United Nations Human Settlements Programme

Financial report and audited financial statements

for the year ended 31 December 2017

Contents

Letters of transmittal

Letter dated 31 March 2018 from the Executive Director of the United Nations Human Settlements Programme addressed to the Chair of the United Nations Board of Auditors

In accordance with regulation 6.2 and rule 106.1 of the Financial Regulations and Rules of the United Nations, I am transmitting the financial report and accounts of the United Nations Human Settlements Programme, and other related accounts, for the year ended 31 December 2017, which I approve on the basis of the attestations of the Chief Finance Officer, the United Nations Office Nairobi and the Director of the Management and Operations Division of the United Nations Human Settlements Programme.

Copies of these financial statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

Maimunah Mohd Sharif
Executive Director
United Nations Human Settlement Programme

Chapter III

Certification of the financial statements

Letter dated 31 March 2018 from the Chief Finance Officer of the United Nations Office Nairobi addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2017 have been prepared in accordance with financial rule 106.1 of the United Nations and rule 306.10 of the supplement to the Financial Regulations and Rules of the United Nations (ST/SGB/2015/4).

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes, and the accompanying schedules, provide additional information and clarification of the financial activities undertaken by the United Nations Human Settlements Programme during the period covered by these statements.

The certification function defined in financial rules 105.5 and 105.7 to 105.9 of the United Nations is assigned to the United Nations Human Settlements Programme. Responsibility for the accounts and the performance of the approving function, as defined in article VI and financial rule 105.6 of the Financial Regulations and Rules of the United Nations, is assigned to the United Nations Office Nairobi.

In accordance with the authority assigned to me, I hereby certify that the appended financial statements of the United Nations Human Settlements Programme for the year ended 31 December 2017 are correct.

(*Signed*) Keval **Vora**
Chief Finance Officer

United Nations Office Nairobi

Chapter IV
Financial overview for the year ended 31 December 2017

A. Introduction

1. The Executive Director has the honor to submit herewith the financial report and the financial statements of the United Nations Human Settlements Programme (UN-Habitat) for the year ended 31 December 2017. The financial statements consist of five statements and notes to the financial statements. In accordance with financial rule 106.10, these financial statements will be transmitted to the Board of Auditors on 31 March 2018.

2. The United Nations Human Settlements Programme (UN-Habitat) is the specialized programme for sustainable urbanization and human settlements in the United Nations system. The mandate of the Programme is derived from General Assembly resolution 3327 (XXIX), by which the General Assembly established the United Nations Habitat and Human Settlements Foundation; resolution 32/162, by which the General Assembly established the United Nations Centre for Human Settlements (Habitat); and resolution 56/206, by which the General Assembly elevated the United Nations Centre for Human Settlements to the United Nations Human Settlements Programme.

3. Regular budget funding, insofar as it relates to UN-Habitat, is included in United Nations Volume I, a related party (A/72/5 (Vol. I)), but for completeness has also been included in these financial statements.

4. The financial statements and schedules, as well as the notes thereon, are an integral part of the financial report.

B. Financial statements prepared in accordance with International Public Sector Accounting Standards

5. In accordance with IPSAS, a complete set of financial statements has been prepared, as follows:

(a) Statement I: *Statement of financial position*. This statement shows the financial status of UN-Habitat as at 31 December 2017 by reporting the overall value of its assets and liabilities. It provides information about the extent to which resources are available for UN-Habitat to continue delivering partner services in the future;

(b) Statement II: *Statement of financial performance*. This statement measures the net surplus or deficit as the difference between revenues and the corresponding expenses incurred. The net surplus or deficit is a useful measure of the overall financial performance of UN-Habitat and indicates whether the organization achieved its self-financing objective for the period;

(c) Statement III: Statement *of changes in net assets*. This statement reports all changes in the value of assets and liabilities, including those excluded from the statement of financial performance, for example, actuarial adjustments to employee liabilities and fair value adjustment on available-for-sale financial instruments;

(d) Statement IV: *Statement of cash flows.* This statement reflects the changes in the cash position of UN-Habitat by reporting the net movement of cash, classified by operating and investing activities. The ability of UN-Habitat to generate cash liquidity is an important aspect in assessing its financial resilience. For a more complete picture of the organization's ability to draw upon its cash balances, investments also need to be taken into account;

(e) Statement V: *Statement of comparison of budget and actual amounts.* This statement compares the actual operational result with the main budget previously approved by the Governing Council and the General Assembly. The financial statements are supported by notes that assist users in understanding UN-Habitat and comparing it with other entities. The notes include UN-Habitat accounting policies and other additional information and explanations.

6. This is the fourth year that the financial statements of UN-Habitat have been prepared in accordance with IPSAS. To support continued IPSAS compliance, the Organization has deployed an IPSAS sustainability plan with ongoing work efforts on five major components, which have been identified as the core pillars for IPSAS sustainability, namely:

(a) Management of the benefits of IPSAS: this entails tracking and compiling IPSAS benefits and examining ways of using IPSAS-triggered information to better manage the organization;

(b) Strengthening of internal controls: this includes the deployment and ongoing management of the framework that will support a statement on internal controls;

(c) Management of the IPSAS regulatory framework: this includes active participation in the work of the IPSAS Board to formulate new International Public Sector Accounting Standards, or change existing standards, and the related update of the United Nations Policy Framework for IPSAS, financial rules and guidance, as well as the related changes to systems and processes;

(d) Maintaining the integrity of Umoja as the backbone for IPSAS-compliant accounting and reporting: work in this area includes ensuring IPSAS-compliant processes for new programmes and activities and automating the production of financial statements through the use of Umoja;

(e) Continued IPSAS training and the deployment of a skills strategy that will support a strengthened finance function.

C. Overview of the financial statements of the year ended 31 December 2017

7. Statements I to IV show the consolidated figure for all activities of UN-Habitat, comprising the non-earmarked funds, the earmarked funds and end-of service and retirement benefits for the year ended 31 December 2017.

8. The non-earmarked funds of UN-Habitat comprise of the Foundation General Purpose fund and the Regular Budget. Foundation General purpose resources are non-earmarked voluntary contributions by Member States to the UN-Habitat Foundation while regular budget resources represent subventions appropriated from Member States assessed contributions. Earmarked funds are voluntary contributions towards the Foundation Special Purpose and Technical Cooperation accounts.

9. Statement V reports on all segments except the programme support and end-of-service and post-retirement benefits. This statement is prepared on budget basis.

10. Comparison between the year ended 31 December 2016 and the current reporting date is provided.

Financial Performance

General Overview

11. Table 1 presented below shows a snapshot of the performance of UN-Habitat in all the segments in 2017. A total deficit of $26.8 million was realised in the year 2017 as a result of total net revenue of $170.4 million (Gross: $182.7 million) received against which total net expenditure of $197.2 million (Gross: $211.2 million) was reported. Gross revenue of $184.4 million includes a core component of $29.0 million (12 per cent), earmarked revenue of $153.7 million (84 per cent) and end-of-service and post-retirement benefits income of $1.7 million (1 per cent). Gross expenditures of $211.2 million comprise of $33.1 million (15.6 per cent) of core expenses, $175.7 million (84.1 per cent) of earmarked expenses and $2.4 million (1 per cent) of end-of-service and post-retirement benefits expenses.

Table 1: Summary financial performance for the period ended 31 December 2017 by segment

(Millions of United States dollars)

	Revenue	*Expenses*	*Surplus/(Deficit)*
Foundation non-earmarked	5.4	9.2	(3.8)
Regular budget	13.6	13.6	-
Programme support	10.0	10.3	(0.3)
Sub-total - Core funds	**29.0**	**33.1**	**(4.1)**
Foundation Special Purpose	35.8	47.6	(11.8.)
Technical cooperation	117.9	128.1	(10.2)
Sub-total - Earmarked funds	**182.7**	**208.8**	**(26.1)**
End-of-service and post-retirement benefits	1.7	2.4	(0.7)
Sub-total - Other	**1.7**	**2.4**	**(0.7)**
Total - all funds before elimination	**184.4**	**211.2**	**(26.8)**
Intersegment elimination	(14.0)	(14.0)	-
Total - all funds after elimination	**170.4**	**197.2**	**(26.8)**

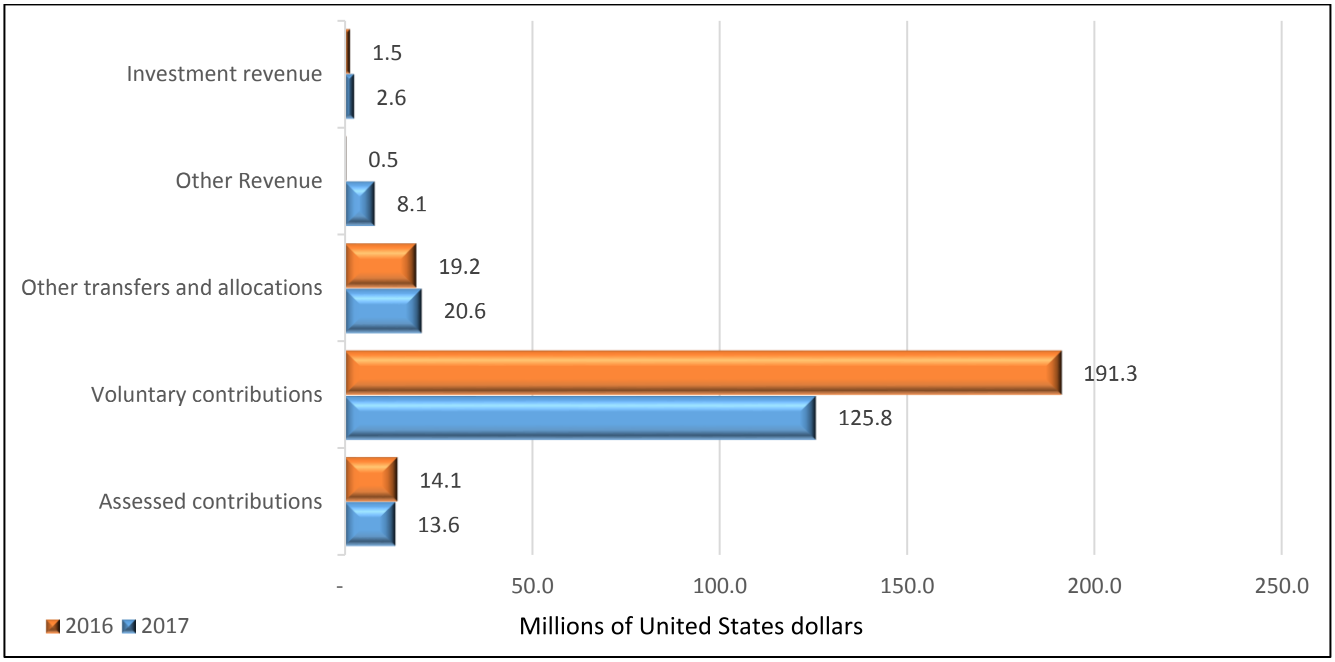
Table 2: Revenue

Year	**Foundation non-earmarked**	**Regular Budget**	**Foundation Special Purpose**	**Technical Cooperation**	**Programme Su**	**End-of-Service and Post-Retirement benefits**	**Intersegment Eliminations**	**Total revenue after elimination**
2017	5.4	13.6	35.8	117.9	10.0	1.7	(14.0)	170.4
2016	4.8	14.1	53.8	156.3	11.0	0.7	(13.8)	226.9

12. Figure 1 shows the distribution of contributions by category. UN-Habitat receives its contributions from five main categories which are assessed contributions, voluntary contributions, other transfers and allocations, investment revenue and other revenue.

13. UN-Habitat saw a decrease in revenue in 2017 when consolidated across all funds. Total revenue for 2017 was $170.4 million (2016: $226.6 million), which is a decrease of $56.2 million (24.8 per cent) compared with the 2016 revenue. The main source of revenue continues to be voluntary contributions from Member States, other government entities and other entities, which amounted to $125.8 million (2016: $191.3 million) and accounted for 74 per cent (2016: 84 per cent) of total revenue. The remaining 26 per cent (2016: 16 per cent) of the revenue was generated by the assessed contributions for an amount of $13.6 million (2016: $14.1 million), other transfers and allocations amount of $20.6 million (2016: $19.2 million),investment revenue amount of $2.6 million (2016: $1.5 million) and other revenue in the amount of $7.8 million (2016: $0.8 million).

Figure 1: Comparative revenue distribution by revenue category – Bar chart



14. Revenue for un-earmarked foundation general purpose were $5.4million (2016: $4.8 million), which was an increase of $0.6 million (12.5 per cent) in 2017 compared to 2016. This comprises of voluntary contributions amounting to $2.7million (2016: $2.3 million), cost recovery of $2.5 million (2015: 2.8 million), and other revenue which was $7.8 million in 2016. Overhead income of $10.0 million was received in 2017 from the implementation of the portfolio, compared to $11.3 million in 2016. Regular budget revenue was $13.6 million (2016: $14.1 million). This was a reduction of $0.5 million (3.5 per cent) compared to 2016 due to extraordinary expenditure related to Habitat III. Foundation special purpose earmarked funds revenue was $35.8 million (2016: $53.5 million) in total, which was a growth of $23.9 million (80 per cent) compared to

2016. Technical cooperation earmarked funds revenue amounted to $117.9 million (2016: $156.3 million), which was a decrease of $38.4 million (33 per cent) compared to 2016. Other revenue sources contributed $7.8 million (2016: $0.8 million) in total.

15. The technical cooperation segment continues to be the main funding source of UN-Habitat, followed by foundation special purpose. Both are earmarked sources of income, and registered growth in the year against declines in regular budget and foundation non-earmarked sources of funding.

Figure 2: Revenue distribution by source of funding – Bar Chart (before elimination)

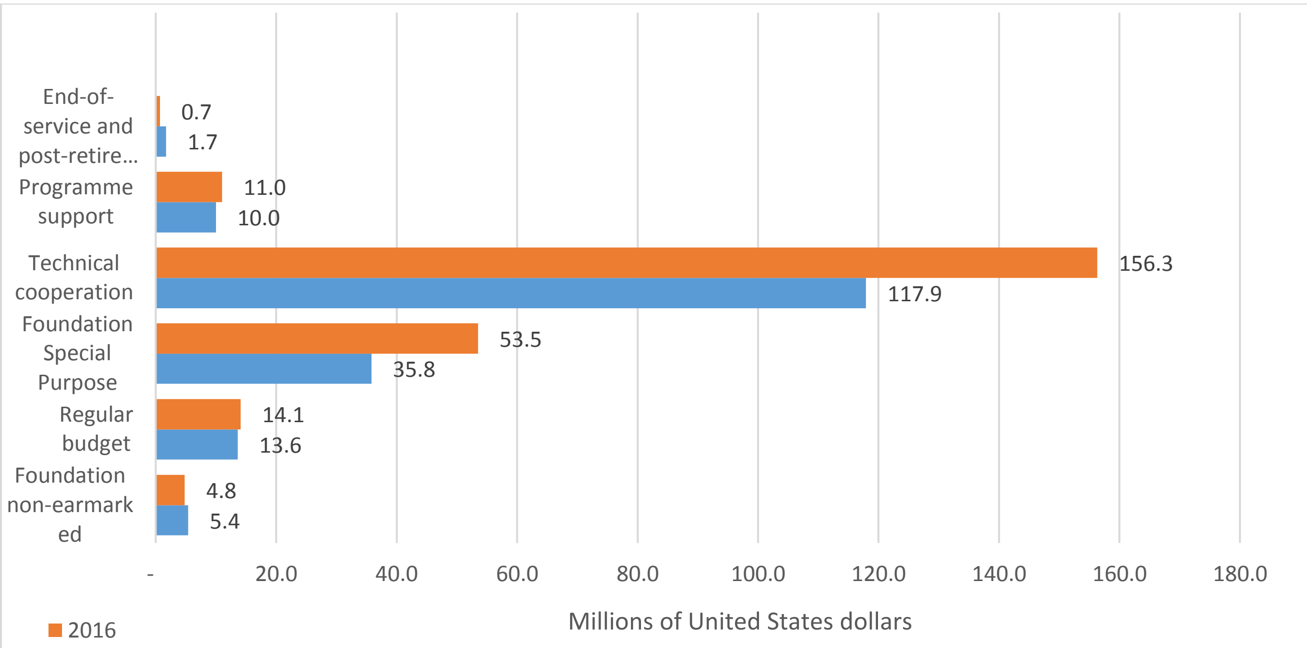


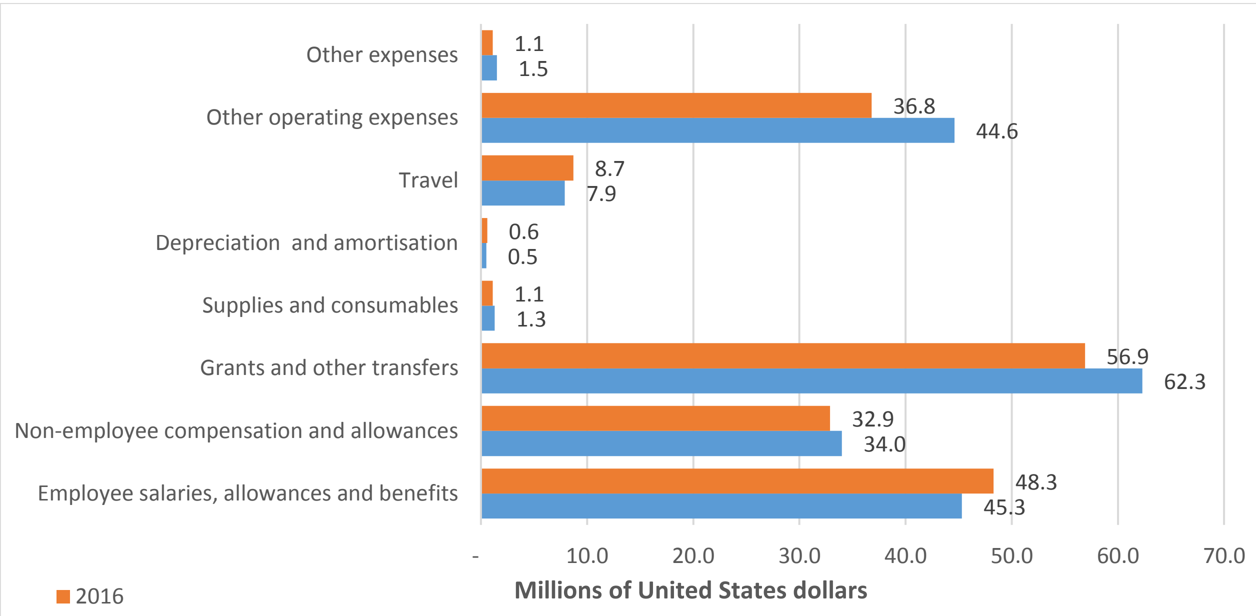
Table 3: Expenditure

Year	Foundation non-earmarked	Regular Budget	Foundation Special Purpose	Technical Cooperation	Programme Support	End-of-Service and Post-Retirement benefits	Intersegment Eliminations	Total revenue after elimination
2017	9.2	13.6	47.4	128.4	10.2	2.4	(14.0)	197.2
2016	8.9	14.1	56.4	110	9.0	2.2	(13.8)	186.8

16. Total expenses increased by $10.4 million, to a total of $197.2 million (2016: $186.8 million) in 2017. The major categories of expenses included employee benefit expenses of $47.0 million (2016: $48.2 million), non-employee compensation costs of $34.0 million (2016: $32.9 million), grants and transfers amounting to $62.4 million (2016: $56.9 million) and other operating expenses of $42.6 million (2016: $37.3 million). These expenses are largely related to project delivery.

17. Remaining expenses amounting to $11.3 million (2016: $11.4 million) related to supplies and consumables of $1.3 million (2016: $1.1 million), Depreciation and amortization of $0.5 million (2016: $0.6 million), travel expenses of $8 million (2016: $8.7 million) and other expenses of $1.5 million (2016: $1.1 million).

Figure 3: Expenditure distribution by category – Bar Chart



18. Further analysis of the non-earmarked expenditures shows that a total of $9.2 million (2016: $8.9 million) related to Foundation general purpose funding source while $13.6 million (2016: $14.1 million) was for regular budgetand $10.3 million (2016: $9.0 million) related to programme support. For the earmarked funds, $47.6 million (2016: $56.1 million) related to Foundation general purpose funding source while Technical cooperation expenditure amounted to $128.1 million (2016: $110.0 million). Other expenses relating to end-of-service and post-retirement benefits amounted to $2.4million (2016: $2.2 million).

19. Figure 4 shows expenditure distribution between the six reporting segments while figure 8 shows a pie chart showing the percentage distribution.

Figure 4: Expenditure distribution between segments before elimination – Bar Chart

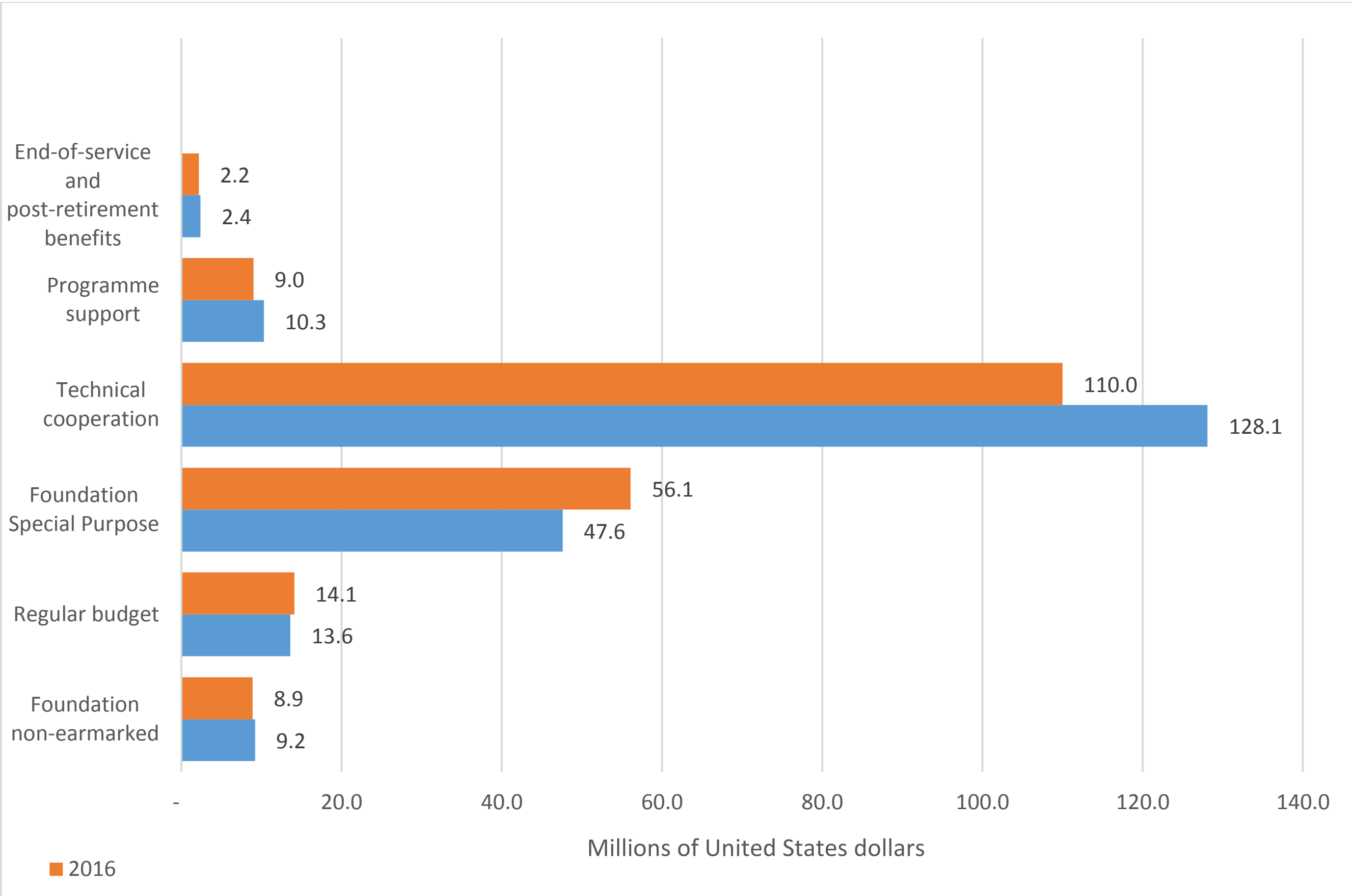


Table 4: Financial Position

	Foundation non-earmarked	Foundation Special Purpose	Technical Cooperation	Programme Support	End-of-Service and Post-Retirement benefits	Total
Total Assets	5 503	126 267	309 496	19 719	8 234	469 219
Percentage of total assets	1.2%	26.9%	66%	4.2%	1.8%	100%
Total Liabilities	3 224	28 995	67 353	4 040	47 804	151 416
Percentage of total liabilities	2.1%	19.1%	44.5%	2.7%	31.6%	100%
Total net assets	2 279	97 272	242 143	15 679	39 570	317 803
Percentage total net assets	0.7%	30.6%	76.3%	4.9%	(12.5%)	100%

Assets

20. At the end of 2017, UN-Habitat total assets after intersegment elimination of $7.7 million were $461.5 million (2016: $444.3 million). Current assets represented $350.3 million (2016: $362.1 million) while non-current assets were $111.2 million (2016: 82.2 million).

21. Voluntary contributions receivable amounted to $198.9 million (2016: $186.7 million) while cash and investments amounted to $213.6 million (2016: $200.1 million). The majority of the cash and investment assets were related to funds received for earmarked and multi-year projects.

22. Property of the organization at year-end had a net book value of $16.9 million (2016: $15.6 million).

23. Cash advances to implementing partners that had not been expensed at year-end were $19.5 million (2016: $15.5 million).

Liabilities

24. Total current and non-current liabilities stood at $143.7 million (2016 $94.4 million) at year-end, resulting in net assets of $317.8 million (2016: $349.9 million) and reflecting further strengthening of the financial position of UN-Habitat.

25. Table 5 summarizes other key indicators for UN-Habitat for the year ended 31 December 2017 compared with the year ended 31 December 2016.

Table 5: Other key indicators

(Millions of United States dollars)

	2017	*2016* [a/]	*Increase/(decrease)*	*Per cent change*
Cash and cash equivalents	17.0	55.5	(38.5)	(69.4)
Short-term investments	149.6	98.2	51.4	52.3
Long-term investments	47.0	47.3	(0.3)	(0.6)
Total cash and investments	**213.6**	**201.0**	**12.6**	**6.3**
Contributions receivable	199.0	186.7	12.3	6.6
Other receivables	0.1	0.6	(0.5)	(83.3)
Total receivables	**199.3**	**187.3**	**12.0**	**6.4**
Advance transfers	19.5	15.5	4.0	25.8
Other assets	12.3	24.9	(12.6)	(50.6)
Accounts payable and accrued liabilities	14.3	17.9	(3.6)	(20.1)
Employee benefits liabilities	48.6	41.5	7.1	17.1
Other liabilities	80.8	34.9	45.9	131.5

D. End-of-service and post-retirement accrued liabilities

26. The UN-Habitat statements reflect the end-of-service and post-retirement benefits, comprising after-service health insurance liabilities, annual leave and repatriation benefits. It is to be noted that UN-Habitat makes monthly provisions for repatriation benefits at 8 per cent of net salary.

27. Accrued balances 31 December 2017 have been adjusted to reflect the estimated liabilities as at 31 December 2017, as reflected in the 2017 actuarial study carried out by a consulting firm engaged by the United Nations Secretariat on behalf of UN-Habitat. By fully charging these liabilities as at 31 December 2017, an amount of $39.6 million of cumulative unfunded expenditure is included in the cumulative surplus/(deficit) amount ; see note 5, End-of-service and post –retirement benefits segment.

Chapter V
Financial statements and related explanatory notes for the year ended 31 December 2017

United Nations Human Settlements Programme

I. Statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Reference	31 December 2017	31 December 2016
Assets			
Current assets			
Cash and cash equivalents	6	16 904	55 540
Investments	7	149 645	98 158
Voluntary contributions receivable	8	151 851	167 577
Other receivables	9	122	277
Advance Transfers	10	19 475	15 541
Other assets	11	12 285	24 999
Total Current assets		**350 282**	**362 092**
Non-current assets			
Investments	7	46 970	47 265
Voluntary Contributions Receivable	8	47 039	19 074
Property plant and equipment	13	16 982	15 561
Intangible Assets	14	18	23
Other receivables	9	223	298
Total Non-current assets		**111 232**	**82 221**
Total Assets		**461 514**	**444 313**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	14 291	17 894
Employee benefits liabilities	16	2 139	2 922
Other liabilities	18	80 819	34 967
Total Current liabilities		97 249	55 783
Non-current liabilities			
Employee benefits liabilities	16	46 462	38 629
Total Non-current liabilities		**46 462**	**38 629**
Total Liabilities		**143 711**	**94 412**
Net of total assets and liabilities		**317 803**	**349 901**
Net assets			
Accumulated surplus/deficit	19	296 882	327 024
Reserves	19	20 921	22 877
Total Net assets		**317 803**	**349 901**

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

United Nations Human Settlements Programme

II. Statement of financial performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Reference	31 December 2017	31 December 2016 [a]
Revenue			
Assessed	20	13 563	14 100
Voluntary contributions	20	125 825	191 286
Other transfers and allocations	20	20 610	19 239
Investment revenue	23	2 590	1 520
Other Revenue	21	8 083	842
Total Revenue		170 671	226 987
Expense			
Employee salaries allowances and benefits	22	45 281	48 260
Non-employee compensation and allowances	22	33 979	32 902
Grants and other transfers	22	62 365	56 898
Supplies and consumables	22	1 321	1 060
Depreciation	13	498	626
Amortization	14	5	5
Travel	22	7 972	8 681
Other operating expenses	22	44 599	37 315
Other expenses	22	1 462	1 070
Total Expense		197 482	186 817
Surplus/(deficit) for the period		(26 811)	40 170

[a] Comparatives have been restated to conform to current presentation.

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

United Nations Human Settlements Programme

III. Statement of changes in net assets for the year ended 31 December 2017

(Thousands of United States dollars)

	Accumulated surpluses/(deficits) - unrestricted	*Reserves*	*Total*
Net Asset, 1 January 2017	**327 024**	**22 877**	**349 901**
Restated Net Asset opening	**327 024**	**22 877**	**349 901**
Change in net assets			
Transfers to/from unrestricted/restricted/reserves	1 956	(1 956)	-
Actuarial gains/(losses)	(5 287)	-	(5 287)
(Surplus/(deficit) for the year	(26 811)	-	(26 811)
Total for 31 December 2017	**296 882**	**20 921**	**317 803**

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

United Nations Human Settlements Programme

IV. Statement of cash flows for the year ended 31 December 2017

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Cash Flow from Operating Activities			
Surplus / (deficit) for the year		**(26 811)**	**40 170**
Non-cash movements			
Depreciation and Amortization		503	631
Transfers and donated PP&E and intangibles			(50)
Actuarial gain/loss on employee benefits liabilities		(5 287)	(1 357)
Changes in assets			
(Increase)/decrease in voluntary contributions receivables		(12 239)	(26 655)
(Increase)/decrease in other receivables		230	359
(Increase)/decrease in advance transfers		(3 934)	2 387
(Increase)/decrease in other assets		12 714	(1 741)
Changes in liabilities			
Increase/(decrease) in accounts payable - other		(3 603)	(5 171)
Increase/(decrease) in advance receipts		-	(224)
Increase/(decrease) in employee benefits payable		7 050	3 082
Increase/(decrease) in other liabilities		45 852	(9 550)
Investment revenue presented as investing activities		(2 590)	(1 520)
Net cash flows from/(used in) operating activities		**11 885**	**361**
Cash Flow from Investing Activities			
Pro rata share of net increases in the cash pool		(51 192)	19 986
Investment revenue presented as investing activities		2 590	1 520
Net proceeds from acquisition and disposal of property plant and equipment		(1 919)	(3 891)
Net cash flows from/(used in) investing activities		**(50 521)**	**17 615**
Cash Flow from Financing Activities			
Adjustments to net assets		-	729
Net cash flows from/(used in) financing activities		**-**	**729**
Net increase/(decrease) in cash and cash equivalents		(38 636)	18 705
Cash and cash equivalents - beginning of year		55 540	36 835
Cash and cash equivalents - end of year		**16 904**	**55 540**

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

United Nations Human Settlements Programme

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2017

(Thousands of United States dollars)

	Publicly Available Budget [a]				
Budget part	*Original biennial*	*Original annual*	*Final annual*	*Actual expenditure (budget basis)*	*Difference (percentage)*[b]
Foundation General Purpose					
Urban legislation, land and governance	3 113	1 556	404	393	2.7
Urban planning and design	4 237	2 119	1 319	1 335	1.2
Urban economy	3 349	1 675	36	34	(5.6)
Urban basic services	3 890	1 945	881	714	(19.0)
Housing and slum upgrading	3 638	1 819	223	231	3.5
Risk reduction and rehabilitation	4 426	2 213	548	437	(20.3)
Research and capacity development	4 453	2 226	324	309	(4.6)
Subtotal	**27 106**	**13 553**	**3735**	**3 453**	**(7.6)**
Executive direction	13 776	6 888	4 217	3 325	(21.1)
Programme support	4 736	2 368	1 686	1 827	8.4
Total Foundation General Purpose	**45 618**	**22 809**	**9 639**	**8 605**	**(10.7)**
Foundation Special Purpose	101 297	50 649	40 333	37 098	(8.0)
Regular budget					
Sections 15 and 23	23 408	11 704	12 783	12 045	(5.8)
Development account	3 572	1 786	966	1 365	41.3
Habitat III	1 387	80	80	113	41.3
Total regular budget	**28 367**	**13 570**	**13 829**	**13 523**	**(2.2)**
Technical cooperation	312 909	156 454	130 786	119 138	(8.9)
Grand total	**488 191**	**243 482**	**194 587**	**178 364**	**(8.3)**

[a] Budget relates to the current year proportion of publically available budgets which are approved for a two-year period.

[b] Actual expenditure (budget basis) less final budget. Differences greater than 10 per cent are considered in note 6.

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

United Nations Human Settlements Programme

Notes to the financial statements

Note 1
Reporting entity

United Nations Human Settlements Programme and its activities

1. On 16 December 1974, the General Assembly adopted resolution 3327 (XXIX), by which it created the United Nations Habitat and Human Settlements Foundation.

2. On 19 December 1977, the General Assembly adopted resolution 32/162, by which it established a secretariat (the United Nations Centre for Human Settlements (Habitat)) and a Commission on Human Settlements.

3. On 21 December 2001, the General Assembly adopted resolution 56/206, by which, with effect from 1 January 2002, it transformed the United Nations Centre for Human Settlements, including the United Nations Habitat and Human Settlements Foundation, into the United Nations Human Settlements Programme (UN-Habitat) and the Commission on Human Settlements into the Governing Council of the United Nations Human Settlements Programme. By the same resolution, the Assembly confirmed that the Executive Director of the United Nations Human Settlements Programme should be responsible for the management of the United Nations Habitat and Human Settlements Foundation and UN-Habitat would become an autonomous body and a separate reporting entity within the United Nations.

4. UN-Habitat is a separate financial reporting entity of the United Nations system owing to the uniqueness of the governance and budgetary process. Its financial statements comprise activities managed through various funds, including general and related funds, technical cooperation activities, general trust funds and other activities.

5. UN-Habitat is supported by a United Nations regular budget allocation and voluntary contributions from governments, intergovernmental organizations, foundations, the private sector and other non-governmental sources. UN-Habitat headquarters is located on United Nations Avenue in Nairobi, Kenya at the United Nations Office Nairobi complex.

6. UN-Habitat undertook a major reform in 2011 to sharpen the programmatic focus of its mandate to address current strategic urbanization challenges and achieve more efficient and effective service delivery, with the goal of maintaining its role as the lead programme of the United Nations for providing guidance and technical support on sustainable urbanization and shelter, both globally and at regional and country levels.

7. The main strategic objectives of UN-Habitat are delivered through seven subprograms and various policies:

(a) Urban legislation, land and governance, which provides policy and operational support to governments and cities with respect to governance, legislation and land;

(b) Urban planning and design, which provides city and national governments with a set of tested approaches, guidelines and tools to support the management of growth and improved sustainability, efficiency and equity of cities through planning and design at different scales;

(c) Urban economy, which promotes urban strategies and policies that strengthen the capacity of cities to realize their potential as engines of economic development and enhance their contribution to employment and wealth creation;

(d) Urban basic services, which focuses on strengthening policies and institutional frameworks for expanding access to urban basic services, specifically targeted at the urban poor;

(e) Housing and slum upgrading, which advocates a twin-track approach to improve the supply and affordability of new housing alongside the implementation of citywide and national slum-upgrading programmes to improve housing conditions and quality of life for the urban poor;

(f) Risk reduction and rehabilitation, which aims at reducing urban risk and responding to urban crises and supports crisis-affected cities in terms of disaster prevention and response;

(g) Research and capacity development, which monitors and reports results of global monitoring and assessment on urbanization statistics and indicators to Governments and Habitat Agenda partners through its flagship reports;

The objectives for UN Habitat are;

(a) To improve the shelter conditions of the world's poor and to ensure the development of sustainable human settlements;

(b) To monitor and assess progress towards the attainment of the Habitat

Agenda goals and the targets of the Millennium Declaration and the Johannesburg Plan of Implementation on slums, safe drinking water and sanitation;

(c) To strengthen the formulation and implementation of urban and housing policies, strategies and programmes and to develop related capacities, primarily at the national and local levels;

(d) To facilitate the mobilization of investments from international and domestic sources in support of adequate shelter, related infrastructure development programmes and housing finance institutions and mechanisms, particularly in developing countries and in countries with economies in transition.

Note 2

Basis of preparation and authorization for issue

8. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS). They have been prepared on a going-concern basis and the accounting policies have been applied consistently in their preparation and presentation. In accordance with the requirements of IPSAS, these financial statements, which present fairly the assets, liabilities, revenue and expenses of the United Nations Human Settlements Programme, and the cash flows over the financial year, consist of the following:

(a) Statement I: statement of financial position;

(b) Statement II: statement of financial performance;

(c) Statement III: statement of changes in net assets;

(d) Statement IV: statement of cash flows;

(e) Statement V: statement of comparison of budget and actual amounts;

(f) Notes to the financial statements comprising a summary of significant accounting policies and other explanatory notes.

(g) Comparative information in respect of all amounts presented in the financial statements indicated in (a) to (e) above and, where relevant, comparative information for narrative and descriptive information presented in the notes to these financial statements.

9. This is the fourth set of financial statements prepared in compliance with IPSAS, which includes the application of certain transitional provisions as identified below.

10. The financial statements are prepared for the 12-month period from 1 January to 31 December.

Going concern

11. The going-concern assertion is based on the approval by the General Assembly of the regular budget appropriations for the biennium 2018-2019 and the positive historical trend of collection of assessed and voluntary contributions over the past years and the fact that the Assembly has taken no decision to cease the operations of the United Nations Human Settlements Programme.

Authorization for issue

12. These financial statements are certified by the Chief Financial Officer of the United Nations Office Nairobi and approved by the Executive Director of the United Nations Human Settlements Programme. In accordance with the Financial Regulations and Rules of the United Nations, these financial statements as at 31 December 2017 are to be transmitted to the Board of Auditors by 31 March 2018. In accordance with

financial regulation 7.12, the reports of the Board of Auditors are to be transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions, together with the audited financial statements authorized for issue on 30 July 2018.

Measurement basis

13. The financial statements are prepared using the historic cost convention except for certain assets as stated in the notes to the financial statements. Real estate assets are recorded at depreciated replacement cost and financial assets recorded at fair value through surplus or deficit.

Functional and presentation currency

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

15. Transactions in currencies other than the functional currency (foreign currencies) are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are translated at the United Nations operational rates of exchange. Non-monetary foreign currency denominated items that are measured at fair value are translated at the United Nations operational rate of exchange at the date on which the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not translated at year-end.

16. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance on a net basis.

Materiality and use of judgment and estimates

17. Materiality is central to the preparation and presentation of the organization's financial statements and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would affect the conclusions or decisions of the users of the financial statements.

18. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies and in the reported amounts of certain assets, liabilities, revenues and expenses.

19. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; selection of useful lives and the depreciation/ amortization method for property, plant and equipment/intangible assets; impairment of assets; classification of financial instruments;

valuation of inventory; inflation and discount rates used in the calculation of the present value of provisions; and classification of contingent assets/liabilities.

International Public Sector Accounting Standards transitional provisions

IPSAS 17, Property, plant and equipment, allows a transitional period of up to five years for the full recognition of capitalized property, plant and equipment. The Organization invoked the transitional provision and has not recognized assets where reliable data is in the process of being collected.

Future accounting pronouncements

The progress and impact of the following significant future IPSAS Board accounting pronouncements on the Organization's financial statements continues to be monitored:

(a) Heritage assets: the objective of the project is to develop accounting requirements for heritage assets;

(b) Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits;

(c) Revenue: the scope of the project is to develop new standard-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9: Revenue from exchange transactions, IPSAS 11: Construction contracts, and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(d) Leases: the objective of the project is to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying International Financial Reporting Standard. The project will result in a new IPSAS that will replace IPSAS 13. Approval of a new IPSAS on leases is projected for June 2019;

(e) Public Sector Measurement: the objectives of this project include to (i) issue amended IPSASs with revised requirements for measurement at initial recognition, subsequent measurement and measurement-related disclosure; (ii) provide more detailed guidance on the implementation of replacement cost and cost of fulfilment and the circumstances under which these measurement bases will be used; and (iii) address transaction costs, including the specific issue of the capitalizing or expensing of borrowing costs; and

(f) Infrastructure Assets: the objective of the project is to research and identify issues preparers have when applying IPSAS 17 to infrastructure assets. Informed by this research the aim is to provide additional guidance on accounting for infrastructure assets.

Recent and Future requirements of the International Public Sector Accounting Standards

The IPSASB issued the following standards: IPSAS 34 to 38 in 2015 effective 1 January 2017, IPSAS 39 in 2016 effective 1 January 2018 and IPSAS 40 in 2017 effective 1 January 2018. The impact of these standards on the Organization's financial statements and the comparative period therein has been evaluated to be as follows:

Standard	Anticipated impact in the year of adoption
IPSAS 34	The requirements for separate financial statements in IPSAS 34 are very similar to the requirements of the repealed IPSAS 6: Consolidated and separate financial statements. The introduction of IPSAS 34 with effect from 1 January 2017 has not affected the United Nations financial statements reported in volume I.
IPSAS 35	IPSAS 35 still requires that control be assessed having regard to benefits and power, but the definition of control has changed and the standard now provides considerably more guidance on assessing control. The other key change introduced by IPSAS 35 is the elimination of the IPSAS 6 exemption from consolidation of temporarily controlled entities. A desk review and assessment of United Nations Volume 1 control and interests in other arrangements was performed and confirmed the result of the previous review that there are no changes following adoption of the new standard.
IPSAS 36	A key change introduced by IPSAS 36 is the elimination of the IPSAS 7 exemption from application of the equity method where joint control or significant influence is temporary. A desk review and assessment of all the arrangements between the United Nations and all its activities was performed and confirmed the result of the previous review that there are no existence of such temporary joint control or significant influence eliminated under IPSAS 36 in place of IPSAS 7. Furthermore, the scope of IPSAS 36 is limited to entities that are investors with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest. The applicability of IPSAS 36 to the United Nations as reported in volume I is therefore limited, as interests generally do not involve a quantifiable ownership interest.
IPSAS 37	IPSAS 37 introduces new definitions and has a significant impact on the way joint arrangements are classified and accounted for. These financial statements include joint venture arrangements accounted for using the equity method.

Standard	Anticipated impact in the year of adoption
	Where these are formed under a binding agreement and assessed as being subject to joint control, they meet the IPSAS 37 definition of a joint arrangement. When assessed as being a joint venture, that is, the United Nations volume I interest gives rise to rights over net assets, IPSAS 37 requires the equity method to be used and this will not represent a change in accounting policy. If there are rights to assets and obligations for liabilities, the interest is classified as a joint operation and the United Nations as reported in volume I will account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IPSAS standard applicable to the particular assets, liabilities, revenues and expenses. The United Nations system-wide carried out a review of the arrangements between its organizations and joint arrangements. Such review conducted by means of a survey revealed no changes to the arrangements as previously concluded in the review performed by the Organization.
IPSAS 38	IPSAS 38 increases the extent of disclosures required for interest in other entities and could have a significant impact on the United Nations volume I financial statements. A desk review and assessment of the impact of IPSAS 38 between the United Nations and all its activities was performed and confirmed the result of the previous review that there are no impacts following adoption of the new standard.
IPSAS 39	Currently, IPSAS 39 will have no impact on the Organization since the "corridor method" on actuarial gains or losses, which is being eliminated, has never been applied since the inception of IPSAS adoption in 2014. The Organization does not have any plan assets; therefore there is no impact from application of the net interest approach prescribed by the standard. IPSAS 39 will be effective from 1 January 2018. Further analysis will be carried out in the future should the Organization procure plan assets.
IPSAS 40	There is currently no impact on the Organization from the application of IPSAS 40 as to date there are no public sector combinations which fall under Volume 1. Any such impact of IPSAS 40 on the Organization's financial statements will be evaluated for application by the Organization by 1 January 2018, the effective date of the standard should such combinations occur.

Note 3
Significant accounting policies

Financial assets classification

20. The Organization classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date (see table below). Classification of financial assets primarily depends on the purpose for which the financial assets are acquired.

Categories of financial assets

Classification	*Financial assets*
Fair value through surplus or deficit	Investments in cash pools
Loans and receivables	Cash and cash equivalents and receivables

21. All financial assets are initially measured at fair value. The Organization initially recognizes financial assets classified as loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date the Organization becomes party to the contractual provisions of the instrument.

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

23. Financial assets at fair value through surplus or deficit are those that have been either designated in this category at initial recognition or are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

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

25. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset. Impairment losses are recognized in the statement of financial performance in the year they arise.

26. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Organization has transferred substantially all risks and rewards of the financial asset.

27. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in cash pools

28. The United Nations Treasury invests funds pooled from the United Nations Secretariat entities and other participating entities including the Organization. These pooled funds are combined in two internally managed cash pools. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

29. The Organization's investment in the cash pools is included as part of cash and cash equivalents and short- and long-term investments in the statement of financial position depending on the maturity period of the investments.

Financial assets: cash and cash equivalents

30. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables from non-exchange transactions, contributions receivable

31. Contributions receivable represent uncollected revenue from assessed and voluntary contributions committed to the Organization by Member States, non-Member States and other donors based on enforceable agreements. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts, the allowance for doubtful receivables.

32. Voluntary contributions receivable and other accounts receivable are subject to an allowance for doubtful receivables that is calculated at a rate of 25 per cent for outstanding receivables between one and two years, 60 per cent for those between two and three years and 100 per cent for those in excess of three years.

33. For assessed contributions receivable, the allowance is calculated at a rate of 20 per cent for those outstanding between one and two years, 60 per cent for those between two and three years, 80 per cent for those between three and four years and 100 per cent for those over four years.

Financial assets: receivable from exchange transactions, other accounts receivable

34. Other receivables primarily include amounts receivable for goods or services provided to other entities, amounts receivable for operating lease arrangements and receivables from staff. Receivables from other United Nations reporting entities are also included in this category. Material balances of other receivables and voluntary contributions receivable are subject to specific review and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Financial assets: loans receivable

35. Loans receivable consist of loans that have been given out to implementing partners under a revolving housing finance loan fund programme called Experimental Reimbursable Seeding Operations and is receivable in accordance with the amortization schedules. These loans are given at below-market rates.

Investments accounted for using the equity method

36. The equity method initially records an interest in a jointly controlled entity at cost, and is adjusted thereafter for the post-acquisition change in the Organization's share of net assets. The Organization's share of the surplus or deficit of the investee is recognized in the statement of financial performance. The interest is recorded under non-current assets unless there is a net liability position, in which case it is recorded under non-current liabilities.

Other assets

37. Other assets include education grant advances and prepayments, including advances for the United Nations Development Programme Service Clearing Account, that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Advance transfers

38. Advance transfers mainly relate to cash transferred to executing agencies/ implementing partners as an advance in order for them to provide agreed goods or services. Advances issued are initially recognized as assets, and then expenses are recognized when goods are delivered or services are rendered by the executing agencies/implementing partners and confirmed by receipt of certified expense reports as applicable. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual is needed. Balances due for a refund are transferred to other receivables where necessary and are subject to an allowance for doubtful receivables.

Inventories

39. Inventory balances are recognized as current assets and include the categories and subcategories set out in the table below:

Categories	*Subcategories*
Held for sale or external distribution	Books and publications, stamps
Raw materials and works in progress associated with items held for sale or external distribution	Construction materials/supplies, works in progress
Strategic reserves	Fuel reserves, bottled water and rations reserves
Consumables and supplies	Material holdings of consumables and supplies, including spare parts and medicines

40. The cost of inventory in stock is determined using the average price cost basis. The cost of inventories includes the cost of purchase plus other costs incurred in bringing the items to the destination and condition for use. Inventory acquired through non-exchange transactions (i.e., donated goods) are measured at fair value

as at the date of acquisition. Inventories held for sale are valued at the lower of cost and net realizable value. Inventories held for distribution at no/nominal charge or for consumption in the production of goods/services are valued at the lower of cost and current replacement cost.

41. The carrying amount of inventories is expensed when inventories are sold, exchanged, distributed externally or consumed by the Organization. Net realizable value is the net amount that is expected to be realized from the sale of inventories in the ordinary course of operations. Current replacement cost is the estimated cost that would be incurred to acquire the asset.

42. Holdings of consumables and supplies for internal consumption are capitalized in the statement of financial position only when material. Such inventories are valued by the periodic weighted average or the moving average methods based on records available in the inventory management systems, such as Galileo and Umoja, which are validated through the use of thresholds, cycle counts and enhanced internal controls. Valuations are subject to impairment review, which takes into consideration the variances between moving average price valuation and current replacement cost, as well as slow-moving and obsolete items.

43. Inventories are subject to physical verification based on value and risk as assessed by management. Valuations are net of write-downs from cost to current replacement cost/net realizable value, which are recognized in the statement of financial performance.

Heritage assets

44. Heritage assets are not recognized in the financial statements but significant heritage assets are disclosed in the notes to the financial statements.

Property, plant and equipment

45. Property, plant and equipment are classified into different groupings of similar nature, functions, useful life and valuation methodologies as: vehicles; communication and information technology equipment; machinery and equipment; furniture and fixtures; and real estate assets (land, buildings, leasehold improvements, infrastructure and assets under construction). Recognition of property, plant and equipment is as follows:

(a) All property, plant and equipment other than real estate assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost comprises the purchase price, any costs directly attributable to bringing the asset to its location and condition and the initial estimate of dismantling and site restoration costs;

(b) Owing to the absence of historical cost information, real estate assets are initially recognized at fair value using a depreciated replacement cost methodology. Baseline costs per baseline quantity have been calculated by collecting construction cost data, utilizing in-house cost data (where it exists) or using external cost estimators for each catalogue of real estate assets. The baseline costs per baseline quantity adjusted for price escalation factor, size factor and location factor are applied to value the real estate asset and determine the replacement cost. Depreciation allowance deductions from the gross replacement cost to account for physical, functional and economic use of the assets have been made to determine the depreciated replacement cost of the assets;

(c) For property, plant and equipment acquired at nil or nominal cost including donated assets, the fair value as at the date of acquisition is deemed to be the cost to acquire;

(d) Property, plant and equipment are capitalized when their cost is greater or equal to the threshold of $5,000, or $100,000 for leasehold improvements and self-constructed assets.

46. Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method up to their residual value, except for land and assets under construction, which are not subject to depreciation. Given that not all components of a building have the same useful lives or the same maintenance, upgrade or replacement schedules, significant components of owned buildings are depreciated using the components approach. Depreciation commences in the month when the Organization gains control over an asset in accordance with international commercial terms and no depreciation is charged in the month of retirement or disposal. Given the expected pattern of usage of property, plant and equipment, the residual value is nil unless residual value is likely to be significant. The estimated useful lives of property, plant and equipment classes are set out in the table below.

Estimated useful lives of property, plant and equipment classes

Class	*Subclass*	*Estimated useful life*
Communications and information technology equipment	Information technology equipment	4 years
	Communication and audiovisual equipment	7 years
Vehicles	Light-wheeled vehicles	6 years
	Heavy-wheeled and engineering support vehicles	12 years
	Specialized vehicles, trailers and attachments	6 to 12 years
	Marine vessels	10 years
Machinery and equipment	Light engineering and construction equipment	5 years
	Medical equipment	5 years
	Security and safety equipment	5 years
	Mine detection and clearing equipment	5 years
	Accommodation and refrigeration equipment	6 years
	Water treatment and fuel distribution equipment	7 years
	Transportation equipment	7 years
	Heavy engineering and construction equipment	12 years
	Printing and publishing equipment	20 years
Furniture and fixtures	Library reference material	3 years
	Office equipment	4 years
	Fixtures and fittings	7 years
	Furniture	10 years
Buildings	Temporary and mobile buildings	7 years
	Fixed buildings, depending on type	25, 40 or 50 years
	Major exterior, roofing, interior and services/utilities components, where component approach is utilized	20 to 50 years
	Finance lease or donated rights-to use buildings	Shorter of term of arrangement or life of building

Class	Subclass	Estimated useful life
Infrastructure assets	Telecommunications, energy, protection, transport, waste and water management, recreation, landscaping	Up to 50 years
Leasehold improvements	Fixtures, fittings and minor construction work	Shorter of lease term or 5 years

47. In exceptional cases, the recorded useful lives for some assets may be different from the useful lives prescribed at the asset subclass level as set out above (although it would remain within the range at asset class level), because when preparing the 2014 IPSAS opening balance a thorough review of the remaining economic useful lives for these assets was made and the result had been entered in the master record of the asset.

48. Where there is a material cost value of fully depreciated assets that are still in use, adjustments to accumulated depreciation and property, plant and equipment are incorporated into the financial statements to reflect a depreciation floor of 10 per cent of historical cost based on an analysis of the classes and useful lives of the fully depreciated assets.

49. The Organization elected to use the cost model for measurement of property, plant and equipment after initial recognition instead of the revaluation model. Costs incurred subsequent to initial acquisition are capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the organization and the subsequent cost exceeds the threshold for initial recognition. Repairs and maintenance are expensed in the statement of financial performance in the year in which they are incurred.

50. A gain or loss resulting from the disposal or transfer of property, plant and equipment arises where proceeds from disposal or transfer differ from its carrying amount. Those gains or losses are recognized in the statement of financial performance within other revenue or other expenses.

51. Impairment assessments are conducted during annual physical verification procedures and when events or changes in circumstance indicate that carrying amounts may not be recoverable. Land, buildings and infrastructure assets with a year-end, net-book-value greater than $100,000 per unit are reviewed for impairment at each reporting date. The equivalent threshold for other property, plant and equipment items (excluding assets under construction and leasehold improvements) is $25,000.

Intangible assets

52. Intangible assets are carried at cost less accumulated amortization and accumulated impairment loss. For intangible assets acquired at nil or nominal cost including donated assets, the fair value as at the date of acquisition is deemed to be the cost to acquire. The threshold for recognition is $100,000 for internally generated intangible assets and $5,000 per unit for externally acquired intangible assets.

53. Acquired computer software licenses are capitalized based on costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with the development of software for use by the Organization are capitalized as an intangible asset. Directly associated costs include software development employee costs, consultant costs and other applicable overhead costs.

54. Intangible assets with definite useful lives are amortized on a straight-line method over their estimated useful lives starting from the month of acquisition or when the intangible assets become operational.

55. The useful lives of major classes of intangible assets have been estimated in the table below.

Estimates of useful lives of major classes of intangible assets

Class	*Range of estimate of useful life*
Software acquired externally	3-10 years
Software developed internally	3-10 years
Licenses and rights	2-6 years (period of license/right)
Copyrights	3-10 years
Assets under development	Not amortized

56. Annual impairment reviews of intangible assets are conducted where assets are under construction or have an indefinite useful life. Other intangible assets are subject to impairment review only when there are indicators of impairment.

Financial liabilities classification

57. Financial liabilities are classified as “other financial liabilities”. They include accounts payable, transfers payable, unspent funds held for future refunds and other liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with duration of less than 12 months are recognized at their nominal value. The Organization re-evaluates classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued liabilities

58. Accounts payables and accrued liabilities arise from the purchase of goods and services that have been received but not paid for as at the reporting date. Payables are recognized and subsequently measured at their nominal value, as they are generally due within 12 months.

Financial liabilities: transfers payable

59. Transfers payable relates to amounts owed to executing entities/implementing agencies and partners and residual balances due to be returned to donors.

Advance receipts and other liabilities

60. Advance receipts consist of advance receipts relating to contributions or payments received in advance, assessed or voluntary contributions received for future years and other deferred revenue. Advance receipts are recognized as revenue at the start of the relevant financial year or based on the Organization's revenue recognition policies. Other liabilities include liabilities for conditional funding arrangements and other miscellaneous items.

Leases: the organization as lessee

61. Leases of property, plant and equipment where the Organization has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the start of the lease at the lower of fair value or the present value of the minimum lease payments. The rental obligation, net of finance charges, is reported as a liability in the statement of financial position. Assets acquired under finance leases are depreciated in accordance with the organization's policy on property, plant and equipment. The interest element of the lease payment is charged to the statement of financial performance as an expense over the lease term based on the effective interest rate method.

62. Leases where all of the risks and rewards of ownership are not substantially transferred to the organization are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Leases: the organization as lessor

63. The Organization is the lessor for certain assets subject to operating leases. Assets subject to operating leases are reported within property, plant and equipment. Lease revenue from operating leases is recognized in the statement of financial performance over the lease term on a straight-line basis.

Donated rights to use

64. The Organization occupies land and buildings and uses infrastructure assets, machinery and equipment through donated rights-to-use agreements granted primarily by host governments at nil or nominal cost. Based on the term of the agreement, and the clauses on transfer of control and termination contained in the agreement, the donated rights-to-use arrangement is accounted for as an operating lease or finance lease.

65. In the case of an operating lease, an expense and corresponding revenue equal to the annual market rent of similar properties is recognized in the financial statements. In the case of a finance lease (principally with a lease term of more than 35 years for premises), the fair market value of the property is capitalized and depreciated over the shorter of the useful life of the property or the term of the arrangement. If property is transferred with specific conditions, deferred revenue for the amount is recognized equal to the entire fair market value of the property (or share of the property) occupied by the Organization, which is progressively recognized as revenue and offsets the corresponding depreciation charge. If property is transferred without any specific condition, revenue for the same amount is recognized immediately upon assuming control of the property. Donated rights-to use land arrangements are accounted for as operating leases where the

Organization does not have exclusive control over the land and/or title to the land is transferred under restricted deeds.

66. Long-term donated rights-to-use building and land arrangements are accounted for as operating leases where the Organization does not have exclusive control over the building and title to the land is not granted.

67. Where title to land is transferred to the Organization without restrictions, the land is accounted for as donated property, plant and equipment and recognized at fair value at the acquisition date.

68. The threshold for the recognition of revenue and expense is a yearly rental value equivalent of $5,000 for donated rights-to-use premises and $5,000 for machinery and equipment.

Employee benefits

Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship with the Organization are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. Employee benefits are classified into short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

69. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries, allowances), compensated absences (paid sick leave, maternity/ paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes, home leave) provided to current employees based on services rendered. All such benefits which are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

70. Post-employment benefits comprise the after-service health insurance plan and end-of-service repatriation benefits that are accounted for as defined-benefit plans, in addition to the pension through the United Nations Joint Staff Pension Fund.

Defined-benefit plans

71. The following benefits are accounted for as defined-benefit plans: after-service health insurance, repatriation benefits (post-employment benefits) and accumulated annual leave that is commuted to cash upon separation from the Organization (other long-term benefits). Defined-benefit plans are those where the Organization's obligation is to provide agreed benefits, and therefore the Organization bears the actuarial risks. The liability for defined-benefit plans is measured at the present value

of the defined benefit obligation. Changes in the liability for defined-benefit plans, including actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The Organization has elected to recognize changes in the liability for defined-benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at end of the reporting year, the Organization did not hold any plan assets as defined by IPSAS 25: Employees benefits.

72. The defined-benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined-benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

73. **After-service health insurance** provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependents. Upon end of service, staff members and their dependents may elect to participate in a defined benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to this date. The after-service health insurance liability represents the present value of the share of the Organization's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff. A factor in the valuation is to consider contributions by all plan participants in determining the Organization's residual liability. Contributions from retirees are deducted from the gross liability and a portion of the contributions from active staff is also deducted to arrive at the Organization's residual liability, in accordance with cost-sharing ratios authorized by the General Assembly.

74. **Repatriation benefits**: upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant which is based upon length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the Organization and is measured as the present value of the estimated liability for settling these entitlements.

75. **Annual leave:** The liabilities for annual leave represent unused accumulated leave days that are projected to be settled via a monetary payment to employees upon their separation from the Organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of the statement of financial position. The methodology applies a last-in-first-out assumption in the determination of the annual leave liabilities, whereby staff members access current period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at end of service as the true liability of the Organization. The accumulated annual leave benefit reflecting the outflow of economic resources from the Organization at end of service is therefore classified under the category of other long-term benefits, while noting that the portion of the accumulated annual leave benefit that is expected to be settled via monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25, other long-term benefits must be valued similarly to post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined, post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

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

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

Termination benefits

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

Other long-term employee benefits

79. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service.

80. **Appendix D benefits**. Appendix D to the Staff Rules of the United Nations governs compensation in the event of death, injury or illness attributable to the performance of official duties on behalf of the United Nations.

Provisions

81. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Organization has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount required to settle the obligation.

Contingent liabilities

82. Any possible obligations that arise 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 Organization are disclosed as contingent liabilities. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

83. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

84. An indicative threshold of $10,000 applies in recognizing provisions and/or disclosing contingent liabilities in the notes to the financial statements.

Contingent assets

85. Contingent assets are possible assets that arise 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 effective control of the Organization. Contingent assets are disclosed in the notes when it is more likely than not that economic benefits will flow to the Organization.

Commitments

86. Commitments are future expenses to be incurred by the Organization on contracts entered into by the reporting date and that the Organization has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to the Organization in future periods, non-cancellable minimum lease payments and other non-cancellable commitments.

Non-exchange revenue: assessed contributions

87. Assessed contributions for the Organization comprise the UN-Habitat regular budget allocation. Assessed contributions are assessed and approved for a budget period of one or more years. A one-year proportion of the assessed contributions are recognized as revenue at the beginning of that year. Assessed contributions include the amounts assessed to the Member States to finance the activities of the organization in accordance with the agreed scale of assessments. Revenue from assessed contributions from Member States is presented in the statement of financial performance.

Non-exchange revenue: voluntary contributions

88. Voluntary contributions and other transfers, which are supported by legally enforceable agreements, are recognized as revenue at the time the agreement becomes binding, which is the point when the Organization is deemed to acquire control of the asset. However, where cash is received subject to specific conditions or when contributions are explicitly given for a specific operation to commence in a future financial year, recognition is deferred until those conditions have been satisfied. Revenue will be recognized upfront for all conditional arrangements up to the threshold of $50,000.

89. Voluntary pledges and other promised donations are recognized as revenue when the arrangement becomes binding. Pledges and promised donations, as well as agreements not yet formalized by acceptance, are disclosed as contingent assets. For unconditional multi-year agreements the full amount is recognized as revenue when the agreement becomes binding.

90. Unused funds returned to the donor are netted against revenue.

91. Revenue received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf.

92. A direct cost recovery is charged to trust fund and other "extra budgetary" activities (largely projects) to ensure that the additional costs of supporting activities financed from extra budgetary contributions is not borne by assessed funds and/or other core resources that are central to the budget process at the United Nations Secretariat. The direct cost recovery is eliminated for the purposes of the preparation of financial statements, as disclosed in note 5 on segment reporting. The direct cost-recovery charge agreed with the donor as part of the budget of a project is included as part of voluntary contributions. It is expressed as a percentage of direct costs (actual expenditure and unliquidated obligations).

93. In-kind contributions of goods above the recognition threshold of $5,000 are recognized as assets and revenue once it is probable that future economic benefits or service potential will flow to the Organization and the fair value of those assets can be measured reliably. Contributions in kind are initially measured at their fair value as at the date of receipt determined by reference to observable market values or by independent appraisals. The Organization has elected not to recognize in-kind contributions of services but to disclose in-kind contributions of services above a threshold of $5,000 in the notes to the financial statements.

Exchange revenue

94. Exchange transactions are those in which the organization sells goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met:

(a) Revenue from sales of publications, books and stamps by the United Nations Gift Centre is recognized when the sale occurs and risks and rewards have been transferred;

(b) Revenue from commissions and fees for technical, procurement, training, administrative and other services rendered to governments, United Nations entities and other partners is recognized when the service is performed;

(c) Revenue from jointly financed activities represents amounts charged to other United Nations organizations for their share of joint costs paid for by the United Nations;

(d) Exchange revenue also includes income from the rental of premises, the sale of used or surplus property, services to visitors from guided tours and income from net gains resulting from currency exchange adjustments.

Investment revenue

95. Investment revenue includes interest income and the organization's net share of cash pool investment income and transaction costs associated with the operation of investments.

96. The net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sales proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue and the net revenue is distributed proportionately to all cash pool participants on the basis of their average daily balances. The cash pool revenue also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of year-end balances.

Expenses

97. Expenses are decreases in economic benefits or service potential during the reporting year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets, and are recognized on an accrual basis when goods are delivered and services are rendered regardless of the terms of payment.

98. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances. Non-employee compensation and allowances consist of United Nations Volunteers living allowances and postemployment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

Supplies and consumables relate to the cost of inventory used and expenses for supplies and consumables.

99. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities as well as quick-impact projects. Supplies and consumables relate to the cost of consumables and expenses for supplies. For outright grants, an expense is recognized at the point at which the Organization has a binding obligation to pay.

100. Programme activities, distinct from commercial or other arrangements where the United Nations expects to receive equal value for funds transferred, are implemented by executing entities/implementing partners to service a target population which typically includes governments, non-governmental organizations and United Nations agencies. Transfers to implementing partners are initially recorded as advances, and balances that are not expensed during the year remain outstanding at the end of the year and are reported in the statement of financial position. These executing entities/implementing partners provide the Organization with certified expense reports documenting their use of resources, which are the basis for recording expenses in the statement of financial performance. In instances where the partner has not provided financial reports as expected, programme managers make an informed assessment as to whether an accrual or an impairment

should be recorded against the advance and submit the accounting adjustment. Where a transfer of funds is deemed to be an outright grant, an expense is recognized at the point that the Organization has a binding obligation to pay, which is generally upon disbursement. Binding agreements to fund executing entities/ implementing partners not paid out by the end of the reporting period are shown as commitments in the notes to the financial statements.

101. Other operating expenses include acquisition of goods and intangible assets under capitalization thresholds, maintenance, utilities, contracted services, training, security services, shared services, rent, insurance and allowance for doubtful accounts. Other expenses relate to in-kind contributions, hospitality and official functions, foreign exchange losses and donations or transfers of assets.

Multi-partner trust funds

102. Multi-partner trust fund activities are pooled resources from multiple financial partners that are allocated to multiple implementing entities to support specific national, regional or global development priorities. They are assessed to determine the existence of control and whether the organization is considered to be the principal of the programme or activity. Where control exists and the organization is exposed to the risks and rewards associated with the multi-partner trust fund activities, such programmes or activities are considered to be the Organization's operations and are therefore reported in full in the financial statements.

Note 4
Segment reporting

103. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

104. Segment reporting information is provided on the basis of six segments:

(a) Foundation non-earmarked;

(b) Regular budget;

(c) Foundation Special Purpose;

(d) Technical cooperation;

(e) Programme support;

(f) End-of-service and post-retirement benefits.

105. Both the statement of financial position and the statement of financial performance are as shown below.

All funds, statement of financial position as at 31 December 2017 by segment

(Thousands of United States dollars)

	Foundation non-earmarked	Foundation Special Purpose	Technical cooperation	Programme support	End-of-service and post-retirement benefits	Intersegment eliminations	31 December 2017	31 December 2016
Assets								
Current assets								
Cash and cash equivalents	393	4 666	9 904	1 293	648	-	16 904	55 540
Investments	3 467	41 297	87 597	11 510	5 774	-	149 645	98 158
Voluntary contributions receivable	43	42 136	109 672	-	-	-	151 851	167 577
Other receivables	-	410	4 198	3 219	-	(7 705)	122	277
Advance Transfers	77	4 442	14 956	-	-	-	19 475	15 541
Other assets	365	3 179	8 657	84	-	-	12 285	24 999
Total Current assets	**4 345**	**96 130**	**234 984**	**16 106**	**6 422**	**(7 705)**	**350 282**	**362 092**
Non-current assets								
Investments	1 088	12 962	27 495	3 613	1 812	-	46 970	47 265
Voluntary Contributions Receivable	-	16 770	30 269	-	-	-	47 039	19 074
Property plant and equipment	70	182	16 730	-	-	-	16 982	15 561
Intangible Assets	-	-	18	-	-	-	18	23
Other receivables	-	223	-	-	-	-	223	298
Total Non-current assets	**1 158**	**30 137**	**74 512**	**3 613**	**1 812**	**-**	**111 232**	**82 221**
Total Assets	**5 503**	**126 267**	**309 496**	**19 719**	**8 234**	**(7 705)**	**461 514**	**444 313**
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	52	3 338	6 928	3 973	-	-	14 291	17 894
Employee benefits liabilities	172	307	252	66	1 342	-	2 139	2 922
Other liabilities	3 000	25 350	60 173	1	-	(7 705)	80 819	34 967
Total Current liabilities	**3 224**	**28 995**	**67 353**	**4 040**	**1 342**	**(7 705)**	**97 249**	**55 783**
Non-current liabilities								
Employee benefits liabilities	-	-	-	-	46 462	-	46 462	38 629
Total Non-current liabilities	-	-	-	-	46 462	-	46 462	38 629
Total Liabilities	**3 224**	**28 995**	**67 353**	**4 040**	**47 804**	**(7 705)**	**143 711**	**94 412**
Net of total assets and liabilities	**2 279**	**97 272**	**242 143**	**15 679**	**(39 570)**	**-**	**317 803**	**349 901**
Net assets								
Accumulated surplus/deficit	(327)	93 249	230 783	12 747	(39 570)	-	296 882	327 024
Reserves	2 606	4 023	11 360	2 932	-	-	20 921	22 877
Total Net assets	**2 279**	**97 272**	**242 143**	**15 679**	**(39 570)**	**-**	**317 803**	**349 901**

All funds, statement of financial performance for the period ended 31 December 2017 by segment

(Thousands of United States dollars)

	Foundation non-earmarked	Regular budget	Foundation Special Purpose	Technical cooperation	Programme support	End-of-service and post-retirement benefits	Intersegment eliminations	31 December 2017	31 December 2016 [a/]
Revenue									
Assessed	-	13 563	-	-	-	-	-	13 563	14 100
Voluntary contributions	2 693	-	29 604	93 528	-	-	-	125 825	191 286
Other transfers and allocations	-	-	3 520	17 090	-	-	-	20 610	19 239
Investment revenue	52	-	666	1 559	223	90	-	2 590	1 520
Other Revenue	2 628	-	2 052	5 686	9 752	1 632	(13 667)	8 083	842
Total Revenue	5 373	13 563	35 842	117 863	9 975	1 722	(13 667)	170 671	226 987
Expense									
Employee salaries allowances and benefits	7 927	11 072	10 349	10 776	6 077	2 423	(3 343)	45 281	48 260
Non-employee compensation and allowances	334	1 008	8 981	23 372	284	-	-	33 979	32 902
Grants and other transfers	442	619	9 792	51 406	106	-	-	62 365	56 898
Supplies and consumables	4	43	91	1 167	16	-	-	1 321	1 060
Depreciation	15	2	51	430	-	-	-	498	626
Amortization	-	-	-	5	-	-	-	5	5
Travel	287	497	4 742	2 387	59	-	-	7 972	8 681
Other operating expenses	171	322	12 802	37 893	3 735	-	(10 324)	44 599	37 315
Other expenses	2	-	805	655	-	-	-	1,462	1 070
Total Expense	9 182	13 563	47 613	128 091	10 277	2 423	(13 667)	197 482	186 817
Surplus/(deficit) for the period	(3 809)	-	(11 771)	(10 228)	(302)	(701)	-	(26 811)	40 170

[a]Comparatives have been restated to conform to current presentation.

Note 5
Comparison to budget

106. The organization prepares budgets on a modified cash basis as opposed to the IPSAS full accrual basis as presented in the statement of financial performance, which reflects expenses by nature. The statement of comparison of budget and actual amounts (statement V) presents the difference between budget amounts and actual expenditure on a comparable basis.

107. Approved budgets are those that permit expenses to be incurred and are approved by the Governing Council. For IPSAS reporting purposes, approved budgets are the appropriations authorized for each category through Governing Council resolutions.

108. The original budget amounts are the 2017 proportions of the appropriations approved by the Governing Council for the biennium 2016-2017. The final budget reflects the original budget appropriation with any amendments by the Executive Director. Differences between original and final budget amounts are considered in the table below.

109. Explanations for material differences between the final budget appropriation and actual expenditure on modified accrual basis which are deemed to be those greater than 10 per cent, are considered below.

Difference between actuals and final annual budget amounts

Budget area	*Material differences greater than 10 per cent*
Urban Basic Services	Expenditure 19 per cent less than final appropriation
Risk reduction and rehabilitation	Expenditure 20 per cent less than final appropriation
Executive Direction	Expenditure 21 per cent less than final appropriation
Development account	Expenditure 41 per cent more than final appropriation
Habitat III	Expenditure 41 per cent more than final appropriation

110. UN-Habitat achieved an 92% budget execution level in the reporting period which represents a 8% aggregate difference between the total actual expenditures and the total final annual budget. The major differences are explained in the ensuing paragraphs.

Foundation General Purpose:

111. Actual expenditure for urban legislation, land and governance is lower owing to the actual costs of some personnel being less than the standard cost used for their budget provision;

112. Actual expenditure for risk reduction and rehabilitation is lower owing to to the actual costs of some personnel being less than the standard cost used for their budget provision;

113. Actual expenditure for executive direction and management is lower owing to the actual costs of some personnel being less than the standard cost used for their budget provision and also some expenditures originally planned for 2017 which are rescheduled to 2018;

114. Actual expenditure under development account is higher owing to high execution. Some budget was rolled over from 2016;

115. Actual expenditure under Habitat III is higher owing to unforeseen expenses relating to close-out of Habitat III project;

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

116. A reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows is shown in the table below.

Reconciliation of actual amounts on a comparable basis to statement of cash flows
(Thousands of United States dollars)

Reconciliation	*Operating*	*Investing*	*Financing*	*Total 2017*
Actual amounts on comparable basis (statement V)	(178 364)	-	-	(178 364)
Basis differences	35 176	(1 919)	-	33 257
Entity differences	(12 700)	-	-	(12 700)
Presentation differences	167 773	(48 602)	-	119 171
Actual amount in statement of cash flows (statement IV)	**11 885**	**(50 521)**	**-**	**38 636**

a Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, the non-cash elements such as unliquidated obligations; payments against prior year obligations; property, plant and equipment; and outstanding assessed contributions are included as basis differences.

b Entity differences represent cash flows of fund groups other than the organization that are reported in the financial statements. The financial statements include results for all fund groups.

c Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. For the purposes of comparison of budget and actual amounts, there are no timing differences for the organization.

d Presentation differences are differences in the format and classification schemes in the statement of cash flows and the statement of comparison of budget and actual amounts, which is primarily related to the latter not recording income and the net changes in cash pool balances.

Note 6
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Cash at bank and on hand	100	101
Cash Pool cash and term deposits	16 804	55 439
Total cash and cash equivalents	**16 904**	**55 540**
Main Pool	16 804	55 439
Other cash and cash equivalents	100	101
Total cash and cash equivalents	**16 904**	**55 540**

117. Cash and cash equivalents include trust fund monies which are for the specific purposes of the respective trust funds.

Note 7
Investments

(Thousands of United States dollars)

	Total 31 December 2017	*Total 31 December 2016*
Current		
Main pool	149 645	98 158
Subtotal	**149 645**	**98 158**
Non-current		
Main pool	46 970	47 265
Subtotal	**46 970**	**47 265**
Total	**196 615**	**145 423**

118. Investments include amounts in relation to trust funds.

Note 8
Receivables from non-exchange transactions: voluntary contributions

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current Voluntary Contributions Receivable		
Member States	35 335	46 512
Other governmental organizations	67 454	54 973
United Nations organizations	19 769	30 981
Private donors	61 167	48 575
Total Current Voluntary Contributions Receivable before Allowance	**183 725**	**181 041**
Non-Current Voluntary Contributions Receivable		
Member States	1 714	9 056
Other governmental organizations	23 726	762
United Nations organizations	-	1 229
Private donors	21 599	8 027
Total Non-Current Voluntary Contributions Receivable before Allowance	**47 039**	**19 074**
Allowance for doubtful receivables - current	**(31 874)**	**(13 464)**
Allowance for doubtful receivables - non-current		
Total Allowance for doubtful receivables	**(31 874)**	**(13 464)**
Net Voluntary Contributions Receivable(current)	**151 851**	**167 577**
Net Voluntary Contributions Receivable(non-current)	**47 039**	**19 074**
Current voluntary contributions receivable		
Voluntary contributions	183 725	181 041
Allowance for doubtful receivables	(31 874)	(13 464)
Total current voluntary contributions receivable	**151 851**	**167 577**
Non-current voluntary contributions receivable		
Voluntary contributions	47 039	19 074
Total non-current voluntary contributions receivable	**47 039**	**19 074**

Note 9
Other receivables

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current other receivables		
Other accounts receivable	76	70
Loans Receivable	831	825
Subtotal	**907**	**895**
Loans Receivable - AFDA	(750)	(600)
Allowance for doubtful receivables	(35)	(18)
Total other receivables (current)	**122**	**277**
Non-current - Other receivables		
Loans Receivable	223	298
Total other receivables (non-current)	**223**	**298**
Net other receivables	**223**	**298**

[a/] Comparatives have been restated to conform to current presentation.

Note 10
Advance transfers

(Thousands of United States dollars)

	31 December 2017	***31 December 2016***
Advance Transfers	19 475	15 541
Total advance transfers	**19 475**	**15 541**

Note 11
Other assets

(Thousands of United States dollars)

	31 December 2017	***31 December 2016***
Advances to UNDP and other UN agencies [a/]	10 088	20 287
Advances to vendor	582	1 502
Advances to staff	757	1 400
Other personnel	761	1 036
Deferred Charges	88	43
Other Assets; Other	9	731
Other assets (current)	**12 285**	**24 999**

[a/] Includes UNDP Service Clearing Account and advances to other entities to provide administrative services.

Note 12
Heritage assets

119. Certain assets are categorized as heritage assets because of their cultural, educational or historical significance. The Organization’s heritage assets were acquired over many years by various means, including purchase, donation and bequest. These heritage assets do not generate any future economic benefits or service potential; accordingly, the Organization elected not to recognize heritage assets on the statement of financial position.

120. As at the reporting date, the Organization did not have significant heritage assets to report.

Note 13

Property, plant and equipment

121. In accordance with IPSAS 17, opening balances of property, plant and equipment are initially recognized at cost or fair value as at 1 January 2014 and measured at cost thereafter. The opening balance for buildings was obtained on 1 January 2014 based on depreciated replacement cost and was validated by external professionals. Machinery and equipment are valued using the cost method.

122. During the year, the Organization did not write down property, plant and equipment owing to accidents, malfunctions and other losses. As at the reporting date, the Organization did not identify any additional impairment. Assets under construction represent projects of a capital nature begun by the Organization on behalf of end user communities that have not yet been finalized and handed over as at 31 December 2017.

Property, plant and equipment

(Thousands of United States dollars)

	Buildings	*Assets under construction* [a/]	*Machinery and equipment*	*Vehicles*	*Communication and IT equipment*	*Furniture and fixtures*	*Total*
Cost at 1 January 2017	**82**	**13 276**	**435**	**6 570**	**779**	**148**	**21 290**
Additions	-	1 344	32	449	55	-	1 880
Disposals	-	-	(6)	(220)	(14)	-	(240)
Other changes	-	-	44	45	-	-	89
Cost at 31 December 2017	**82**	**14 620**	**505**	**6 844**	**820**	**148**	**23 019**
Accumulated depreciation at 1 Jan 2017	73	-	287	4 785	470	114	5 729
Depreciation	-	-	54	342	92	10	498
Disposals	-	-	(6)	(220)	(14)	-	(240)
Other changes	-	-	7	43	-	-	50
Accumulated depreciation at 31 December 2017	**73**	**-**	**342**	**4 950**	**548**	**124**	**6 037**
Net carrying amount 31 December 2017	**9**	**14 620**	**163**	**1 894**	**272**	**24**	**16 982**

[a] Assets under construction are meant for distribution to project beneficiaries upon completion.

Note 14
Intangible assets

123. All intangible assets acquired before 1 January 2014, except for the capitalized costs associated with the Umoja project, are subject to IPSAS transition exemption and are therefore not recognized.

Intangible assets

(Thousands of United States dollars)

	Software acquired externally
Cost as at 01 January 2017	**32**
Additions	-
Disposals	-
Assets under construction capitalized	-
External transfers of plant and equipment	-
Impairment losses (assets still not retired)	-
Other changes	-
Cost at 31 December 2017	**32**
Accumulated amortization and impairment as at 1 January 2017	**9**
Amortization	5
Disposals	-
External transfers of plant and equipment	-
Accumulated amortization and impairment as at 31 December 2017	**14**
Net carrying amount as at 31 December 2017	**18**

Note 15
Accounts payable and accrued liabilities
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Vendor Payables (Accounts payable)	2 974	2 329
Transfers Payable	15	-
Payables to other United Nations entities	1 230	8 029
Accruals for Goods and Services	4 849	3 255
Accounts payable - other	5 223	4 281
Total accounts payable and accrued liabilities	**14 291**	**17 894**

Note 16
Employee benefits liabilities

(Thousands of United States dollars)

	Current	*Non-current*	*31 December2017*	*31 December 2016*
After-service health insurance	383	37 397	37 780	28 537
Annual leave	348	3 568	3 916	5 277
Repatriation benefits	611	5 497	6 108	6 441
Subtotal defined-benefit liabilities	**1 342**	**46 462**	**47 804**	**40 255**
Accrued salaries and allowances	685	–	685	1 296
Pension Contributions Liabilities	112	–	112	
Total employee benefits liabilities	**2 139**	**46 462**	**48 601**	**41 551**

[a/] Comparatives have been restated to conform to current presentation.

124. The liabilities arising from end of service/post-employment benefits and the workers' compensation programme under Appendix D to the Staff Rules of the United Nations are determined by independent actuaries and are established in accordance with the Staff Rules and Staff Regulations of the United Nations. Actuarial valuation is usually undertaken every two years. The most recent full actuarial valuation was conducted as at 31 December 2017.

Actuarial valuation: assumptions

125. The Organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations at 31 December 2017 are as follows.

Actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*	*Appendix D/workers' compensation*
Discount rates 31 December 2016	*4.20*	*3.59*	*3.57*	–
Discount rates 31 December 2017	*3.96*	*3.45*	*3.51*	–
Inflation 31 December 2016	*4.00-6.4*	*2.25*	–	*2.25*
Inflation 31 December 2017	*4.00-6.0*	*2.25*	–	*2.25*

[a] For the Appendix D/Workers' compensation valuation, the actuaries applied the year-end Citigroup Pension Discount Curves discount rate applicable to the year in which the cash flows take place.

126. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (the EY Eurozone corporate yield curve) and Swiss francs (Federation bonds yield curve, plus the spread observed between government rates and high grade corporate bonds rates). The slightly lower discount rates were assumed for the 31 December 2017 valuation owing to a slight variation in the inflation rates from 31 December 2016.

127. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption is revised to reflect the current short-term expectations of the after-service health insurance plan cost increases and economic environment. Medical cost trend assumptions used for the valuation as at 31 December 2017 were updated to include escalation rates for future years. As at 31 December 2017, these escalation rates were a flat health-care yearly escalation rate of 4.0 per cent (2015: 4.0 per cent) for non-United States medical plans, health-care escalation rates of 6.0 per cent (2015: 6.4 per cent) for all other medical plans, except 5.7 per cent (2015: 5.7 per cent) for the United States Medicare plan and 4.9 per cent (2015: 4.9 per cent) for the United States dental plan, grading down to 4.5 per cent (2015: 4.5 per cent) over 10 years.

128. With regard to the valuation of repatriation benefits as at 31 December 2017, inflation in travel costs was assumed to be 2.25 per cent (2015: 2.25 per cent), on the basis of the projected United States inflation rate over the next 10 years.

129. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1-3 years — 10.9 days; 4-8 years — 1 day; and more than 8 years — 0.5 days up to the maximum of 60 days. The assumption is consistent with the 2015 valuation. The attribution method continues to be used for annual leave actuarial valuation.

130. For defined benefit plans, assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation. Appendix D/Workers' compensation uses mortality assumptions based on World Health Organization statistical tables.

Movement in employee benefits liabilities accounted for as defined benefits plans

Reconciliation of opening to closing total defined benefits liability

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Net defined-benefit liability at 1 January 2017	28 537	6 441	5 277	40 255
Current service cost	1 595	450	319	2 364
Interest cost	1 190	216	179	1 585
Actual benefits paid	(448)	(710)	(528)	(1 686)
Total costs recognized in the statement of financial performance in 2017	2 337	(44)	(30)	2 263
Subtotal	**30 874**	**6 397**	**5 247**	**42 518**
Actuarial (gains)/loss	6 906	(288)	(1 331)	5 287
Net defined liability as at 31 December 2017	**37 780**	**6 109**	**3 916**	**47 805**

Discount rate sensitivity analysis

131. The changes in discount rates are driven by the discount curve, which is calculated based on corporate bonds. The bonds markets varied over the reporting period and the volatility has an impact on the discount rate assumption. Should the assumption vary by 1 per cent, its impact on the obligations would be as shown below.

Discount rate sensitivity analysis: year-end employee benefits liabilities

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*
Increase of discount rate by 1 per cent	(7 186)	(482)	(336)
As percentage of end-of-year liability	(19)	(8)	(9)
Decrease of discount rate by 1 per cent	9 656	555	388
As percentage of end-of-year liability	26	9	10

Medical cost sensitivity analysis

132. The principal assumption in the valuation of after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability resulting from changes in the medical cost rates while holding other assumptions, such as the discount rate, constant. Should the medical cost trend assumption vary by 1 per cent, this would have an impact on the measurement of the defined benefit obligations as shown below.

Medical costs sensitivity analysis: 1 per cent movement in the assumed medical cost trend rates

(Thousands of United States dollars and percentage)

2017	*Increase*		*Decrease*	
Effect on the defined-benefits obligation	25.77%	9 735	(19.49%)	(7 362)
Effect on the aggregate of the current service cost and interest cost	2.47%	934	(1.81%)	(683)
Total effect		10 669		(8 045)

[a/] Comparatives have been restated to conform to current presentation.

2015 [a/]	*Increase*		*Decrease*	
Effect on the defined-benefits obligation	23.9%	6,831	(18.33%)	(5,230)
Effect on the aggregate of the current service cost and interest cost	2.92%	834	(2.15%)	(613)
Total effect		7 665		(5 843)

Other defined benefit plan information

133. Benefits paid for 2017 are estimates of what would have been paid to separating staff and/or retirees during the year based on the pattern of rights acquisition under each scheme: after-service health insurance, repatriation and commutation of accrued annual leave. The estimated defined-benefits payments (net of participants' contributions in these schemes) are shown in the table below.

Estimated defined benefit payments net of participants' contributions

(Thousands of United States dollars)

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*Total*
Estimated 2016 defined benefit payments net of participants' contributions	448	710	528	1 686
Estimated 2017 defined benefit payments net of participants' contributions	397	634	360	1 391

Historical information: total liability for after-service health insurance, repatriation benefits and annual leave as at 31 December 2017

(Thousands of United States dollars)

	2017	*2016*	*2015*	*2014*	*2013*	*2012*
Present value of the defined benefit obligations	47 804	40 255	37 123	34 953	24 688	25 969

Accrued salaries and allowances

134. Accrued salaries and allowances comprise $0.66 million relating to home leave benefits. The remaining balance of $0.02 million relate to accrued payables for salary and other benefits.

United Nations Joint Staff Pension Fund

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

136. UN HABITAT's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

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

138. The roll forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1% (127.5% in the 2013 valuation). The funded ratio was 101.4% (91.2% in the 2013 valuation) when the current system of pension adjustments was taken into account.

139. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2016, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

140. During 2017, the UN HABITAT's contributions paid to UNJSPF have been fully settled.

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

Fund for compensation payments maintained with Volume I: Appendix D/Workers' compensation

142. The fund for compensation payments relates to the payment of compensation with regard to death, injury or illness attributable to the performance of official duties. The rules governing the compensation payments are under Appendix D to the Staff Rules. The fund allows the Organization to continue to fulfil its obligation to make compensation payments for death, injury or illness. The fund derives its revenue from a charge of 1.0 per cent of the net base remuneration, including post adjustment for eligible personnel. It covers Appendix D claims submitted by personnel, covering monthly death and disability benefits and lump sum payment for injury or illness as well as medical expenses.

Impact of the General Assembly resolutions on staff benefits

143. On 23 December 2015, the General Assembly adopted resolution 70/244, by which it approved certain changes to the conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission (ICSC). Some of the changes affect the calculation of other long-term and end-of-service employee benefits liabilities. In addition, a revised education grant scheme has been implemented that affects the computation of this short-term benefit. The impact of these changes is explained as follows:

Change	Details
Increase in mandatory age of separation	The mandatory age of retirement for staff that joined the United Nations on or after 1 January 2014 is 65 and for those that joined before 1 January 2014 is 60 or 62. The General Assembly decided to extend the mandatory age of separation for staff recruited before 1 January 2014 by organizations of the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. This change has been implemented as of 1 January 2018 and affects future calculations of employee benefits liabilities.
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service) as at 31 December 2016 were based on single or dependency rates. Those rates affected staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale that resulted in the elimination of single and dependency rates as from 1 January 2017 and was implemented in September 2017. The dependency rate was replaced by allowances for staff members who have recognized dependents in accordance with the Staff Regulations of the United Nations and Staff Rules. A revised staff assessment scale and pensionable remuneration scale was implemented along with the unified salary structure. The implementation of the unified salary scale was not designed to result in reduced payments for staff members. However, it is expected that the unified salary scale will affect the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. This change in eligibility criteria has already been implemented effective January 2017 in September 2017 and is expected to affect future calculations of employee benefits liabilities.
Education Grant	With effect from the school year in progress on 1 January 2018, the computation of education grant given to eligible staff members utilizes a global sliding scale that is set in one single currency (United States dollar) with the same maximum amount of the grant for all countries.. In addition, this revised education grant scheme also changes boarding assistance and education grant travel provided by the organization. Impacts can be seen at the end of the 2017-2018 school year and at the time of settlements.

The impact of the changes will be fully reflected in the actuarial valuation to be conducted in 2017.

Note 17
Provisions

144. As at the reporting date, the Organization had no legal claims that required the recognition of provisions.

Note 18

Other liabilities

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Liabilities for conditional arrangements		80 818	34 966
Other/miscellaneous liabilities		1	1
Total other liabilities		**80 819**	**34 967**

[a/] Comparatives have been restated to conform to current presentation.

Note 19
Net assets

Accumulated surpluses/deficits

145. The unrestricted accumulated surplus includes the accumulated deficit for employee benefits liabilities and the net positions of after-service health insurance, repatriation benefit and annual leave liabilities.

146. The table below shows the status of the Organization's net assets balances and movements.

Net assets balances and movements [a/]

(Thousands of United States dollars)

	Total as at 31 December 2016	Surplus/(deficit)	Transfers to/ (from) reserves	Other	Total as at 31 December 2017
Unrestricted cumulative surplus					
Foundation non-earmarked	1 526	(3 809)	1 956	-	(327)
Foundation Special Purpose	105 020	(11 771)	-	-	93 249
Technical cooperation	241 011	(10 228)	-	-	230 783
Programme support	13 049	(302)	-	-	12 747
End-of-service liabilities	(33 582)	(701)	-	(5 287)	(39 570)
Subtotal unrestricted fund	**327 024**	**(26 811)**	**1 956**	**(5 287)**	**296 882**
Reserves					
Foundation non-earmarked	4 562	-	(1 956)	-	2 606
Foundation Special Purpose	4 023	-	-	-	4 023
Technical cooperation	11 360	-	-	-	11 360
Programme support	2 932	-	-	-	2 932
End-of-service liabilities		-	-	-	
Subtotal reserves	**22 877**	**-**	**(1 956)**	**-**	**20 921**
Total net assets					
Foundation non-earmarked	6 088	(3 809)	-	-	2 279
Foundation Special Purpose	109 043	(11 771)	-	-	97 272
Technical cooperation	252 371	(10 228)	-	-	242 143
Programme support	15 981	(302)	-	-	15 679
End-of-service liabilities	(33 582)	(701)	-	(5 287)	(39 570)
Total reserves and fund balances	**349 901**	**(26 811)**	**-**	**(5 287)**	**317 803**

[a/] Net assets movements including fund balances are based on IPSAS.
[b/] Represents actuarial losses of $5.2 million.

Note 20
Revenue from non-exchange transactions

Assessed contributions

147. The Organization receives an allocation from the regular budget each biennium, which is included in assessed contributions. These are reported under United Nations Volume I, and are for completeness shown in these financial statements. For the reporting period the Organization received $13.6 million.

Voluntary contributions

(Thousands of United States dollars)

	Note	*31 December 2017*	*31 December 2016*
Assessed contributions			
Allocations from Regular Budget		13 563	14 100
Amount reported in Statement II - Assessed Contributions		**13 563**	**14 100**
Voluntary contributions			
Voluntary Contributions - In Cash		126 214	192 859
Voluntary Contributions - Land & Premises		1 256	938
Voluntary in-kind contributions of plant, equipment, intangible assets and other goods		57	8
Total voluntary contributions received		**127 527**	**193 805**
Refunds		(1 702)	(2 519)
Net voluntary contributions received		**125 825**	**191 286**
Other transfers and allocations			
Inter Organizational Arrangements		20 610	19 239
Total Other transfers and allocations		**20 610**	**19 239**

148. Revenue from non-exchange transactions includes transfers and allocations.

Services in kind

149. In-kind contributions of services received during the year are not recognized as revenue and therefore are not included in the above in-kind contributions revenue. Services in kind confirmed during the year are shown in the table below.

Services in kind

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Technical assistance/expert services	339	262
Administrative support	9	–
Total	**348**	**262**

Note 21
Other revenue

150. Revenue from miscellaneous revenue sources is $7.78 million.

	31 December 2017	*31 December 2016*
Other/miscellaneous revenue	8 083	842
Total other exchange revenue	**8 083**	**842**

Note 22
Expenses

Employee salaries, allowances and benefits

151. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments; allowances and benefits include other staff entitlements, including pension and insurance, staff assignment, repatriation, hardship and other allowances, as set out in the table below.

Employee salaries, allowances and benefits
(Thousands of United States dollars)

	31 December 2017	***31 December 2016***
Salary and wages	35 703	38 526
Pension and insurance benefits	8 664	8 673
Other benefits	914	1 061
Total employee salaries, allowances and benefits	**45 281**	**48 260**

Non-employee compensation and allowances

152. Non-employee compensation and allowances consist of United Nations Volunteers living allowances and post-employment benefits, consultant and contractor fees, ad hoc experts, International Court of Justice judges' allowances and non-military personnel compensation and allowances.

Non-employee compensation and allowances

(Thousands of United States dollars)

	31 December 2017	***31 December 2016***
United Nations Volunteers	247	442
Consultants & Contractors	33 732	32 460
Total Non-Employee compensation and allowances	**33 979**	**32 902**

Grants and other transfers

153. Grants and other transfers include outright grants and transfers to implementing agencies, partners and other entities, as set out in the table below.

Grants and other transfers

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*/
Grants to End Beneficiaries	33 624	22 024
Transfers to Implementing Partners	28 741	34 874
Total grants and other transfers	62 365	56 898

Supplies and consumables

154. Supplies and consumables include consumables, fuel and lubricants, and spare parts as set out in the table below.

Supplies and consumables

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Fuel & Lubricants	195	169
Spare parts	169	320
Consumables	957	571
Total Supplies and consumables	1 321	1 060

Travel

155. Travel includes staff and representatives travel as set out in the table below.

Travel

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Staff Travel	4 167	5 898
Representative Travel	3 805	2 783
Total Travel	7 972	8 681

Other operating expenses

156. Other operating expenses include maintenance, utilities, contracted services, training, security services shared services, rent, insurance, allowance for bad debt, write-off expenses as set out in the table below.

Other operating expenses

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Air Transport	274	304
Ground Transport	1 114	1 073
Communication & IT	3 320	2 888
Other contracted services	14 051	11 197
Acquisitions of Goods	179	1 442
Acquisitions of Intangible Assets	108	13
Rent - Offices & Premises	2 528	1 709
Rental - Equipment	46	530
Maintenance & Repair	600	590
Bad Debt Expense	18 546	10 182
Net Foreign exchange losses	912	6 231
Other/miscellaneous operating expenses	2 921	1 156
Total other operating expenses	44 599	37 315

[a/] Comparatives have been restated to conform to current presentation.

Other expenses

157. Other expenses relate to hospitality and official functions, contributions in kind and donation/transfer of assets.

(Thousands of United States dollars)

	31 December 2017	*31December 2016*
Contributions in Kind	1 256	938
Other/miscellaneous expenses	206	132
Total Other expenses	1 462	1 070

Note 23 Financial instruments and financial risk management

(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Financial assets		
Fair value through the surplus or deficit		
Short-term investments, cash pools	149 645	97 603
Short-term investments, other	-	555
Total short-term investments	**149 645**	**98 158**
Long-term investments, cash pools	46 970	47 265
Long-term investments, other	-	-
Total long-term investments	**46 970**	**47 265**
Total fair value through the surplus or deficit	**196 615**	**145 423**
Loans and receivables		
Cash and cash equivalents, cash pools	16 804	55 439
Cash and cash equivalents, other	100	101
Voluntary contributions	198 890	186 651
Other receivables	345	575
Total loans and receivables	**216 139**	**242 766**
Total carrying amount of financial assets	**412 754**	**388 189**
Of which relates to financial assets held in cash pool		**200 862**
Financial liabilities		
Accounts payable and accrued liabilities	14 291	17 894
Other liabilities (excluding conditional liabilities)	-	1
Total carrying amount of financial liabilities	**14 291**	**17 895**
Summary of net income from cash pools		
Investment revenue	2 664	1 757
Financial exchange gains/(losses)	(86)	-254
Net income from cash pools	**2 578**	**1 503**
Other investment revenue	12	17
Total net income from financial instruments	**2 590**	**1 520**

[a/] Comparatives have been restated to conform to current presentation.

Financial risk management: overview

158. The Organization has exposure to the following financial risks: credit risk, liquidity risk and market risk.

159. This present note and note 25, Financial instruments: cash pools, present information on the Organization's exposure to those risks; the objectives, policies and processes for measuring and managing risk; and the management of capital.

Financial risk management: risk management framework

160. The Organization's risk management practices are in accordance with its Financial Regulations and Rules and Investment Management Guidelines (the Guidelines). The Organization defines the capital that it manages as the aggregate of its net assets, which comprises accumulated fund balances and reserves. Its objectives are to safeguard its ability to continue as a going concern, to fund its asset base and to accomplish its objectives. The Organization manages its capital in the light of global economic conditions, the risk characteristics of the underlying assets and its current and future working capital requirements.

Financial risk management: credit risk

161. Credit risk is the risk of financial loss if the counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash and cash equivalents, investments and deposits with financial institutions and credit exposures to outstanding receivables. The carrying value of financial assets less allowances for doubtful receivables is the maximum exposure to credit risk.

Credit risk management

162. The investment management function is centralized at United Nations Headquarters, and other areas are not permitted in normal circumstances to engage in investing. An area may receive exceptional approval when conditions warrant investing locally under specified parameters that comply with the Guidelines.

Credit risk: contributions receivable and other receivables

163. A large portion of the contributions receivable is due from sovereign governments and supranational agencies, including other United Nations entities which do not have significant credit risk. As at the reporting date, the Organization does not hold any collateral as security for receivables.

Credit risk: allowance for doubtful receivables

164. The Organization evaluates the allowance of doubtful receivables at each reporting date. An allowance is established when there is objective evidence that the organization will not collect the full amount due. Balances credited to the allowance for doubtful receivables account are utilized when management approves write-offs under the Financial Regulations and Rules or are reversed when the previously impaired

receivables are received. The movement in the allowances account during the year is shown in the table below.

Movement in allowance for doubtful receivables

(Thousands of United States dollars)

As at 1 January 2017	14 082
Additional allowance for doubtful receivables	18 577
Receivables written off during the period as uncollectable	-
Unused amounts reversed	-
As at 31 December 2017	32 659

165. The Organization does not have assessed contributions receivable, so there is no ageing of assessed contributions receivable and associated allowance.

166. The ageing of receivables other than assessed contributions including associated allowance percentages is set out in the table below.

Ageing of receivables for voluntary contributions

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Neither impaired nor past due	47 039	-
Less than one year	112 220	-
One to two years	40 223	10 055
Two to three years	23 656	14 193
Over three years	7 626	7 626
Total	**230 764**	**31 874**

Ageing of other receivables

(Thousands of United States dollars)

	Gross receivable	*Allowance*
Neither impaired nor past due	223	-
Less than one year	31	-
One to two years	-	-
Two to three years	26	16
Over three years	19	19
Special Allowance	831	750
Total	**1130**	**785**

Credit risk: cash and cash equivalents

167. The Organization had cash and cash equivalents of $55.5 million as at 31 December 2017, which is the maximum credit exposure on these assets. Cash and cash equivalents are held with bank and financial institution counterparties rated at “A-” and above, based on the Fitch viability rating.

Financial risk management: liquidity risk

168. Liquidity risk is the risk that the organization might not have adequate funds to meet its obligations as they fall due. The Organization’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the organization’s reputation.

169. The Financial Regulations and Rules require that expenses be incurred after receipt of funds from donors, thereby considerably reducing the liquidity risk with regard to contributions which are a largely stable annual cash flow. Exceptions to incurring expenses prior to the receipt of funds are only permitted if specified risk management criteria are adhered to with regard to the amounts receivable.

170. The organization performs cash flow forecasting and monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

Investments are made with due consideration to the cash requirements for operating purposes based on cash flow forecasting. The Organization maintains a large portion of its investments in cash equivalents and short-term investments sufficient to cover its commitments as and when they fall due.

Liquidity risk: financial liabilities

171. The exposure to liquidity risk is based on the notion that the entity may encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely owing to receivables, cash and investments available to the entity and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations. As at the reporting date, the Organization had not pledged any collateral for any liabilities or contingent liabilities and during the year no accounts payable or other liabilities were forgiven by third parties. Maturities for financial liabilities based on the earliest date at which the Organization can be required to settle each financial liability are set out in the table below.

Maturities for financial liabilities as at 31 December 2017

(Thousands of United States dollars)

	< 3 months	*3 to 12 months*	*>1 year*	*Total*
Accounts payable and accrued liabilities	9 442	4 849	–	14 291

Financial risk management: market risk

172. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of investment securities, will affect the organization’s income or the value of its financial assets

and liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the organization's fiscal position.

Market risk: interest rate risk

173. Interest rate risk is the risk of variability in financial instruments' fair values or future cash flows owing to changes in interest rates. In general, as the interest rate rises, the price of a fixed rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed rate security's duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk. The main exposure to interest rate risks relates to the cash pools and is considered in note 25, Financial instruments: Main pools.

Market risk: currency risk

174. Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate owing to changes in foreign exchange rates. The Organization has transactions, assets and liabilities in currencies other than in its functional currency and is exposed to currency risk arising from fluctuations in exchange rates. Management policies and the Guidelines require the Organization to manage its currency risk exposure.

175. The Organization's financial assets and liabilities are primarily denominated in United States dollars. Non-United States dollars financial assets primarily relate to investments in addition to cash and cash equivalents and receivables held in order to support local operating activities where transactions are made in local currencies. The Organization maintains a minimum level of assets in local currencies, and whenever possible maintains bank accounts in United States dollars. The Organization mitigates currency risk exposure by structuring contributions from donors in foreign currency to correspond to the foreign currency needs for operational purposes.

176. The most significant exposure to currency risk relates to cash-pool cash and cash equivalents. As at the reporting date, the non-United States dollar denominated balances in these financial assets were primarily euros and Swiss francs, along with over 30 other currencies, as shown in the table below.

Currency exposure of the cash pools as at 31 December 2017

(Thousands of United States dollars)

	United States dollars	*Euros*	*Swiss francs*	*Others*	*Total*
Main cash pool	211 052	548	491	1 328	**213 419**

Currency risk: sensitivity analysis

177. A strengthening/weakening of the Euro and Swiss franc United Nations operational rate of exchange as at 31 December would have affected the measurement of investments denominated in a foreign currency and increased/ decreased net assets and surplus or deficit by the amounts shown in the table below. This analysis is based on foreign currency exchange rate variances considered to be reasonably possible as at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect on net assets, surplus or deficit

(Thousands of United States dollars)

	As at 31 December 2017		*As at 31 December 2016*	
	Effect on net asset surplus or deficit		*Effect on net asset surplus or deficit*	
	Strengthening	*Weakening*	*Strengthening*	*Weakening*
Euro (10 per cent movement)	2 076	(2 076)	1 297	(1 297)
Swiss franc (10 per cent movement)	1 859	(1 859)	8 445	(8 445)

Other market risk

178. The Organization is not exposed to significant other price risk, as it has limited exposure to price-related risk related to expected purchases of certain commodities used regularly in operations. A change in those prices may alter cash flows by an immaterial amount.

Accounting classifications and fair value

179. Owing to the short-term nature of cash and cash equivalents, including cash pool term deposits with original maturities of less than three months, receivables and payables, carrying value is a fair approximation of fair value.

Fair value hierarchy

180. The table below analyses financial instruments carried at fair value by the fair value hierarchy levels. The levels are defined as:

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices);

(c) Level 3: Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

181. The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date and is determined by the independent custodian based on the valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the cash pools is the current bid price.

182. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

183. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy
(Thousands of United States dollars)

0			*31-Dec-17*			*31-Dec-16*
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds - Corporates	9 407	-	9 407	15 572	-	15 572
Bonds - Non-United States agencies	31 510	-	31 510	42 488	-	42 488
Bonds - Non-United States sovereigns	3 307	-	3 307	2 787	-	2 787
Bonds - Supranational	4 588	-	4 588	4 759	-	4 759
Bonds - United States treasuries	16 158	-	16 158	13 096	-	13 096
Main pool - Commercial papers	17 792	-	17 792	3 332	-	3 332
Main pool - Term deposits	-	113 854	113 854	-	63 389	63 389
Main pool total	**82 762**	113 854	**196 616**	**82 034**	**63 389**	**145 423**

Note 24
Financial instruments: cash pools

In addition to directly held cash and cash equivalents and investments, the United Nations Human Settlements Programme ("UN-HABITAT") participates in the United Nations Treasury main pool. The main pool comprises of operational bank account balances in a number of currencies and investments in United States dollars.

Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and by the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

184. As at 31 December 2017, the organization participated in the main pool that held total assets of $8,086.5 million (2016: $9,033.6 million), of which $213.4 million was due to the Organization (2016: $200.9 million), and its share of revenue from the main pool was $2.6 million (2016: $1.5 million).

Summary of assets and liabilities of the main pool as at 31 December 2017

(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	5 645 952
Long-term investments	1 779 739
Total fair value through the surplus or deficit investments	**7 425 691**
Loans and receivables	
Cash and cash equivalents	636 711
Accrued investment revenue	24 098
Total loans and receivables	**660 809**
Total carrying amount of financial assets	**8 086 500**
Cash pool liabilities	
Payable to UN-Habitat	213 420
Payable to other cash pool participants	7 873 080
Total liabilities	**8 086 500**
Net assets	**-**

Summary of revenue and expenses of the main pool for the year ended 31 December 2017

(Thousands of United States dollars)

	Main pool
Investment revenue	104 576
Unrealized gains / (losses)	874
Investment revenue from main pool	**105 450**
Foreign exchange gains / (losses)	7 824
Bank fees	(853)
Operating expenses from main pool	**6 971**
Revenue and expenses from main pool	**112 421**

Financial risk management

185. The United Nations Treasury is responsible for investment and risk management for the main pool, including conducting investment activities in accordance with the Guidelines.

The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market-rate-of-return component of the objectives.

An investment committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

186. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The cash pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

187. The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

188. The credit ratings used for the cash pools are those determined by major credit-rating agencies; Standard & Poor's and Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown below.

Investments of the cash pool by credit ratings as at December 2017

Main pool	*Ratings as at 31 December 2017*					*Ratings as at 31 December 2016*			
Bonds (Long term ratings)									
	AAA	**AA+/AA/AA-**	**A+**	**NR**		**AAA**	**AA+/AA/AA**	**BBB**	**NR**
S&P	30.5%	65.5%	4.0%	-	S&P	33.6%	55.1%	5.6%	5.7%
Fitch	61.3%	30.6%	-	8.1%	Fitch	62.4%	28.3%		9.3%
	Aaa	**Aa1/Aa2/Aa3**				**Aaa**	**Aa1/Aa2/Aa3**		
Moody's	55.3%	44.7%			Moody's	50.3%	49.7%		
Commercial papers (Short term ratings)									
	A-1+/A-1					**A-1+/A-1**			
S&P	100.0%				S&P	100.0%			
	F1					**F1+**			
Fitch	100.0%				Fitch	100.0%			
	P-1					**P-1**			
Moody's	100.0%				Moody's	100.0%			
Reverse repurchase agreement (Short term ratings)									
	A-1+					**A-1+**			
S&P	100.0%				**S&P**	100.0%			
	F1+					**F1+**			
Fitch	100.0%				**Fitch**	100.0%			
	P-1					**P-1**			
Moody's	100.0%				**Moody's**	100.0%			
Term deposits (Fitch viability ratings)									
	aaa	**aa/aa-**	**a+/a**			**aaa**		**aa/aa-**	**a+/a**
Fitch	-	44.2%	55.8%		Fitch	-		48.1%	51.9%

189. The United Nations Treasury actively monitors credit ratings and, because the organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

190. The main pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within one day's notice to support operational requirements. Cash pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

191. The main pool comprises Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less

than five years (2016: five years). The average duration of the main pool was 0.61 years (2016: 0.71 years), which is considered to be an indicator of low risk.

Main pool interest rate risk sensitivity analysis

192. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. As these investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase/decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis point in the yield curve is shown (100 basis points equals 1 per cent). These basis point shifts are illustrative.

Main pool interest rate risk sensitivity analysis as at 31 December 2017

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	95.47	71.60	47.73	23.86	-	(23.86)	(47.72)	(71.57)	(95.42)

Main pool interest rate risk sensitivity analysis as at 31 December 2017

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars)									
Main pool total	124.35	93.26	62.17	31.08	-	(31.08)	(62.14)	(93.21)	(124.27)

Other market price risk

193. The main pool is not exposed to significant other price risk, because it does not sell short, or borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value hierarchy

194. All investments are reported at fair value through surplus or deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

195. The levels are defined as:

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (i.e., derived from prices);

(c) Level 3: Inputs for the asset or liabilities that are not based on observable market data (i.e., unobservable inputs).

196. The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date and is determined by the independent custodian based on the valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the cash pools is the current bid price.

197. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques which maximise the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level

198. The following fair value hierarchy presents the main pool assets that are measured at fair value as at the reporting date. There were no level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments as at 31 December: main pool

(Thousands of United States dollars)

	31 December 2017			*31 December 2016*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds - Corporates	355 262	-	355 262	697 676	-	697 676
Bonds - Non-United States agencies	1 190 050	-	1 190 050	1 903 557	-	1 903 557
Bonds - Non-United States sovereigns	124 892	-	124 892	124 854	-	124 854
Bonds - Supranational	173 275	-	173 275	213 224	-	213 224
Bonds - United States treasuries	610 267	-	610 267	586 739	-	586 739
Main pool - Commercial papers	671 945	-	671 945	149 284	-	149 284
Main pool - Term deposits	-	4 300 000	4 300 000	-	2 840 000	2 840 000
Main pool total	**3 125 691**	**4 300 000**	**7 425 691**	**3 675 334**	**2 840 000**	**6 515 334**

Note 25
Related parties

Key management personnel

199. Key management personnel are those with the ability to exercise significant influence over the financial and operating decisions of the organization. For the United Nations Human Settlements Programme, the key management personnel group is deemed to comprise the Executive Director and the Deputy Executive Director.

200. The aggregate remuneration paid to key management personnel includes net salaries, post adjustments and other entitlements such as grants, subsidies and employer pension and health insurance contributions.

201. The Organization's key management personnel were paid $0.7 million over the financial year; such payments are in accordance with the Staff Rules and Staff Regulations of the United Nations, the published salary scales of the United Nations and other publicly available documents.

Compensation of key management personnel

(Thousands of United States dollars)

	Key management personnel	*Close family members*	*Total as at 31 December 2017*	*Total as at 31 December 2016*
Number of positions, full-time equivalents	2	–	2	2
Aggregate remuneration				
Salary and post adjustment	520		520	469
Other compensation/entitlements	150	–	150	118
Total remuneration for the year	**670**	**–**	**670**	**587**

202. Non-monetary and indirect benefits paid to key management personnel were not material.

203. No close family member of key management personnel was employed by the Organization at the management level. Advances made to key management personnel are those made against entitlements in accordance with Staff Rules and Staff Regulations; such advances against entitlements are widely available to all staff of the Organization.

Related entity transactions

204. In the ordinary course of business, to achieve economies in executing transactions, financial transactions of the Organization are often executed by one financial reporting entity on behalf of another. Before the introduction of the Umoja system, these had to be manually followed up and settled. In Umoja, settlement occurs when the service provider is paid.

Note 26
Leases and commitments

Finance leases

205. The Organization has no finance leases.

Operating leases

206. The Organization centers into operating leases for the use of land, permanent and temporary buildings and equipment. The total operating lease payments recognized in expenditure for the year were $1.7 million. Other expenses include $0.9 million towards donated rights-to-use arrangements, for which corresponding revenue is recognized in the statement of financial performance and presented within voluntary contributions revenue. Future minimum lease payments under non-cancellable arrangements are set out in the table below.

Future minimum operating lease obligations
(Thousands of United States dollars)

Obligations for operating leases	*Minimum lease payments as at 31 December 2017*	*Minimum lease payments as at 31 December 2016* [a/]
Due in less than 1 year	2 350	1 883
Due from 1 to 5 years	4 509	6 109
Due later than 5 years	-	56
Total minimum operating lease obligations	**6 859**	**8 048**

[a/] Comparatives have been restated to conform to current presentation.

207. These contractual leases are typically between one to seven years, with some leases allowing extension clauses and/or permitting early termination within 30, 60 or 90 days. The amounts present future obligations for the minimum contractual term, taking into consideration contract annual lease payment increases in accordance with lease agreements. No agreements contain purchase options.

Leasing arrangements where the organization is the lessor

208. The Organization has no leases as a lessor.

Contractual commitments

209. The commitments for property, plant and equipment; intangible assets; implementing partners; and goods and services contracted but not delivered as at the reporting date are set out in the table below.

Contractual commitments by category
(Thousands of United States dollars)

	Total as at 31 December 2017	*Total as at 31 December 2016*
Goods and services	21 867	29 294
Implementing partners	42 539	34 691
Total	**64 406**	**63 985**

Note 27
Contingent liabilities and contingent assets

Contingent liabilities

210. The Organization is subject to a variety of claims that arise from time to time in the ordinary course of its operations. These claims are segregated into two main categories: commercial and administrative law claims. As at the reporting date, the Organization had no reportable cases.

211. Owing to the uncertainty of the outcome of these claims, no provision or expense has been recorded, as the occurrence, amount and timing of the outflows are not certain. Consistent with IPSAS, contingent liabilities are disclosed for pending claims when the probability of outcome cannot be determined and the amount of loss cannot be reasonably estimated.

Contingent assets

212. In accordance with IPSAS 19, the Organization discloses contingent assets when an event gives rise to a probable inflow of economic benefits or service potential to the Organization and there is sufficient information to assess the probability of that inflow. As at 31 December 2017, there were no material contingent assets arising from the Organization's legal actions or interests in joint ventures that were likely to result in a significant economic inflow.

Note 28
Grants and other transfers

213. The following are the regions in which the funds given to implementing partners have been spent.

Grants and other transfers by region

(Thousands of United States dollars)

	Total 2017	*Total 2016*
Africa	3 278	5 992
Arab States	14 269	15 429
Asia and the Pacific	3 187	4 253
Global	7 313	9 638
Latin America and the Caribbean	694	(438)
Total	**28 741**	**34 874**

214. This amount is part of the $62.3 million shown in the statement of financial performance as expenditure under grants and other transfers. The difference of $33.6 million was for end beneficiaries.

Note 29
Events after the reporting date

215. There have been no material events, favorable or unfavorable, that occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.

Note 30
Cost recovery

216. Cost recovery is a mechanism used by UN-Habitat to ensure that core resources are not used to subsidize earmarked project activities. It encompasses the enforcement of direct charging to project activities of all costs that are directly attributable to the projects and also the recoupment of core funds from projects in cases where direct charging was not possible due to pre-financing or other approved temporary cost sharing arrangements. While other regimes use cost recovery funds to directly reduce the expenditures to which they relate, it is the policy of the United Nations to record cost recovered amounts as revenue. Cost recovery does not represent additional revenue for UN-Habitat as it is merely a form internal revenue movement between

core funding and project funding. For the current reporting period, $2.5 million has been recorded in two UN-Habitat segments and duly eliminated in the statement of financial performance to avoid overstating revenues and expenses.

Cost Recovery

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Total cost recovery	2 598	2 447