution was already spent before receiving the cash.

For guidance on allowances for estimated irrecoverable receivables refer to UN IPSAS Corporate Guidance paper # 9 Financial Instruments.

3.4.3 CONDITIONAL VOLUNTARY CONTRIBUTIONS

3.4.3.1 Initial recognition

The following is recognized for conditional funding agreements at initial recognition:

a) An **asset**; and
b) A **liability** for the conditions attached to the funding agreement (section 3.3.2.3. provides detailed explanation of conditions); and
c) **Revenue** to the extent that a liability is not recognized.

The positions are measured as follows at initial recognition:

- The acquired **asset** is measured at its fair value as at the date of acquisition;
- The amount recognized as a **liability** is measured at the best estimate of the amount required to settle the obligation at the reporting date, e.g. revalued at year end. (In most arrangements at the United Nations where conditions exist, the liability will approximate to the fair value of the corresponding asset at initial recognition);
- The amount of the increase in net assets, if any, will be recognized as **revenue**.

3.4.3.2 Subsequent recognition

As the United Nations satisfies an obligation recognized as a liability (i.e. as the condition is satisfied) in respect of a conditional funding agreement, there will be a reduction in the carrying amount of the liability and recognition of **revenue** equal to the amount of reduction in liability.

The timing of subsequent revenue recognition is determined by the nature of the conditions and their settlement. For example, if a liability was initially recognized for a condition that specifies that the United Nations is to provide specific goods or services to third parties, then revenue is recognized as those specific goods or services are provided.

Depending on the nature of the condition, it may be fulfilled progressively, permitting the United Nations to reduce the amount of the liability and recognize revenue progressively, or it may only be fulfilled on the occurrence of a particular future event, in which case the United Nations entity eliminates the liability and recognizes revenue when that event occurs.

Example – Conditions

The European Commission proposes to provide grant funds of $150,000 to the United Nations to deliver a fellowship programme. Grant funds are received upon signature of the agreement to cover the fellowship programme from 1 April 2013 to 31 March 2014.

The agreement specifies that:

- The United Nations is responsible to implement the fellowship programme;
- The United Nations will consult and involve the European Commission in the fellowship programme;
- The United Nations will submit a financial report to the European Commission on the utilization of the grant by 30 June 2014 and any unspent grant funds will be refunded before 30 September 2014;
- The grant funds will be used for eligible costs, including 7% programme support cost charges for the United Nations; and
- The United Nations agrees to re-pay European Commission for any breach of terms and conditions of the agreement[2].

The past experience of the United Nations with the European Commission has been that the terms of the contract are strictly enforced and there have been instances where the United Nations had to repay grant funds for breach of terms.

Analysis:

The United Nations analyzes the transaction and concludes that, the stipulations of the grant agreement are akin to conditions primarily because the agreement specifies how the grant funds will be used, involvement of European Commission, the United Nations past experience with European Commission and re-payment of any unduly used funds to European Commission.

The United Nations recognizes the grant money as an asset and a liability in respect of the condition attached to the grant. As the United Nations satisfies the condition, that is, as it makes authorized expenditures, it progressively reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Accounting entries:

Upon signature of the agreement[3]:

Dr	Voluntary Contribution Receivable – Current Asset	$150,000	
Cr	Liabilities for conditional arrangements		$150,000

[2] This requires the return of the EC's contribution or at least the re-computation of the EC's participation in the project.
[3] As this is specifically earmarked for the fellowship project, it should be recorded at the project level.

Upon receipt of grant money:

Dr	Cash	$150,000	
Cr	Voluntary Contribution Receivable – Current Asset		$150,000

Upon incurring eligible expenses for the fellowship programme (recorded at project level within the programme)

Dr	Expenses	$140,187	
Cr	Accounts payable /Cash		$140,187

Indirect expenses for fellowship programme:
The earmarked contribution and related direct and indirect expenditure must be recorded at project level. PSC Income (based on actual direct expenditure) is credited to the PSC Income Fund.

Please refer to section 4.3 for further discussion on programme support cost.

Revenue recognized upon eligible expenditure for fellowship programme ($140,187 + $9,813) at the project level.

Dr	Liabilities for conditional arrangements	$150,000	
Cr.	Voluntary Contribution Revenue		$150,000

Example – Conditional revenue recognized based on estimate

Donor ABC proposes to provide grant funds of $150,000 to the United Nations to deliver a health programme. Grant funds are received upon signature of the agreement to cover the health programme from 1 April 2013 to 31 March 2014. The agreement was signed and cash received on 1 April 2013.

This agreement is assumed to be a **conditional non-exchange** transaction.

Budget approved by ABC is as follows:

Direct cost	136,364
PSC - 10%	13,636
Total	150,000

Project implementation:

The United Nations is responsible to implement the health programme. The United Nations appointed implementing agency XYZ to help implement certain portions of the health programme.

The expenditure budget is as follows:

	Total	UN	XYZ
Direct cost	136,364	36,364	100,000
PSC - 10%	13,636	13,636	-
Total	150,000	50,000	100,000

Expenditure by the United Nations:

The United Nations incurred direct expenditure of $36,364 during the year ended 31 December 2013

Expenditure by agency XYZ:

The amount of $100,000 was transferred upon approval to implementing partner XYZ on 1 July 2013. On 31 January 2014, the implementing partner XYZ submitted a detailed expense report for $70,000 expensed prior to 30 November 2013. On further enquiry, XYZ informed the United Nations that additional estimated expenditure of $30,000 was incurred in December 2013.

It is assumed that the expenditure will be recognized as expense and does not qualify for capitalization as PPE or inventory.

Approval of expense reports by ABC:

Donor had approved direct expense of $106,364 ($70,000 by agency XYZ and $36,364 by the United Nations) however approval of direct expenditure of $30,000 was in process as of the date the financial statements were finalized.

Based on past experience with donor ABC's assessment of expenditure, it was probable that the expense would be approved by donor ABC.

Analysis:

Expense recognition:

Expense will be recognized as incurred by the United Nations and XYZ. Expenses related to the transfers to XYZ should be recognized when XYZ delivers the agreed services as evidenced by the submission of expense reports.

Revenue recognition:

As the transaction is assumed to be conditional; the United Nations recognizes the grant money as an asset and a liability in respect of the condition attached to the grant. As the United Nations satisfies the condition, that is, as it makes/records authorized expenditures, it progressively reduces the liability and recognizes revenue in the statement of financial performance of the reporting period in which the liability is discharged.

Journal entries:

1 April 2013 - Upon signature of the agreement[4]:

Dr	Voluntary Contribution Receivable – Current Asset	$150,000	
Cr.	Liabilities for conditional arrangements		$150,000

1 April 2013 - Upon receipt of grant money:

Dr	Cash	$150,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$150,000

1 July 2013 – Advance transferred to XYX

Dr	Advance transfer	$100,000	
Cr.	Cash		$100,000

Upon incurring eligible expenses for the health programme by the United Nations

Dr	Expenses	$36,364	
Cr.	Accounts payable /Cash		$36,364

Indirect expenses:

[4] Entry made at the project level as these funds are earmarked.

The earmarked contribution and related direct and indirect expenditure must be recorded at project level. PSC Income (based on actual direct expenditure) is credited to the PSC Income Fund.

Please refer to section 4.3 for further discussion on programme support cost.

Upon incurring eligible expenses for the health programme by XYZ

		Dr	Cr
Dr	Expenses	$70,000	
Cr.	Advance transfer		$70,000

Upon receipt of expenditure reports by XYZ:

		Dr	Cr
Dr	Expenses	$30,000	
Cr.	Advance transfer[5]		$30,000

Revenue recognized upon approval of expense report up to November 2013:

($70,000+$36,364 = 106,364 + 10% = 117,000)

		Dr	Cr
Dr	Liabilities for conditional arrangements	$117,000	
Cr.	Voluntary Contribution Revenue		$117,000

Revenue recognized for upon approval of expenditure by ABC:

($30,000 + 10% [6] = 33,000)

		Dr	Cr
Dr	Liabilities for conditional arrangements	$33,000	
Cr.	Voluntary Contribution Revenue		$33,000

3.4.3.3 FAFA agreements

All European Commission (EC) agreements under the Financial and Administrative Framework Agreement (FAFA) will be accounted for as having conditions because the European Commission has requested refunds in the past where the funds were not used in accordance with the agreement.

- The initial recognition point of the asset/liability is the signature of the agreement by both parties.
- The asset/liability is measured at the total amount of the agreement.

[5] Advances in respect of accrued expenditure are reversed in the subsequent accounting period – eventually cleared when the expenditure report is received from the implementing partner.

[6] PSC charged to the project is credited to the PSC Income fund.

- Revenue is recognized when the eligible expenditure on a modified cash basis is incurred in accordance with the donor agreement.
- For conditional voluntary contribution agreements up to $50,000, the full amount shall be recognized as revenue upfront for Volumes I and II. All other United Nations reporting entities will apply appropriate thresholds depending upon assessed materiality and the size of their operations.

Note: It is important for every office to review the events and circumstances during the period to assess whether any contract that is currently accounted for as non-conditional should be accounted for as conditional or not.

3.4.4 VOLUNTARY CONTRIBUTIONS IN KIND (GIFTS AND DONATIONS)

Gifts and donations are voluntary transfers of assets - including goods in kind, services in kind, "right-to-use" arrangements with respect to assets (e.g. land or building) - that the United Nations receives from a government, an entity, whether within or outside the UN system or an individual.
Examples of goods in kind are donated materials, equipment, inventory etc.
Examples of services in kind are donated labor, non-reimbursable loan of personnel from governments, non-chargeable photocopy and mail services from the donor, travel tickets for the United Nations employees, etc.

Example – Voluntary contribution in kind

A national government (donor) transfers the title of 200 hectares of land in a major city to a United Nations reporting entity for the establishment of a training center on 1 July 2016. The transfer agreement dated 1 July 2016 specifies that the land is to be used for a training center, but does not specify that the land is to be returned if not used for that purpose. The land has a fair value of $1,000,000 on 1 July 2016.

Analysis:

On analyzing the instruction for the use of land it seems that if there is any breach by the United Nations with regard to the usage of land, the donor may have the option of seeking a penalty against the United Nations. A breach by the United Nations may result in penalty for the United Nations and instruction for future use of land but the United Nations need not return the land back to the donor. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the instruction for the use of land. Hence the stipulation for use of land is in the nature of a restriction.

The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore the United Nations recognizes the land as an asset in the balance sheet with the corresponding revenue from voluntary contribution in the reporting period in which it obtains control of that land.

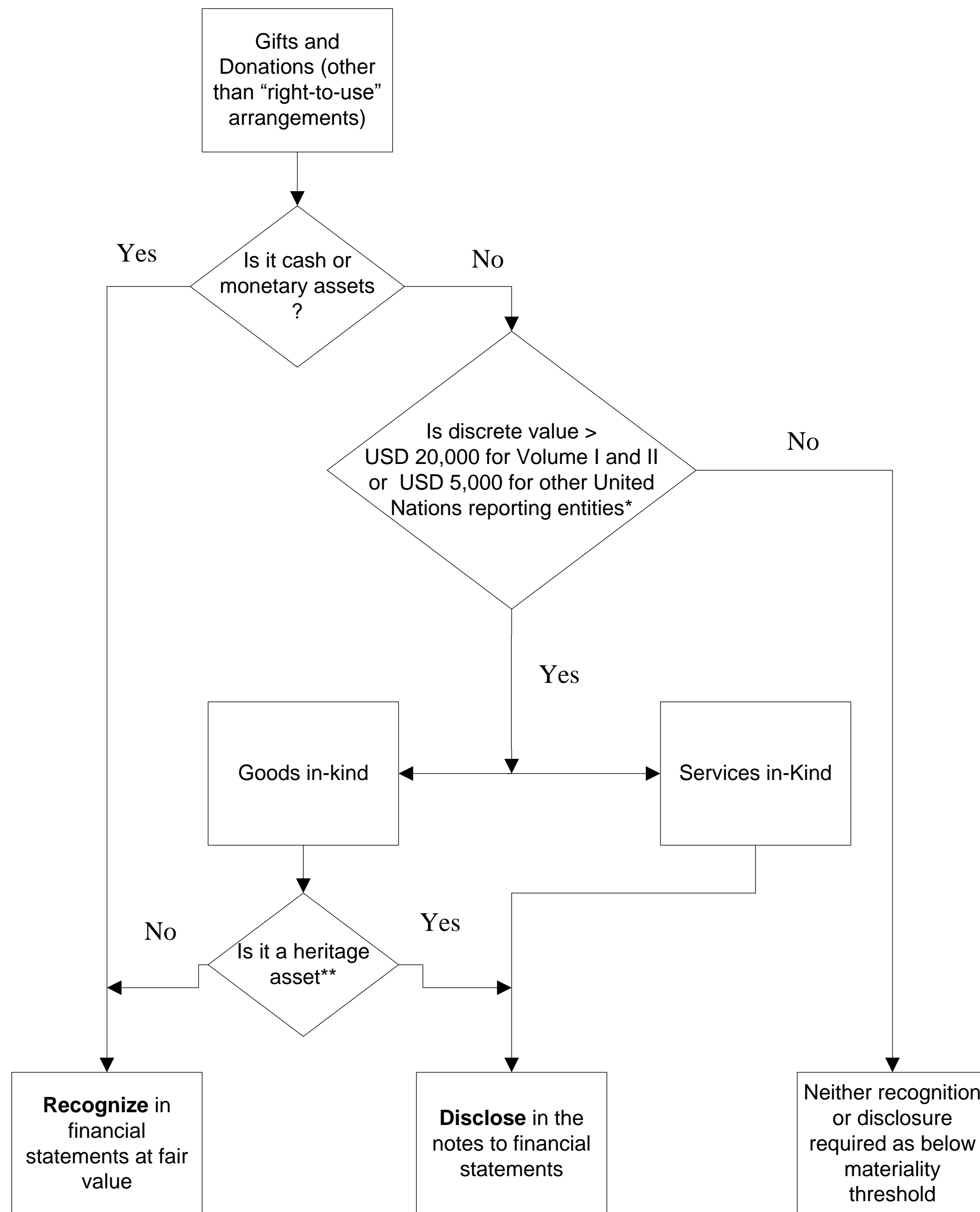
Further, the United Nations should disclose the amount of assets recognized that are subject to restrictions and the nature of those restrictions.

Accounting entries:

1 July 2016:

Dr	Property, Plant and Equipment – Land	$1,000,000	
Cr	Voluntary Contribution Revenue – In kind		$1,000,000

Flowchart - Recognition, measurement and disclosure for gifts and donations other than "right-to-use" arrangements



* For Volumes I and II: The asset meets the minimum cost threshold of USD 20,000 except for the following commodity groups for which the lower threshold of USD 5,000 is applicable: a) Vehicles; b) Prefabricated buildings; c) Satellite communication systems; d) Generators; and e) Network equipment.

** Heritage assets: Some assets are described as heritage assets because of their cultural, educational or historical significance. Examples include works of art, monuments and historical buildings. Heritage assets should be disclosed in the notes to financial statements as they represent gifts received that are of a capital nature that cannot be used in the programmatic activities of the United Nations and the United Nations would not have purchased that asset otherwise.

Note: If the donor provides the United Nations simultaneously with all types of 'in-kind' contributions then the total value of the donation should be allocated between goods in kind, and/or services in kind, and/or "right-to-use" arrangements for IPSAS accounting and disclosure purposes.

3.4.4.1 Recognition and measurement of goods in kind

The principle of **recognizing** revenue for 'goods in kind' is consistent with guidance for non-exchange transaction. 'Goods in kind' are recognized as assets when all asset recognition criteria as explained in section 3.3.2.1 are met; normally when the goods are received, or there is a binding arrangement to receive the goods. If 'goods in-kind' are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied. A threshold of USD 20,000 for Volumes I and II (USD 5,000 for other United Nations reporting entities) per discrete contribution is in place regarding the recognition of goods in kind, except for the following commodity groups for which the lower threshold of USD 5,000 is applicable: a) Vehicles; b) Prefabricated buildings; c) Satellite communication systems; d) Generators; and e) Network equipment.

The assets acquired through non-exchange transactions should be **measured** at their fair value as at the date of acquisition. Fair value represents the actual value the United Nations accrues as a result of the transaction. The initial measurement of assets acquired through non-exchange transactions at their fair value is consistent with the approach taken in IPSAS 12 *Inventories,* and IPSAS 17 *Property, Plant and Equipment*. Please refer to the UN IPSAS Corporate Guidance paper # 4 - Inventories and paper # 6/ #10 - Infrastructure assets/ PP&E.

3.4.4.2 Disclosure of services in kind

The principle of **recognizing** revenue for 'services in kind' is an exception to the guidance on recognition of non-exchange transactions. The United Nations does not recognize services in kind. However, the disclosure of the nature and type of services in kind received during the reporting period is required if they are *material*. The disclosure to the financial statements should include information about services in kind with a value above USD 20,000 for Volumes I and II (USD 5,000 for other United Nations reporting entities), per discrete contribution, **measured** at fair value.

The recommended classes of 'services in kind' for note disclosures are:

a) Technical assistance/expert services;
b) Administrative support;
c) Participation in training;
d) Other services in kind.

3.4.4.3 Examples of goods in kind and services in kind

IPSAS 23 provides the following guidance for the classification of 'goods in kind' and 'services in kind':

- **Goods in kind** are tangible assets transferred to the United Nations in a non-exchange transaction.
- **Services in kind** are services provided to the United Nations in a non-exchange transaction.

Further IPSAS 31 provides examples of certain assets to be classified as 'Intangible assets' that are acquired through Non-Exchange Transaction.

Since IPSAS guidance is very generic, professional judgment should be applied to determine how the gift or donation should be classified.

Goods in kind' and 'Services in kind' for IPSAS will include only those goods and services that are received by the United Nations. Benefits to employees of the United Nations, i.e. exemption of payment of duty on a car are not accounted for as gifts and donations.

The following table summarizes 'goods in-kind' or 'services in-kind' that are typically received by the United Nations:

Category	**Classification**	**Fair value determination**	**Accounting treatment assuming that the goods or services are unconditional and above threshold**
Machinery and equipment	Goods in kind	Refer to the UN IPSAS Corporate Guidance paper # 6/ #10 Infrastructure assets/ PP&E.	Dr PP&E Cr Revenue - Contributions in-kind
Fuel, rations, medicines and water	Goods in kind	Refer to the UN IPSAS Corporate Guidance paper # 4 Inventories.	Dr Inventory Cr Revenue - Contributions in-kind
Registration of United Nations vehicles	Services in kind (Subsidy on PP&E)	Compare to a fee for registration of private vehicles.	Note disclosure if above the threshold
Annual road fitness fee	Services in-kind	Obtained from Government/host country authorities.	Note disclosure if above the threshold

Category	Classification	Fair value determination	Accounting treatment assuming that the goods or services are unconditional and above threshold
Right-to-use a particular radio frequency/ Airport landing rights / Broadcasting rights / Import licenses or quotas	Intangible assets (IPSAS 31.43 specifically considers this as intangible assets)	Use rates charged by airports/ commercial broadcasting right fees. For military airports, estimate using IATA rates - however *restrictions* on the use of right should be considered in the valuation process. Refer to the UN IPSAS Corporate Guidance paper # 12 Intangible Assets for further guidance.	Dr Intangible asset Cr Revenue - Contributions in-kind
Government provides its employee to the United Nations for specific period of time.	Service in kind	Obtained from Government authorities or estimate based on the cost the United Nations would have incurred to employ additional staff.	Disclose if above materiality threshold as explained in 3.4.4.2
Import duty on fuel	Goods in kind (Subsidy on inventory)	Amount waived by the Government; United Nations is entitled to a special price for fuel.	Note disclosure if above the threshold

4. OTHER TOPICS

4.1 Expense recognition under funding agreements (Grants out)

Expenses are decreases in the economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity.

Expense recognition with regards to funding agreements will be based on the type of recipient i.e. implementing partner or end beneficiary.

4.1.1 EXPENSE RECOGNITION APPLIED TO FUNDING AGREEMENTS WITH IMPLEMENTING PARTNERS

Many United Nations reporting entities advance funds to **implementing partners** (governments, NGOs, other United Nations System Organizations) in order to allow the implementing partners to provide services for United Nations programmes. The services are generally provided to a target population by the implementing partners utilizing financing received from the United Nations and the United Nations receives in return substantive and financial reports from the implementing partners on the delivery of the requisite programme deliverables. At the same time, the United Nations does not:

- Receive any goods or services directly in return, as would be the case with a purchase/sale transaction;
- Expect to be repaid in the future, as would be the case with a loan; or
- Expect a financial return, as would be the case with an investment.

Expenses related to transfers to implementing partners should be **recognized** when the implementing partner delivers the agreed services as evidenced in the financial reports from them. Such expenses should be recorded using the following Finance and Budget network expense categories:

- Staff and other personnel costs;
- Supplies, commodities, materials;
- Equipment, vehicles and furniture (including depreciation);
- Contractual services;
- Travel;
- Transfers and grants to counterparts;
- General operating and other direct costs; and
- Indirect support costs.

Note: Expense should ideally be recorded on receipt of expense report; however the practice will vary based on the procedures followed at local offices.

Example (continuation to example in section 3.4) – Contribution in non-USD denominated currency and expenditure in USD

The United Nations is receiving funding of €1,000,000 to support the implementation and monitoring of projects specified in the United Nations Flash Appeal for assistance to Country A. The first installment of €500,000 is received on the date of signing the agreement, upon request from the United Nations on 30 November 2014 and the balance of the funding was received on 28 February 2015. The United Nations treasury converts EUR to USD on the day cash is received.

United Nations Operational Rates of Exchange announced by the United Nations Treasury:
30 November 2014: €1 = $1.25
31 December 2014: €1 = $1.40
28 February 2015: €1 = $1.50

Additional facts:

- The donor agreement specified that the United Nations will provide a report to the donor specifying the amounts expended at the end of each accounting period.
- The unspent donation should be returned to the donor at the end of the agreement. Donor reporting should be in Euro at a pre-determined exchange rate of: €1 = $1.30.
- The United Nations will absorb exchange gains or losses - if any.
- The United Nations did not incur any expenditure as at 31 December 2014 and expects to incur all of the expenditure during the year 2015.
- The United Nations incurred expenditure (including PSC) of $1,300,000 during the year 2015. The expenditure did not qualify for capitalization as PP&E or inventory.
- Donor reporting at the end of the project is as follows:

	€	Exchange Rate	$
Donation	1,000,000	1.3	1,300,000
Direct expenses			1,181,818
Indirect expenses (10% PSC)			118,182
Total expense			1,300,000
Balance			-

Analysis:

Revenue recognition: Journal entries are similar to example in section 3.4

Accounting entries:

Year ended 2014

30 November 2014: On the day of signing agreement and receipt of cash

		Dr	Cr
Dr	Voluntary Contribution Receivable – Current Asset	$625,000	
Dr	Bank – Current Asset	$625,000	
Cr.	Voluntary Contribution Revenue		$1,250,000

31 December 2014: Year end (($ 1.4-1.25)* €500,000)

		Dr	Cr
Dr	Voluntary Contribution Receivable – Current Asset	$75,000	
Cr.	Exchange gain		$75,000

Year ended 2015

28 February 2015: On the day of cash receipt (($ 1.5-1.40)* €500,000)

		Dr	Cr
Dr	Bank – Current Asset	$750,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$700,000
Cr.	Exchange gain		$50,000

Expenditure incurred during the year

		Dr	Cr
Dr	Expenses (direct + indirect)	$1,300,000	
Cr.	Bank / Payable		$1,300,000

Example – Transfers to an implementing partner

For Participation Programme and Emergency Assistance grants, the grant amount is transferred in full upon approval. Taking into account that it concerns transfers to implementing partners, the expenses related to these transfers are only recognized by the United Nations (as Grantor) in the statement of financial performance once the delivery of the services by the implementing partner(s) took place as evidenced by the reporting received from the implementing partners.

Grant transfers are booked as advance payments (no expense recognition) if conditions are considered to be present in the Implementation Partnership Agreements. Expenses will only be recognized by the United Nations (as Grantor) as conditions or terms of the arrangement are fulfilled.

4.1.2 Expense recognition applied to funding agreements with implementing partners for Volume I reporting

As a result of external audit of 2014 Volume I Financial Statements, it was determined that Volume I has no "effective control" over advances to implementing partners, thus all advances to implementing partners, where control is no longer with the UN (Volume I), will be expensed upfront at the time of disbursement of the funds to the implementing partners. Since cash is disbursed to implementing partners, so that they could implement the project, the recognition point for expenditures will be based on the cash disbursement regardless of the signed funding agreement with the implementing partner.

Following the Board of Auditors' recommendation, the net portion of any advances not yet delivered by the implementing partners by year end will need to be taken to expense (direct and indirect) at year end as part of year end closing and then reversed in January of the following year.

The contractual commitments to transfer funds to implementing partners will be disclosed in the notes to the financial statements.

4.1.3 Expense recognition applied to funding agreements with end beneficiaries.

The United Nations also provides grants or donation directly to **end beneficiaries**.

Where a transfer is deemed to be an outright grant - with payment made directly to the end beneficiary and reporting is not required, the full amount shall be **recognized** as an expense upon signature/ confirmation of the grant agreement. Fellowships and Donations to Quick-impact-projects (QIP) are examples of payments made by the United Nations directly to end beneficiaries. The key differentiating factor with regards to grants or donation to end beneficiaries is that the United Nations does not execute the project or closely monitor the utilization of funds to achieve all deliverables as may be specified in the document detailing the basis for the arrangement and authorization of the amount disbursed. .

Example – Transfers to an end beneficiary

Funds provided by the United Nations (as Grantor) to entities for Quick Impact Projects (QIPs) or funds provided by the United Nations (as Grantor) under CERF arrangements are examples of outright grants with payment to the end beneficiary. The expense is recognized in full by the United Nations (Grantor) in the statement of financial performance upon disbursement of the grant.

Unlike the treatment for unconditional multi-year funding agreements, expense will be recognized upon authorization of the grant if amounts are not specified for specific years and split into portions if amounts are specific to a certain year (not applicable for Volume I).

Example – Funding agreement

The United Nations signed an agreement on 1 January 2014 to provide grant funds of $50,000 to the PQR Government to acquire certain software and subsequent training to promote the development of marine scientific capacity (the Project) for the benefit of the PQR Government. Grant funds are transferred to the PQR Government upon signature of the agreement to cover the cost of the project with an implementation period estimated to be from 1 January 2014 to 31 December 2015.

Budget for expenditure is as follows:

- Two Software license and installation ($20,000 each) - $ 40,000 - one license to be purchased each year.
- Training cost - $7,000 – During the year 2015
- Maintenance cost - $3,000 – During the year 2015

The agreement specifies that:

- The United Nations shall not make payment for costs in excess of the approved grant funds;
- The PQR Government shall refund any unspent funds to the United Nations at the end of the project;
- The PQR Government shall not assign the agreement nor any rights thereto to anyone without the permission of the United Nations;
- The PQR Government is responsible for the performance/completion of the project activity;
- The ownership of the assets purchased from the grant funds belong to the PQR Government;
- The Grant funds cannot be used for any purpose other than as detailed in the above referenced budget; and
- The United Nations can suspend the agreement for breach of terms by the PQR Government.

Actual expenditures that were approved by the United Nations were as follows:

Year 2014

- License cost - $40,000 – Both license were purchase in 2014
- Training cost – estimated - $2,000

Year 2015

- Training cost - $4,000
- Maintenance cost - $4000

There was no balance refundable at the end of the project.

Analysis:

The analysis shows that the PQR Government gets the benefits out of the Project and also implements the Project. The stipulations of the grant agreement are such that the United Nations has the right to monitor how the project is being implemented and how the grant funds are expensed. Further, the United Nations has the right to claim a refund of the grant money for unduly spent money.

Accordingly, expenses under the funding agreements should be recognized in line with the expenses incurred by the grant recipient (the grantee) as per the grant agreement, independently of when the cash advances and balancing payments are made to the beneficiary. Grant expenditures should be recognized when the PQR Government incurs eligible expenditure, and at the reporting date, the United Nations should recognize as expenditure the incurred expenses based on the expenditure reports.

Contingent liability disclosure at the end of year 2014:
Contingent liability is disclosed for a **possible obligation arising from past events** and whose existence depends on one or more uncertain future events not wholly within the control of the United Nations; or a **present obligation** that arises from past events but which is not recognized as a provision.

The unspent advance at the end of the year 2014 represents the expected expense the PQR Government will incur in the year 2015. This should not be considered as a contingent liability because it does not met the requirements of a contingent liability. Refer to Corporate Guidance paper # 7 Provisions and (contingent) liabilities.

Accounting entries:
Year 2014
Cash advanced to the PQR Government on signing of the agreement

		Dr	Cr
Dr	Advance transfers	50,000	
Cr	Cash		50,000

On purchase of software license and partial training cost:

		Dr	Cr
Dr	Expense	42,000	
Cr	Advance transfers		42,000

Year 2015
On expenditure for partial training cost and maintenance:

		Dr	Cr
Dr	Expense	8,000	
Cr	Advance transfers		8,000

Note:

- An analysis should be made for each arrangement based on the terms of the agreement and other facts and circumstances to assess whether the accounting should be based on section 4.1.1 or 4.1.3.

- Since the end beneficiary controls the software the UN should recognize expenditure on the purchase of the software by the end beneficiary. The software will be recognized as an intangible asset by end beneficiary and not the United Nations. Refer to section 4.2 for guidance on who should recognize project assets.

4.2 Project assets

The United Nations records expenditure in the process of the implementation of a project. The expenditure can be broadly divided into cash outlays for capital assets (capital expenditures) or cash outlays for operating purposes (operating expenditures). The cash outlays for capital assets are referred to as project assets in the United Nations context.

Key IPSAS considerations for project assets are: (a) Which entity should capitalize project assets as PP&E and (b) How to account for capitalized project assets.

This paper focuses on the determination of which entity i.e. the United Nations, the implementing agency or the end beneficiary should capitalize the project asset. (Refer to the UN IPSAS Corporate Guidance paper # 6 / # 10 Infrastructure assets / PP&E for how to account for capitalized project assets).

4.2.1 Determination of controls of the project assets

The key to deciding whether project assets will be capitalized as Property, Plant and Equipment (PP&E) in the books of the United Nations, the implementing agency or the end beneficiary is based on the determination of who **controls** those assets. The project assets should be capitalized in the books of the entity that controls the project assets as Property, Plant and Equipment (PP&E).

Control over assets arises when an entity can:

- Use or otherwise benefit from the asset in pursuit of its objectives; **AND**
- Exclude or otherwise regulate the access of others to that benefit.

The following indicators assist in determining the existence of control by the United Nations:

- The act of purchasing the asset was carried out (or resulted from instructions given) by the United Nations;
- Legal title is in the name of the United Nations;
- The asset is physically located on premises or locations used by the United Nations;
- The asset is physically used by staff employed by the United Nations or staff working under the United Nations instructions;
- The United Nations decide on alternative uses for the asset;
- The United Nations can decide to sell or dispose of the asset;
- If the asset were to be removed or destroyed, the United Nations take the decision whether to replace;
- A United Nations representative regularly inspect the asset to determine its current condition;
- The asset is used in achieving the objectives of the United Nations;
- The asset is retained by the United Nations at the end of the project.

Professional judgment should be applied to determine whether the United Nations has control over the project asset. Assessment of control is based on an evaluation of related facts and circumstances. The above indicators should not be considered as exhaustive indicators of control.

In relation to the control criteria, please also refer to the UN IPSAS Corporate Guidance on PP&E for capitalization when the assets are controlled by the United Nations[7].

4.2.2 RECOGNITION OF PROJECT ASSETS

Situation where project assets should be recognized by **the United Nations** can be summarized as follows:

- The project is **under the control of and executed directly by the United Nations.**

- The project is **under the control of the United Nations and the implementing/executing third party is considered a *direct agent* of the United Nations.**

  An implementing/executing third party is considered a *direct agent* of the United Nations when the United Nations is directly involved in the choice of staff to be hired by such third party and/or the type of assets to be purchased to execute the project.

[7] *In addition to the "control" criterion, **all** of the following conditions must be met to capitalize an asset:*
- *The asset has a useful life of more than one year;*
- *For all United Nations reporting entities other than Volumes I & II: The asset meets the minimum cost threshold of USD5,000;*
- *For Volumes I and II: The asset meets the minimum cost threshold of USD20,000 except for the following commodity groups for which the lower threshold of USD5,000 is applicable:*
  Vehicles, Prefabricated buildings, Satellite communication systems, Generators and Network equipment.

Example – Implementing partner is considered a direct agent of the United Nations

The staff security program is implemented by the United Nations Development Programme (UNDP) on behalf of the United Nations Secretariat. The UNDP is considered a *direct agent* of the United Nations in this fact pattern and the United Nations will capitalize the related project assets.

- The project is **under the control of the United Nations and the implementing/executing third party has the responsibility to deliver a capital asset to the United Nations.**

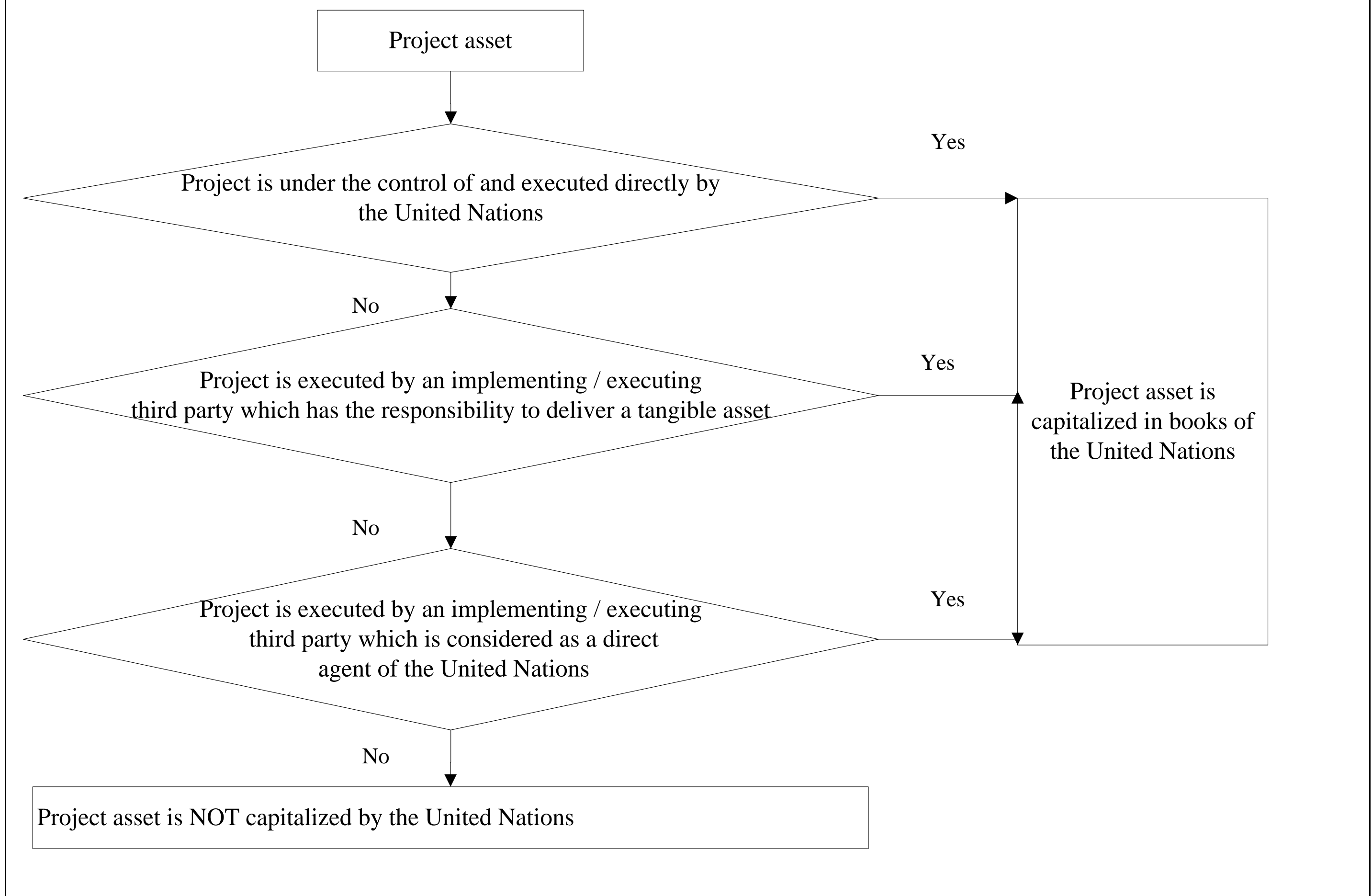
Example – Implementing partner needs to deliver a tangible asset

Prisons built by the United Nations Office for Project Services (UNOPS) on behalf of the United Office for Drugs and Crime (UNODC) will be recorded in the UNODC asset register as UNOPS (the implementing partner) has the responsibility to deliver the constructed prisons.

Note: In circumstances where the assets have to be capitalized by the United Nations but the assets are in the possession of implementing partner, it is important that these assets are tracked. Projects assets that are legally owned but not controlled by the United Nations, would not be depreciated for IPSAS purposes, but it may still be necessary to track the asset(s) until legal title is transferred to the grantee at the end of the project implementation period. The United Nations therefore needs to maintain a register of such project assets until their official hand-over. (This highlights the need for the distinct identification in the asset register of assets that are not capitalized because they are linked to end beneficiary projects).

The below flowchart can be used in determining whether project assets need to be capitalized by the United Nations.

Flowchart - Recognition of project assets



4.3 Programme Support Cost

Background:

The United Nations refers to the fees that it collects on "extrabudgetary" funded expenditure as **Programme Support Costs (PSC)**. This charge is intended to ensure that the additional costs of supporting activities that are financed from extrabudgetary contributions have no financial implications on the regular budget (i.e assessed contributions and /or other core resources that are central to the budget process in the United Nations Secretariat.

Incremental costs are defined as additional costs incurred for supporting activities. Incremental costs are usually financed from extra-budgetary contributions (also referred to as **voluntary contributions**). Incremental costs can be divided into **direct** costs and **indirect** costs.

- **Direct costs** are those that can be readily and directly attributed to, and are therefore charged either wholly or in part to an operation, programme or project. i.e. substantive and operational staffing, facilities, equipment and other costs that would not have been otherwise incurred.
- **Indirect costs** are those that cannot be linked unequivocally to specific activities, project or programmes, i.e. the central administration of human resources, financing and related activities, the implementation of United Nations wide initiatives like Umoja and IPSAS.

The purpose of the **PSC charge** is to recover incremental indirect costs of administering the project/programme. The PSC charge is expressed as a percentage of the project's/programme's direct costs (actually disbursed/expended and unliquidated obligations/commitment), also referred to as the PSC rate. The PSC rate applied is based on the Organization's historical experience and various other factors. Please refer to Interoffice memorandum from the Controller, dated 8 June 2012 "Cost Recovery: programme support costs" for more information on PCS rate.

Interoffice memorandum:

Adobe Acrobat Document

The PSC rate is agreed with the donor and may vary in each donor agreement.

As per inter-office memorandum, the United Nations applies the following PSC rates unless exempted:

- **13%** of all voluntary contributions where the United Nations retains primary and overarching programmatic responsibility and is the first or primary recipient of these funds;
- **7%** of all voluntary contribution in support of inter-agency and "Delivering As One" for programmes and collaboration with other multi-lateral institutions;
- **3%** of all voluntary contributions for projects that are entirely implemented by other United Nations organizations (other than the United Nations Secretariat), NGOs or government services and 'Pass through' arrangements.

Analysis:

Revenue recognition for voluntary contribution should be as per the guidance in section 3.3.

Cost recognition for direct and indirect cost should be based on guidance for expense recognition. There is no single specific IPSAS, which deals with all expenses and expense recognition. Expenses are decreases in economic benefits during the reporting period in the form of outflows or consumption of assets or increases in liabilities that result in decreases in net assets and should be recorded as per accrual basis accounting. Specific types of expenses are dealt with directly by other standards – for example, IPSAS 17 for

depreciation relating to property, plant and equipment, IPSAS 25 for employee benefits and IPSAS 19 for increases in liabilities relating to provisions.

Refer to following example for unconditional voluntary contribution and section 7.1 for comprehensive case study on conditional voluntary contribution.

Example – Unconditional

XYZ proposes to provide grant funds of $150,000 to the United Nations to deliver a fellowship programme. Grant funds are received upon signature of the agreement to cover fellowship programme from 1 July 2013 to 31 March 2014.

The agreement specifies that:

- United Nations will submit financial report to XYZ on utilization of the grant by 30 June 2014 and any unspent grant funds will be refunded before 30 September 2014; and
- The grant funds will be used for eligible costs, including 13% programme support cost for United Nations. The past experience of the United Nations with XYZ has been that there are no instances where the United Nations had to repay grant funds for breach of terms.

The actual expenses were as follows:

- The United Nations incurred direct cost of $120,000 up to 31 December 2013 and $ $10,000 from 1 January 2014 to 1 April 2014.
- The balance computed as follows was refunded to XYZ on 30 September 2014

Total direct cost = 120,000+10,000	=	130,000
PSC charge (indirect cost) (@13%)	=	16,900
Total	=	146,900
Less:	=	150,000
Refund	=	3,100

Analysis:

The United Nations analyzes the transaction and concludes that, the stipulations of the grant agreement are akin to restrictions but not conditions primarily because the agreement specifies that the funds should be used for a fellowship programme without any specific details.

The United Nations recognizes the grant money as an asset and corresponding revenue upon signature to the agreement. As the United Nations incurs cost for the project it records expense as per accrual method of

accounting. At the end of the project the refundable amount should be recognized as liability and reduction of revenue.

Accounting entries:

During the year ended 2013:
Upon signature of the agreement:

Dr	Voluntary Contribution Receivable – Current Asset	$150,000	
Cr.	Voluntary Contribution Revenue		$150,000

Upon receipt of grant money:

Dr	Cash	$150,000	
Cr.	Voluntary Contribution Receivable – Current Asset		$150,000

Upon incurring eligible direct expenses for fellowship programme

Dr	Expense	$120,000	
Cr.	Accounts payable /Cash		$120,000

Project level entry: Programme Support Charge ($120,000 * 13%)

Dr	PSC Expense	$15,600	
Cr	PSC Payable to the fund		$15,600

During the year ended 2014:

Upon incurring eligible direct expenses for fellowship programme

Dr	Expense	$10,000	
Cr.	Accounts payable /Cash		$10,000

Project level entry: Programme Support Charge ($10,000 * 13%)

Dr	PSC Expense	$1,300	
Cr	PSC Payable to the fund		$1,300

On determination of refund due at the end of project:

Dr	Net assets**	$3,100	
Cr.	Payable		$3,100

Refund to XYZ:

Dr	Payable	$3,100	
Cr.	Cash		$3,100

** Note: In the above example if the reporting year ends on 31 July 2014 then the accounting entries will be as follows:

Upon signature of the agreement: Same as above

Upon receipt of grant money: Same as above

Upon incurring eligible direct expenses for fellowship programme: Same as above. However the amount will be $130,000 as all the expenditure are incurred during the year.

Dr	Expense	$130,000	
Cr.	Accounts payable /Cash		$130,000

Indirect expenses for fellowship programme: Same as above

On determination of refund due at the end of project:

Dr	Voluntary Contribution Revenue	$3,100	
Cr.	Payable		$3,100

Refund to XYZ: Same as above

In certain situations (e.g. where project implementation is completed in the entirety or partially by an implementing partner), the United Nations shares the PSC income with the implementing partner. For example, if the agreed PSC rate with the donor is 7% the United Nations will give 4% to the implementing partner. Such an arrangement between the United Nations and the implementing partner does not impact the revenue recognition because this does not alter the donor agreement; however it will impact expense reporting because the United Nations financial reports will reflect the agreed upon PSC charge that was paid to the implementing partner as a part of the project expenditure.

4.3.1 PSC Fund Accounting

Background:

PSC revenue – All cost plans for Trust Funds, including those for operational activities, must include provisions for Programme Support Costs. The Trust Fund is charged an agreed percentage of expenditure in respect of programme support services for the implementation of projects and programmes, unless otherwise agreed with the Controller. This arrangement is essential to the proper funding of necessary support services. In this regard, the equitable deployment of PS revenue within and between substantive offices, programmes and departments must best address the operational, human and other resources management challenges associated with extra-budgetary funded activities. In accordance with the policy in ST/AI/286, PSC income is used in areas where a relationship exists between the supporting activities concerned and the activities that generated the programme support revenue.

Programme support cost revenue is used where costs cannot be readily and directly attributed and charged to, the extra-budgetary funded substantive activities, projects or programmes.

Accounting:

The PSC charge represents the application of the agreed percentage to amounts inspected - representing the value of goods/services actually received - and/or on resources committed for extra-budgetary funded substantive activities, projects or programmes. The charge is accounted for as a part of the total activity/project/programme cost which progressively utilizes the voluntary contribution as agreed with the donor(s). This revenue is applied towards the recovery of incremental indirect cost. Each month the system will calculate PSC charge on the actual expenses incurred and any unliquidated obligations. The programme support cost is eliminated for the purposes of financial statement preparation. The funding for the programme support cost charge agreed upon with the donor is included as part of voluntary contributions.

4.4 Interest income - donor agreement

During the period that voluntary contributions are made available for use by a particular implementing/executing office of the United Nations, interest income may accrue on any unutilized portion of the funds that were received from donor. The interest income will be recognized as follows:

- Where the United Nations has the right to manage and direct the use of the interest income: Recognize as interest income on accrual basis;
    - Where the Donor retains the right to the interest income, the interest income should be considered as additional contribution under the direction of the donor accounted for as follows:
        - Where the Donor arrangement is classified as a ‘conditional’ arrangement: Recognize interest as conditional liability;

  - Where the Donor arrangement is classified as a 'non-conditional' arrangement: Recognize interest as additional voluntary contribution;
- Where the interest income can be used only after approval of donor: Recognize interest as payable to the donor until approval is obtained;
- Where the interest income must be paid back to donor: Recognize interest as payable to donor.

4.5 Checkpoints

These checkpoints are designed to summarize important aspects that should be considered as a substitute of the guidance in the paper.

No.	Question	Analysis	Refer Section
1	**Is the contribution assessed contribution?** **Assessed contribution** refers to the scale of assessment determined by the General Assembly to finance the approved appropriations, which is shared among Member States to pay for the expenses of the United Nations.		3.2.1
2	**Is the contribution voluntary contribution?** **Voluntary contributions** are extra budgetary resources that generally support or supplement the substantive work programme of the United Nations.		3.3.1
3	**Is there a formalized agreement?** A written agreement should be signed by the Controller (or his/her representative) and the donor. This can be in the form of Exchange of letters, a Framework Agreement or other formal written communication with an offer and an acceptance, signed by the donor and UN.		3.3.2.1 (a)
4	**Is the amount clearly stated or can a reasonable estimate be done?**		3.3.2.1 (c)

No.	Question	Analysis	Refer Section
	Certain clause that should be assessed: "The contribution is up to a maximum of US$ xxxx"		
5	**For multi-year agreements, does United Nations have control over the whole amount of the contribution at the time of signing the agreement?** Should be assessed, which period does it relate to, e.g. JPO, etc.		3.4.2
6	**Do performance obligation clauses exist in the agreement?** Certain stipulation that should be assessed: "….reserves the right to claim repayment in full or in part if the funds are found to be misused or not satisfactorily accounted for. Before such a claim is made, consultations will be undertaken between the parties." "… reserves the right to discontinue transfers if contractual and/or reporting and accounting obligations are not met; if there are substantial deviations from agreed plans and budgets or if doubt arises with regard to the proper use of funds under the Agreement."		3.3.2.2
7	**Do the future installments require additional approvals?** Should be assessed, if subject to fundraising activities over which the UN has no control, etc.		3.4 3.4.2
8	**Are the future disbursements based on certain schedule?** Certain stipulation that should be assessed: "The contribution amount will be paid in three equal installments. The first installment in an amount of US$ xxx shall be paid upon		3.4.2

No.	Question	Analysis	Refer Section
	signature of this agreement. The two other installments shall be paid according to the actual implementation schedule."		
9	**If return obligation clauses exist, does history with the specific donor indicate that the entire amount of resources is normally received?** Every office should review the event and circumstances during the period to assess whether any contract that is currently accounted for as non-conditional should be accounted for as conditional.		3.4.3
10	**Is the contribution in kind?** Gifts and donations are voluntary transfers of assets, including goods in kind, services in kind, "right-to-use" arrangements.		3.4.4
11	**Is the United Nations acting as an 'agent' or 'principal'?** Presentation for funding arrangements depends whether the United Nations is acting as: • An **agent** acting as an intermediary; or • A **principal** acting on its own account.		5 4.1.1 4.1.3
12	**Have expenses related to the advances to implementing partners been accounted for?** Expenses related to transfers to implementing partners should be **recognized** when the implementing partner delivers the agreed services as evidenced in the reports from them, except for Volume I where expense will be recognized upon cash disbursement.		4.1.1 4.1.2
13	**Where should project assets be capitalized?**		4.2.1

No.	Question	Analysis	Refer Section
	The project assets should be capitalized in the books of the entity that controls the project assets as Property, Plant and Equipment (PP&E).		
14	**Is the PSC charge a non-exchange transaction?** The percentage on direct project costs representing programme support (PSC) is intended to ensure that the additional costs of supporting activities financed from extrabudgetary contributions are not borne by assessed contributions and /or other core resources that are central to the budget process in the United Nations Secretariat. PSC is eliminated for the purposes of financial statement preparation. The funding for the PSC charge agreed upon with the donor is included as part of voluntary contributions.		4.3

5. PRESENTATION

5.1 Agent Principal accounting

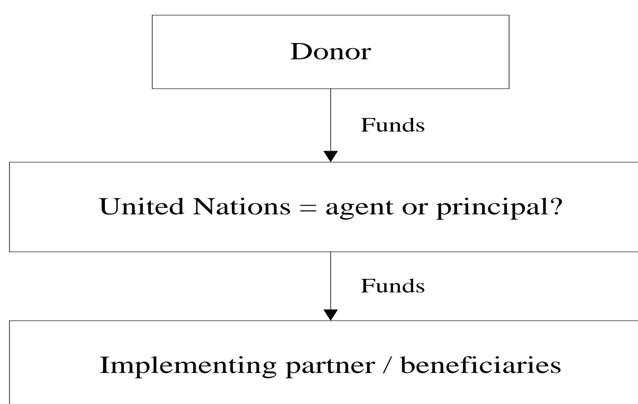
The United Nations receives and disburses funds based on the agreement with the donor.

From an IPSAS perspective, the accounting presentation for funding arrangements within the statement of financial performance depends on whether the United Nations is acting as:

- An **agent** - acting as an intermediary; or
- A **principal -** acting on its own account.

Whether the United Nations is acting as a principal or an agent in a transaction is dependent on the facts and circumstances of the relationship.

Flowchart - Fund streams



5.1.1 DETERMINE WHETHER THE UNITED NATIONS ACTS AS AN AGENT OR A PRINCIPAL

Features that indicate that the United Nations is acting as **an agent** include:

- United Nations does not benefit from the arrangement except for the commission received or receivable for the handling of the cash flows;
- The commission the United Nations earns is predetermined;
- United Nations has no control over the arrangement (Amount of the grants, purpose of the grants, etc.);
- The donor has the primary responsibility for providing the funds to the implementing partners/ beneficiaries;
- The donor bears the credit risk for advance funding to the implementing partners.

- The donor has a direct contractual arrangement with the implementing partner / beneficiaries;
- The donor has discretion in selecting and directing the implementing partner / beneficiaries without the UN's involvement / intervention.

Determining whether the United Nations Secretariat (reporting entity) is acting as an **agent** requires professional judgement and consideration of all the relevant facts and circumstances.

5.1.2 Accounting for arrangements where the United Nations is acting as an agent

Revenue and expenses will not be recorded where the United Nations is acting as an agent, only the commission, if any will be recorded as exchange revenue.

Example – United Nations acting as an agent

NYC Medical Foundation, through the United Nations, has sent $100,000 to SYC Medical Foundation to administer flu shots to SYC residents. NYC Medical Foundation had to send funds through another agency as it did not have the infrastructure to do it on its own. United Nations did not charge any commission to the NYC Medical Foundation.

Analysis:

The United Nations is acting as an agent of the NYC Medical Foundation to send $100,000 to the SYC Medical Foundation. The activity of administering flu shot is being performed by the SYC Medical Foundation; further United Nations does not have any involvement in overseeing or managing the transaction. The United Nations will record an asset and a liability when it receives $100,000 from the NYC Medical Foundation. The liability would be cleared on the transfer of $100,000 to the SYC Medical Foundation.

6. DISCLOSURES REQUIREMENTS

United Nations specific disclosures for **revenue from non-exchange transactions** either on the face of, or in the notes to the financial statements include:

- The amount of revenue from non-exchange transactions recognized during the period by major classes;
- The amount of receivables recognized in respect of non-exchange revenue;
- The amount of liabilities recognized in respect of transferred assets subject to conditions;
- The amount of assets recognized that are subject to restrictions and the nature of those restrictions;
- The existence and amounts of any advance receipts in respect of non-exchange transactions; and
- The amount of any liabilities forgiven.

United Nations specific disclosures for **revenue from non-exchange transactions** in the notes to the financial statements include:

- The accounting policies adopted for the recognition of revenue from non-exchange transactions;
- The basis on which the fair value of incoming resources was measured, for major classes of revenue from non-exchange transactions;
- The nature and type of major classes of gifts, and donations, showing separately major classes of goods in kind and services in kind received;
- Items that possess the essential characteristics of assets but fail to satisfy the criteria for recognition; Possible assets arising from unplanned or unexpected events that (a) are not wholly within the control of the entity (e.g., remaining portions of the estimated funding, which is subject to fund raising activities - UN Foundation contributions to UNFIP); (b) give rise to the possibility of an inflow of economic benefits to the Organization.

Example – Extract of the statement of financial performance

	Notes	*20X2*	*20X1*
Revenue			
Assessed contributions			
Voluntary contributions			
Other transfers and allocations			
Investment revenue			
Contributions for self-insurance funds			
Other revenue			
Total revenue			

7. APPENDICES

The case study in this section is based on a practical (hypothetical) situation at the United Nations. It does not however represent an existing contractual arrangement.

7.1 Case Study – Conditional agreement

7.1.1 AGREEMENT BETWEEN, THE ABC MINISTRY OF FOREIGN AFFAIRS (ABC) AND THE UNODC

- On the request of the United Nations Office on Drug and Crime (UNODC), ABC agreed to support the Counter Piracy Programme (the programme) by a signed agreement dated 23 November 2014.
- The goal of the programme was to ensure fair and efficient trials, as well as secure and humane imprisonment in Somalia.
- The UNODC and ABC agreed that the UNODC shall be responsible under the terms of this agreement for the management of the funds contributed by ABC.
- Subject to parliamentary appropriations ABC shall place at the disposal of the UNODC the sum of up to $1,000,000. Parliamentary approval was obtained on 15 January 2015. Funds were deposited to the UNODC bank account on 31 January 2015.
- The agreement specified the manner of utilization of the funds and the mechanism to monitor the planned utilization as follows:
  - Utilization of funds:

Sr. No.	Activity	Amount (in $)
1	Armored vehicle to make sure that prison advisors can go back and forth to prison safely*	400,000
2	Prison maintenance	150,000
3	Literacy course for the prison	235,000
4	Consumable equipment and material for literacy course	100,000
	Total	885,000
	Program support cost charges @13%**	115,000
	Total project cost	1,000,000

*Ownership of the vehicle shall vest in UNODC until the expiration or termination of the agreement. Subsequently the ownership of the vehicle shall be with the recipient Government.

** The project will be charged with 13% of all expenditure for the programme support services provided by the UNODC in the implementation of the activities financed.

  - Mechanism to monitor utilization of funds and other conditions:

        - The UNODC shall commence and continue to conduct operations to implement the programme per the agreement terms.
        - If unforeseen expenditure arises, the UNODC will submit a supplementary budget to the ABC showing the necessity for further funding. If no such additional funding is available, the assistance provided under this agreement may be reduced or terminated.
        - Evaluation and audit of the activities, including joint evaluation shall be undertaken periodically.
        - Any interest accruing on the aforesaid fund shall be used to meet the costs of the programme after approval by the ABC.
        - After consultation with the UNODC, ABC may withhold disbursement in case of substantial deviations from agreed plans and budget, failure of the UNODC to provide the reports as agreed or evidence of financial mismanagement of the programme.
        - ABC may claim repayment in full or in part of funds from the contribution if the funds are found to be misused or not satisfactorily accounted for.
        - Either party can terminate the agreement by giving 90 days notice. Before a decision to terminate, there shall be consultations between the parties.
- UNODC incurred the following expenditure:
    - During the year 2012:
        - $400,000 for armored vehicle on 31 December 2015 (payment was made on15 January 2016; and
        - $140,000 for prison maintenance on 30 November 2015.
    - During the year 2016:
        - $200,000 for literacy course in prison during March 2016; and
        - $100,000 for consumables and materials during March 2016 were in the nature of inventory and consumed during the year 2016.
- Interest income of $10,000 had accrued on the fund balance during the year 201.5
- At the closure of the project on 1 July 2016, unspent funds will be refunded back to ABC and the vehicle transferred to the recipient Government.
- The UNODC prepares it financial statements for the year ended 31 December every year.

7.1.2 IPSAS ACCOUNTING ANALYSIS

7.1.2.1 Recognition of revenue from non-exchange transaction

Revenue Recognition will be based on an assessment of whether an asset and liability was created:

Asset recognition: Funds will be recognized as an **asset** when:

- The United Nations controls the funds as a result of a past event:
  The "past event" which gives rise to control in the context of the funding agreements is generally the point at which the agreement was signed by parties. Accordingly, a receivable should be recognized on 23 November 2014.

- It is probable that the United Nations expects to receive an inflow of future economic benefits or service potential from the funds:
  A receivable can be deemed to be probable i.e. there is no uncertainty that the future economic benefits associated with the item will not flow to the United Nations. Probability determination is also based on past experience with similar types of flows of resources and its expectations regarding the donor.

- The fair value of the funds can be reliably measured:
  Since the funding agreement has the contribution in cash, the fair value can be reliably measured.

  Accordingly UNODC should recognize a receivable on 23 November 2014.

Liability recognition:

The inflow is subject to 'conditions' and should be recognized as a liability (e.g. performance with potential return obligations):

- The funds should be used/ consumed for a particular purpose as identified in the agreement;
- An enforceable return obligation exists in case the stipulation is breached and can be contractually enforced by the donor;
- The condition is specific to the nature of goods and services to be provided and the nature of assets to be acquired;
- Performance against the condition is monitored by ABC on an ongoing basis;
- ABC has historically requested for refunds for any breach of condition.

Initial Measurement:

UNODC has performance and potential return obligation towards ABC; accordingly on 23 November 2014 a liability should be recognized for conditions.

Subsequent Recognition:

UNODC's performance and return obligation towards ABC, reduces as the funds are appropriately spent in accordance with the contractual terms. Accordingly liability recognized on 23 November 2014 should be reduced and there will be a corresponding recognition of revenue as and when the conditions are satisfied.

7.1.2.2 Recognition of PSC charges

In its role as Implementing Agency, UNODC earns PSC from ABC. PSC represents the fee payable to UNODC to cover UNODC's incremental administrative costs in respect of services performed by UNODC for the project.

In this example, PSC accrues at the rate of 13% of all the expenditure incurred during the period of the programme. Accordingly, revenue of 13% should be recognized based on the direct expenditure reported for the period.

7.1.2.3 Recognition of interest income

The bank balance will increase by the interest received during the year with a corresponding increase in the payable to ABC. Per the agreement interest income shall be used to meet project cost only after ABC's approval; accordingly it can be considered as an additional funding to the project only after ABC's approval.

7.1.2.4 Expense recognition

Under the accrual basis, expenses are recognized when the transaction or event causing the expense occurs. The recognition of the expense is therefore not linked to when cash or its equivalent is received or paid. Expenditures may be cash outlays for capital assets (capital expenditures) or cash outlays for operating purposes (operating expenditures).

<u>Expense that qualify for capitalization:</u>
The armored vehicle meets the criteria for capitalization as PP&E as UNODC has control over the vehicle until the end of the project. The vehicle will be recognized as PP&E and depreciated over the life of the vehicle. On transfer of the vehicle to the respective government, the net book value of the vehicle will be expensed as grant expenditure. Depreciation for the armored vehicle will be $100,000 for every year of use assuming that the useful life is four years.

<u>Refundable balance at the end of the project:</u>
The unspent balance of the contribution plus related accrued interest will be classified as Transfers payable on the statement of financial position.

7.1.3 Accounting entries

Date	Dr/Cr	Journal entry	Amount
On signing of the agreement			
23 November 2014	Dr	Voluntary contribution receivable (current asset)	1,000,000
	Cr	Conditional liability (current liability)	1,000,000
On receipt of cash			
31 January 2015	Dr	Bank (current asset)	1,000,000
	Cr	Voluntary contribution receivable (current asset)	1,000,000
On incurrence of expense			
30 November 2015	Dr	Expense – prison maintenance (expense)	140,000
	Cr	Bank (current asset)	140,000
On purchase of vehicle			
31 December 2015	Dr	Property, plant and equipment - Vehicle (non-current asset)	400,000
	Cr	Accounts payable – other (current liability)	400,000
Recognized revenue on incurrence of eligible expenditure			
30 November 2015	Dr	Conditional liability (current liability)	140,000
	Cr	Voluntary contribution (revenue)	140,000
31 December 2015	Dr	Conditional liability (current liability)	400,000
	Cr	Voluntary contribution (revenue)	400,000
PSC charges (13% of $540,000)			
31 December 2015	Dr	Conditional Liability (current liability)	70,200
	Cr	Voluntary Contribution (PSC Charge) (revenue)	70,200
Project level entry: PSC charge (13% of $540,000)			
31 December 2015	Dr	PSC Expense	70,200
	Cr	PSC fund payable	70,200
Interest income payable to ABC			
31 December 2015	Dr	Bank (current asset)	10,000
	Cr	Transfers payable (current liability)	10,000
Liabilities paid off			
January 2016	Dr	Accounts payable – other (current liability)	400,000
	Cr	Bank (current asset)	400,000

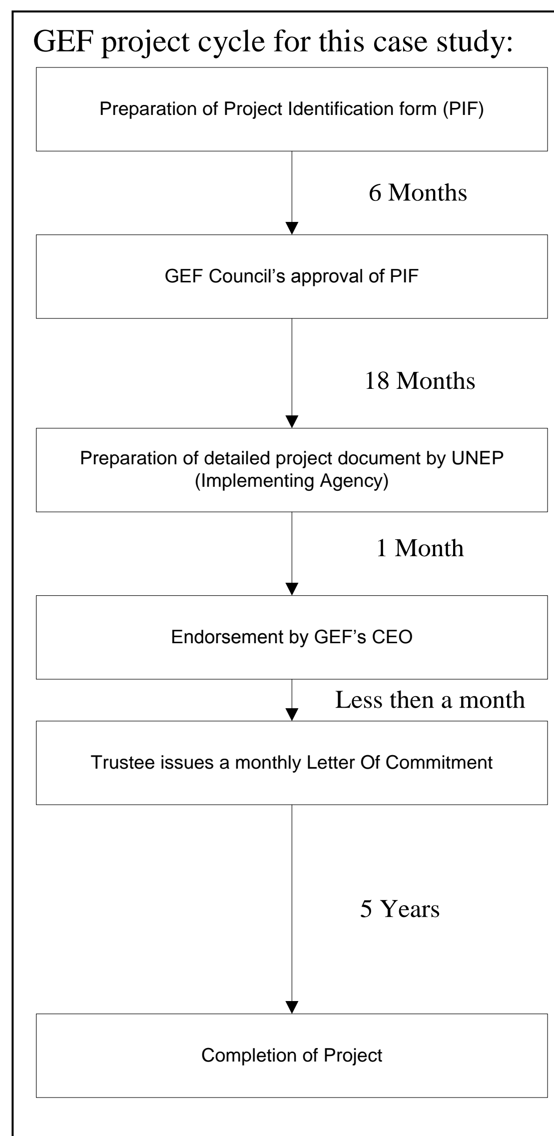
Date	Dr/Cr	Journal entry	Amount
On incurrence of expense			
March 2016	Dr	Expense - literary course (expense)	200,000
	Cr	Bank (current asset)	200,000
On purchase of inventory			
March 2016	Dr	Inventories - Material purchased (current assets)	100,000
	Cr	Bank (current asset)	100,000
On use of inventory for project			
March 2016	Dr	Expense - literary course (expense)	100,000
	Cr	Inventories - Material purchased (current asset)	100,000
Depreciation for 6 months			
June 2016	Dr	Depreciation for six months (expensed to the project)	50,000
	Cr	Accumulated depreciation - Property, plant and equipment (non-current asset)	50,000
Recognized revenue upon eligible expenditure			
1 July 2016	Dr	Conditional liability (current liability)	300,000
	Cr	Voluntary contribution (revenue)	300,000
Transfer of vehicle			
1 July 2016	Dr	Transfer of vehicle (expensed to the project)	350,000
	Dr	Accumulated depreciation - Property, plant and equipment (non-current asset)	50,000
	Cr	Property, plant and equipment (non-current asset)	400,000
PSC Charge (13% of $300,000)			
1 July 2016	Dr	PSC Expense	39,000
	Cr	PSC revenue	39,000
Project level entry: PSC charge (13% of $300,000)			
1 July 2016	Dr	PSC Expense	39,000
	Cr	PSC fund payable	39,000
Refund due to ABC			
1 July 2016	Dr	Conditional liability (current liability)	50,800
	Cr	Transfers payable (current liability)	50,800
Cash transferred to ABC			
1 July 2016	Dr	Transfers payable (current liability)	60,800
	Cr	Bank (current asset)	60,800

7.2 Case study - GEF

7.2.1 The Global Environment Facility Trust Fund Arrangement

Summary of project cycle:

The United Nations Environmental Programme (UNEP), as an Implementing Agency of the Global Environment Facility Trust Fund (GEF), assists partners to submit project concepts by way of Project Identification Forms (PIFs), typically covering multi-year funding periods and budgets, to the GEF Secretariat for review and for the GEF Council's approval. The proposals approved by the GEF Council are communicated to UNEP on a project-by-project basis and the World Bank, acting as the GEF Trustee, "sets aside" the proposed GEF funding at the time of the GEF Council's approval of the project concept, subject to the availability of funds.



UNEP and the Project Executing Agency partner then prepare a detailed project document for GEF CEO's endorsement. Following such endorsement, the GEF Trustee commits the corresponding project funds to UNEP and, following the end of each month, issues to UNEP a Letter of Commitment outlining the individual projects that were approved by the GEF's CEO and resources committed by the GEF Trustee in the previous month.

UNEP then finalize and sign a project agreement with the project executing partner. The agreement includes a copy of the project document endorsed by the GEF which incorporates a costed work-plan, a results based budget setting out activities, outputs and milestones, a detailed annual expenditure budget by budget line, reporting and audit requirements, details of the initial cash advance (further cash advances that are subject to meeting the agreed milestones and reporting requirements), monitoring and independent evaluation requirements, etc. On signature of the agreement the initial cash advance is disbursed to the partner to cover the estimated costs for the forthcoming period, normally 3-6 months, and project implementation commences. Further cash advances are disbursed on request subject to the receipt of the required substantive reports, expenditure reports showing substantial use of previous cash advance(s), and an estimate of the cash requirements for

project activities in the forthcoming period. The reports are reviewed in tandem and any queries arising are cleared with the partner. Once approved, the reported expenditures are recorded in the project accounting system on the same budget lines as the approved budget allocations. In the event that the partner fails to report on the use of the cash advances, which has to be used for the activities and outputs set out in the detailed project document and budget, they are required to refund the amount unspent or not properly spent.

On completion of the project activities, delivery of outputs and expected accomplishments, receipt of all final substantive and financial reports, refund by the partner to UNEP of any unspent cash advances, and completion of the independent evaluation, the project is closed and any unspent funds are returned by UNEP to the GEF Trustee by way of a quarterly report to the Trustee on the closure of projects and unspent commitments. The GEF Trustee reduces the project's allocation and the cumulative commitment to UNEP by the amount unspent.

Funds management for all projects:

To aid the GEF Trustee with managing the treasury position of its GEF Trust Fund, the Trustee's procedures require that UNEP draws down funds against their GEF commitments to the extent that they are required to meet the immediate cash-flow needs of their ongoing GEF project portfolio. UNEP's cash advance request to the Trustee for project finance is based on UNEP's overall GEF trust fund cash position, not on individual project commitments. The "verbally" agreed procedure that has been in operation since 2004 is that UNEP requests a cash advance of $20 million whenever its cash balance for its GEF project portfolio falls below $20 million. ***UNEP should record a receivable for the amount stated in the GEF Trustee's Letter of Commitment at the project level. This will mirror the related record in the Trustee's financial records.***

UNEP Fees:

In its role as a GEF Implementing Agency (IA), UNEP earns 'IA Fees' from GEF. Approx. 9.3% of the GEF project grant of which 40% payable on Council approval of the concept (after development of the concept and submission of the PIF but prior to project development) and 60% payable on GEF CEO endorsement (prior to implementation). Corporate costs are expected to be covered by the same fee but no nominal amount has been specified.

In the case where projects are dropped or cancelled before completion, the unutilized fees for UNEP's project cycle management services will be returned to the GEF as follows:

- For Council approved project that is dropped before approval by UNEP (the Implementing Agency), 60% of the fee would be returned;
- For any project cancelled after approval by UNEP (the Implementing Agency), fee returns would be prorated based on project duration as stated in the project document endorsed by the GEF's CEO.

Background of hypothetical GEF project (based on the 2006-2012 fee system which covers most of UNEP's ongoing portfolio):

- GEF Council approved PIF on 1 January 2012, for $5.5 million GEF project grant and $0.55 million fee which is "set aside" by the GEF Trustee;
- Project was under development for 3 years of which 12 months was developing the concept, before the PIF was approved, and 24 months after the PIF was approved for developing the detailed project document and obtaining the CEO endorsement;
- Final CEO's endorsement letter is received from the GEF's CEO on 1 January 2014 but with a reduced budget of $5.0 million and fee of $0.5 million. A summary of annual budget allocations, as set out in the detailed multi-year approved budget, are shown in the table below;
- In the month following the GEF CEO's endorsement and GEF Trustee's commitment, a Letter of Commitment dated 1 February 2014 for the project grant and fee was received from the GEF Trustee. The full $0.5 million fee is claimed by UNEP and received that same month;
- The project is completed and closed after seven years, with total expenditure of $4.8 million, and the under expenditure of $0.2 million is returned to GEF by way of a reduction of cumulative unpaid commitments.

Period of implementation	Original GEF & UNEP approved budget $ 000's	Budget revision 1 $ 000's	Project closing revision 2 $ 000's	Cash advances approved and disbursed by UNEP at the beginning of the year $ 000's	Expenses reported by executing agency at the end of the year** $ 000's
2014	500	-	-	200	-
2015	1,500	700	700	1,000	700
2016	1,500	1,800	1,200	1,400	1,200
2017	1,000	1,600	1,400	1,300	1,400
2018	500	900	900	700	900
2019			500	400	500
2020			100	(200)	100
Total	5,000	5,000	4,800	4,800	4,800

** It is assumed that the expenses reported by executing agency do not qualify for capitalization.

7.2.2 ANALYSIS OF FACTS

Project contributions:

UNEP's Revenue recognition for project contributions should be based on an assessment whether an asset has been created:

7.2.2.1 Is UNEP acting as an agent for GEF?

UNEP is the GEF implementing agency responsible for project management oversight and reporting. UNEP is actively involved at all the stages of the project in addition to providing project cycle and corporate activities. The executing partner is required to report expenditures quarterly to UNEP against the individual budget lines approved with little scope for deviation without the consent of UNEP and (if significant) from the GEF Secretariat.

This indicates that UNEP is acting as principal for the GEF arrangement.

7.2.2.2 Has an asset been created?

Does the inflow satisfy the criteria for asset recognition? (Enforceable claim and probable)

Framework agreement:

The Financial Procedures Agreement (FPA) is the overarching framework agreement between UNEP and the GEF Trustee (acting on behalf of GEF) and constitutes the past event that generates the potential for future economic benefits / service potential.

Each GEF project is executed as per the provisions of FPA; accordingly the FPA does not specify the value of the future economic benefits / service potential that UNEP will generate on signing of FPA.

Funding of the GEF arrangement: Project level approval

The GEF Trustee commits the amount approved for GEF funding and the related fees to UNEP on a rolling basis and issues a signed Letter of Commitment to UNEP monthly for funds committed in the previous month. It is at this point (receipt of the Letter of Commitment) that UNEP has an enforceable claim to the funds and fees, as they are both approved and available. It is also at this point that UNEP can reliably measure the value of the asset being transferred.

Asset and Revenue recognition:

Voluntary contribution will be recognized as an **asset** when:

a) The United Nations controls the funds as a result of a past event; **and**

   Past event that gives rise to control is the point at which the binding agreement is entered into. At the point of receipt of the Letter of Commitment, UNEP has an enforceable claim to the funds and

fees, as they are both approved and available. Accordingly this criterion is met on receipt of monthly commitment letter.

b) It is **probable** that the United Nations expects to receive an inflow of future economic benefits or service potential from the funds; **and**

Assessment of the degree of uncertainty attached to the flow of future economic benefit should be made on the basis of the available evidence, and past experience is one of an important indicator in assessment of **probability criteria**.

The proposals approved by the GEF Council are communicated to UNEP on a project-by-project basis and the World Bank, acting as the GEF Trustee, "sets aside" the proposed GEF funding at the time of the GEF Council's approval of the project concept, subject to the availability of funds. In the past UNEP has received committed funding from the GEF. Accordingly this criterion is met on the GEF Council's approval.

c) The fair value of the funds can be reliably measured.

The Trustee procedures require that UNEP draw down funds against the GEF commitments to the extent that funding is required to meet the immediate cash-flow needs of their ongoing GEF projects. Essentially the funds are available on demand. Accordingly, this criterion is met as the funds are in the form of cash and available on receipt of the implementing agency's request.

Through the issuance of the monthly commitment letter and upon the cash disbursement authorization, the asset recognition criteria are satisfied.

Accordingly, UNEP should recognize the asset and revenue on that date.

The remaining portion of the funding, as per the project document, will be disclosed in the notes to the financial statements.

7.2.2.3 Expense recognition

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity. Expenses related to transfers to implementing partners should be **recognized** when the executing agency delivers the agreed services as evidenced in the reports from them. The executing agency reports expenses as per the financial reporting clause of the agreement with the contracting entity. In this example it is assumed that the expenses reported by the executing agency do not qualify for capitalization; accordingly the expense will be recognized based on the expense report provided by the executing partner.

Advances to executing partner will be recorded as advance transferred with a corresponding reduction in cash balance.

7.2.2.4 UNEP Fees

Revenue from rendering a service is recognized on a straight line basis over the specified time frame when services are performed by an indeterminate number of acts over a specified time frame, unless there is evidence that some other method better represents the stage of completion. UNEP provides its project cycle management services from the project identification stage until completion of the project. UNEP also provides corporate services to the GEF independently of the project life cycle.

- UNEP's project cycle management services

UNEP's project cycle management services are provided over the full duration of the project. The refund clause give an indication of revenue earned over different stages of the project life cycle.

- 40% of revenue accrues on approval of the project concept by the GEF Council; accordingly, 40% of the revenue related to the project cycle management should be recognized on approval of the project by the GEF Council;
- 60% of revenue accrues from approval of project document by GEF CEO till completion of the project; accordingly, 60% of the revenue related to project cycle management should be recognized over the period starting from approval of project document by GEF CEO till the end of the project. Allocation of revenue over the period should represent the stage of completion, which could be:
  - Apportion equally over the estimated time; or
  - Apportion based on the amount of actual expenditure to expected expenditure i.e similar to project accounting.

- UNEP's GEF corporate activities including quality assurance and support to the GEF on policy and outreach matters.

In substance, UNEP's responsibilities cover the entire project life cycle of approved projects and its corporate responsibilities. However it is difficult to allocate the revenue among different stages of the project life cycle, or between project and corporate activities in a precise manner, accordingly 40% of the fees should be recognized up to approval of project by GEF Council and the balance of 60% over the period of estimated project.

7.2.3 ACCOUNTING ENTRIES

Date	Dr/Cr	Journal entry	
Project revenue and expenditure			
Recognition of asset and revenue			
1-Jan-14	Dr	Voluntary contribution receivable (current asset)	200,000
	Cr	Voluntary Contribution Revenue	200,000
Cash advances approval and disbursement to executing agency			
1-Jan-14	Dr	Advance transfers	200,000
	Cr	Cash	200,000
Cash advances approval and disbursement to executing agency			
1-Jan-15	Dr	Advance transfers	1,000,000
	Cr	Cash	1,000,000
On receipt of expense report			
31-Dec-15	Dr	Expense	700,000
	Cr	Advance transfers	700,000
[similar scheme of entries should be followed for Year 2016, 2017, 2018 and 2019]			
On receipt of expense report			
31-Dec-20	Dr	Expense	100,000
	Cr	Advance transfers	100,000
Unspent funds received from executing agency			
31-Dec-20	Dr	Cash	200,000
	Cr	Advance transfers	200,000
Unspent funds payable to GEF			
31-Dec-20	Dr	Voluntary Contribution Revenue	200,000
	Cr	Transfers Payable (current liability)	200,000

Project Fee charges

Upon endorsement by GEF's CEO: (40% of 10% of $5.5 million)

1-Jan-12	Dr	Voluntary Contribution Receivable – Current Asset	220,000
	Cr	Revenue from services rendered	220,000

Reversal of fee charges due to reduction in total project cost
[40% of 10% of ($5.5 - 5.0) million]

1-Jan-14	Dr	Revenue from services rendered	20,000
	Cr	Voluntary Contribution Receivable – Current Asset	20,000

Fees received and claimed for the project (10% of $5 million)

Jan-14	Dr	Bank	500,000
	Cr	Voluntary Contribution Receivable – Current Asset	200,000
	Cr	Deferred revenue	300,000

Every year: (1/7 the of 60%)

	Dr	Voluntary Contribution Receivable – Current Asset	43,000
	Cr	Revenue from services rendered	43,000

7.2.4 Periodic payment from GEF

In order that the GEF Trustee can properly manage the treasury position of its GEF Trust Fund, the Trustee procedures require that implementing agencies only draw down funds against the GEF commitments to the extent that they are required to meet the immediate cash-flow needs of their on-going GEF projects. The 'verbally' agreed procedure that has been in operation since 2004 is that UNEP requests a cash advance by way of a Cash Transfer Request for $20 million whenever its cash balance for its GEF project portfolio falls below $20 million. Journal entry on periodic receipt of cash from GEF will be as follows:

On receipt of Cash

	Dr	Cash	20,000
	Cr	Voluntary Contribution Receivable – Current Asset	20,000

Note: GEF funds should be accounted at the project level. The periodic draw-downs should be applied to reduce the project receivable in UNEP's book of account guided by the project cash flow needs detailed in the draw-down request. Additionally, as necessary, accounting adjustments would also be done for cash reassigned between projects to account for the transfer of residual/excess cash between projects. Additionally, as necessary, accounting adjustments would also be done for cash reassigned between projects to account for the transfer of residual/excess cash between projects that are also reported to the IBRD in the periodic cash draw-down requests.