

Agenda item: ADM 7

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## **Report by the Secretary-General**

### FINANCIAL OPERATING REPORT FOR THE FINANCIAL YEAR 2010

#### **Summary**

Under No. 101 of the Convention of the International Telecommunication Union and Article 30 of the Financial Regulations of the Union, the Secretary-General is requested to submit a financial operating report each year to the Council.

The financial operating report for the 2010 financial year covers:

- The audited accounts for the 2010 financial year of the budget of the Union, as well as the situation of TELECOM accounts for 2010.
- The audited accounts for 2010 for technical cooperation projects, voluntary contributions and the ITU Staff Superannuation and Benevolent Funds.

#### **Action required**

The financial operating report on the audited accounts and the draft resolution in Annex A are submitted to the Council for **consideration** and **approval**.

Once examined and approved by the Council, the report will be communicated to the Member States and Sector Members.

#### **References**

*Convention: No. [101](#)*

*Financial Regulations of the Union: [Article 30](#)*

## **FINANCIAL OPERATING REPORT FOR 2010**

In accordance with No. 101 of the ITU Convention, I have the honour to submit to Member States of the Union the financial operating report for the financial year 2010, covering the audited accounts of the Union, the situation of ITU TELECOM accounts for 2010, as well as the audited accounts for 2010 for technical cooperation projects, voluntary contributions and the ITU Staff Superannuation and Benevolent Funds, drawn up with the assistance of the Coordination Committee and approved by the Council in its Resolution [...].

Geneva, .... 2011



## **Financial operating report**

In accordance with Article 30 of the Financial Regulations of the Union, this financial operating report on the audited accounts gives the financial results at 31 December 2010 for accounts held by the International Telecommunication Union (ITU), and covers the following:

- the Union's financial year 2010
- the ITU Staff Superannuation and Benevolent Funds for 2010
- the United Nations Joint Staff Pension Fund for 2010
- world and regional telecommunication exhibitions, forums and related activities as at 31 December 2010
- technical cooperation projects funded by the United Nations Development Programme (UNDP) for 2010
- trust funds for 2010
- voluntary contributions in Swiss francs for 2010
- the ICT Development Fund for 2010.

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## **Foreword by the Secretary-General**

1 I have the honour to present to the Council for approval, in accordance with Article 30 of the Financial Regulations of the Union, the financial statements for the financial year which closed on 31 December 2010.

2 The Report of the External Auditor on the financial statements for 2010, as well as his opinion on the financial statements, as required by Article 28 of, and Annex 1 to, the Financial Regulations of the Union, are also submitted to the Council in a separate document.

3 The financial statements for 2010 were drawn up in accordance with the International Public Sector Accounting Standards (IPSAS). These financial statements are the first to have been prepared on this basis, the Council having, at its 2008 annual session, approved the adoption of IPSAS as from 1 January 2010 (Decision 550). ITU is one of the first organizations of the United Nations system to have introduced IPSAS, further to the High-Level Committee on Management's approval of their adoption by United Nations system entities.

4 Until 2009, the financial statements were drawn up and submitted to the Council on a biennial basis. At its 2009 session, the Council decided to amend the Financial Regulations of the Union such that the accounts would henceforth no longer be presented on a biennial basis but annually, thereby enabling the full application of IPSAS as from the date of their adoption, i.e. 1 January 2010.

### **Implementation of IPSAS**

5 In March 2006, the United Nations Secretary-General proposed a number of cross-cutting measures aimed at improving the financial management practices followed by United Nations system entities<sup>1</sup>. One of the proposals contained in his report to the General Assembly was for the introduction of new accounting methods combined with a new enterprise resource planning system such as to enable, by the end of 2010, the presentation of financial reports faithfully reflecting the effectiveness of United Nations financial controls<sup>2</sup>. In a resolution adopted on 7 July 2006<sup>3</sup>, the General Assembly decided "to approve the adoption by the United Nations of the International Public Sector Accounting Standards".

6 The introduction of IPSAS by ITU in 2010 represents a landmark undertaking when one considers the complexity of the operations involved. The IPSAS Board, which issues the IPSAS standards, encourages public-sector entities to adopt IPSAS without delay so as to enable more transparent presentation of financial reports and statements.

7 Document C11/INF/9 sets out the definitions of several key financial terms that will facilitate the reader's use and understanding of the financial statements.

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<sup>1</sup> "Investing in the United Nations: for a stronger Organization worldwide" (A/60/692 and Corr.1)

<sup>2</sup> A/60/846.

<sup>3</sup> United Nations General Assembly Resolution 60/283.

## **Financial operating report**

8 The financial statements are drawn up in accordance with Article 30 of the Financial Regulations of the Union – 2010 edition.

### **Key events during the 2010 financial period**

9 The programme of activities carried out by the Union in 2010 comprised numerous meetings and conferences, including the Plenipotentiary Conference in Guadalajara (Mexico), the World Telecommunication Development Conference in Hyderabad (India), the Global Symposium for Regulators in Dakar (Senegal) and the work of the various Council groups.

10 The financial implications of the decisions taken by the Plenipotentiary Conference (Antalya, 2006) and the financial limitations established have prompted ITU to take measures aimed at enhancing efficiency and to make cost reduction so as to be able to implement its programme of activities throughout the budgetary period while endeavouring to maintain quality of service.

11 During 2010, the Union worked on improving processes and designing the ERP system platform. ITU has thus moved from eight sets of accounts to a single set of accounts managed by fund according to sources of financing. The accounts are kept in Swiss francs. The financial statements presented are consolidated financial statements. ITU met the 1 January 2010 deadline that had been set for implementing IPSAS. The project was put in place, and the new system has been in use since that date. ITU was one of the first agencies of the United Nations family to meet the 1 January 2010 deadline. The budget allocated for the project has not been exceeded.

12 These achievements and implementations have been possible thanks to rigorous and optimum management of the Union's financial resources.

13 ITU is an active participant in the United Nations procurement service. A number of recent initiatives have resulted in cost reductions for participating entities, i.e. lower costs for electricity, office supplies, fuel oil and postal services, and negotiated prices with airline companies.

### **Financial indicators**

14 The main indicators and relevant information for the financial year 2010 are as follows:

- The fall in revenue is due to the reduction in membership contributions, to activities subject to cost recovery, but also to investment revenue. The high level of revenue from satellite network filings is to be noted.
- The accounting result shows a deficit of CHF 3.7 million. Pursuant to Resolution 1308 adopted by the Council at its 2009 session, a withdrawal of CHF 3 729 997.71 was made from the Reserve Account to balance the accounts. Resolution 1308 had provided for a withdrawal of CHF 8 218 000 in 2010.

15 This accounting result, showing a deficit, stems from the fact that certain expenses were not budgeted. These include, among other things, depreciation, realized and unrealized exchange-rate losses and gains, and adjustment of the provision for after-service health insurance (ASHI).

16 The main indicators show the Union's financial situation to be healthy, despite a level of debtors (arrears, special arrears accounts and cancelled special arrears accounts) totalling CHF 62.9 million at end 2010.

17 It is worth emphasizing that, with the implementation of IPSAS, a provision of 100 per cent has been recognized for all arrears, special arrears accounts and cancelled special arrears accounts. The situation with respect to arrears in the Union's regular budget at 31 December 2010 is set out in Annex C hereto.

18 The Reserve Account shows a balance of CHF 33.77 million, corresponding to 10.15 per cent of the budget for 2010-2011. The composition of the Reserve Account is given in Note 4 to this document.

19 In 2010, total expenses for UNDP projects amounted to CHF 0.8 million, and for trust funds to CHF 10.3 million. Total expenses under these projects thus amount to CHF 11.1 million, corresponding to CHF 0.7 million of project support revenue.

20 Cash contributions received for trust funds amounted to CHF 8.2 million. A sum of CHF 2 million was transferred from the ICT Development Fund to trust funds for project financing.

21 The balance of the ICT Development Fund stood at CHF 3.3 million at 31 December 2010.

22 Voluntary cash contributions received for the various activities amounted to CHF 3.5 million in 2010.

23 In 2010, no withdrawals were made from the Exhibition Working Capital Fund in favour of the ICT Development Fund programme.

24 The balance of the Exhibition Working Capital Fund currently stands at CHF 10.5 million.

25 Annex D hereto shows changes in arrears with respect to TELECOM events. Annex E relates to arrears with respect to extrabudgetary funds.

26 The accompanying notes to the financial statements provide relevant information on financial aspects pertaining to the 2010 period.

27 As already indicated, the financial statements are drawn up on the basis of accrual accounting. Revenue is recognized at the beginning of each period for membership contributions (regular budget), or when contributions are confirmed in writing (voluntary contributions). Expenses are recognized when the underlying services or goods are provided or received.

### **Going concern**

28 I have assessed the implications of any potential fall in contributions stemming from global economic and financial crises and have looked into whether this would result in a cutback in the Union's activities. Having regard to projected activities and the associated risks, I can affirm that the Union has adequate resources to maintain its operations in the medium term. We shall therefore continue to draw up the Union's financial statements on the basis of the going concern principle.

### **Responsibility**

29 As provided for in Article 30 of the Financial Regulations of the Union, I have pleasure in submitting the following financial statements, drawn up in accordance with IPSAS. I certify that, to the best of my knowledge, all operations during the period in question were properly recognized in the books and that those operations, as well as the financial statements and notes thereto, which form an integral part of this document, present an accurate picture of the Union's financial situation at 31 December 2010.

Statement I – Statement of financial position at 31 December 2010

Statement II – Statement of financial performance for the period which closed on 31 December 2010

Statement III – Statement of changes in net assets for the period which closed on 31 December 2010

Statement IV – Cash-flow statement for the period which closed on 31 December 2010

Statement V – Comparative statement of budgeted amounts and actual amounts for the period which closed on 31 December 2010.

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**I –Statement of financial position – Balance sheet at 31 December 2010**

<b>Assets</b>	<b>Notes</b>	<b>31/12/2010</b>	<b>01/01/2010</b>
<b>Current assets</b>			
Cash and cash equivalents	7	49 249	54 701
Investments	8	123 459	129 357
Receivables – exchange transactions	9	5 335	4 223
Receivables – non-exchange transactions (Contributions)	9	73 500	78 453
Inventories	10	1 132	1 071
Other receivables	11	10 408	4 285
<b>Total current assets</b>		<b>263 083</b>	<b>272 090</b>
<b>Non-current assets</b>			
Medium- and long-term receivables – exchange transactions	9	-	296
Property, plant and equipment	12	116 808	118 674
Intangible assets	13	414	195
<b>Total non-current assets</b>		<b>117 222</b>	<b>119 165</b>
<b>TOTAL ASSETS</b>		<b>380 305</b>	<b>391 255</b>
<b>LIABILITIES</b>			
	<b>Notes</b>	<b>31/12/2010</b>	<b>01/01/2010</b>
<b>Current liabilities</b>			
Suppliers and other creditors	14	6 496	14 282
Deferred revenue	15	132 103	132 711
Borrowings and financial debts	16	1 493	1 493
Employee benefits	17	955	1088
Provisions	18	1 273	761
Other debts	19	7 070	3 094
<b>Total current liabilities</b>		<b>149 390</b>	<b>153 430</b>
<b>Non-current liabilities</b>			
Borrowings	16	51 259	52 753
Employee benefits	17	231 302	191 935
Allocated third-party funds	20	40 780	40 845
Third-party funds in process of allocation	20	1 869	1 399
<b>Total non-current liabilities</b>		<b>325 210</b>	<b>286 932</b>
<b>TOTAL LIABILITIES</b>		<b>474 600</b>	<b>440 362</b>
<b>NET ASSETS</b>			
Effect of transition to IPSAS	6	-125 100	-125 100
Unallocated funds	3	15 962	16 363
Allocated funds	3	20 269	59 631
Surplus/deficit for the period		-5 426	

<b>TOTAL NET ASSETS</b>	<b>-94 295</b>	<b>-49 106</b>
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**II – Statement of financial performance for the period which closed on  
31 December 2010**

(in thousands of CHF)	Notes	2010
<b>REVENUE</b>		
Assessed contributions	21	128 724
Voluntary contributions	22	11 065
Other operating revenue	23	23 982
In-kind contributions	3	1 004
Other revenue	24	1 211
Finance revenue	25	12 199
<b>Total revenue</b>		<b>178 185</b>
<b>EXPENSES</b>		
Employee expenses	26	143 330
Mission expenses	27	8 527
Contractual services	28	12 674
Rental and maintenance of premises and equipment	29	4 994
Equipment and supplies	30	4 563
Depreciation and impairment losses	12, 13	3 990
Shipping, telecommunication and service expenses	31	2 747
Auditing of accounts and inter-organizational contributions	32	643
In-kind contributions	3	1 004
Other expenses	33	-2 680
Finance expenses	34	3 819
<b>Total expenses</b>		<b>183 611</b>
<b>Surplus/deficit for the period</b>		<b>-5 426</b>

**III –Statement of changes in net assets for the period which closed on 31 December 2010**

	Allocated own funds					Total net assets
	Organization's capital	Own funds allocated to the organization	Own funds allocated to projects	Non-allocated own funds set aside for projects	Effect of transition to IPSAS	
<b>Net assets at 31.12.2009</b>	92 895		100 375		0	193 270
<b>Change in accounting method</b>						
- Valuation of property, plant and equipment (IPSAS 17)					64 428	
- Valuation of intangible assets					195	
- Valuation of inventories (IPSAS 12)					1 071	
- Recognition of the provision for litigation between ITU employees and ITU administration (IPSAS 19)					-552	
- Provision for receivables – non-exchange transactions					-1 189	
- Recognition of ASHI obligation (IPSAS 25)					-172 364	
- Valuation of the accrued leave obligation (IPSAS 25)					-9 655	
- Consideration of deferred SNF revenue (IPSAS 9)					-3 385	
- Adjustment of the free-of-charge SNF provision					491	
- Adjustment of the provision for debtors					-5 185	
- Adjustment of accounts payable					1 045	
- Reclassification according to nature of funds (IPSAS 23)	-92 895	53 353	-94 098	16 362		
<b>Total changes in net assets since accounts last published</b>	-92 895	53 353	-94 098	16 362	-125 100	
<b>Adjustment of opening balance at 1.1.2010</b>	0	53 353	6 277	16 362	-125 100	-49 108
<b>Change in own funds for the period relating to projects</b>						
Change in allocated own funds		-119	464			
Change in unallocated own funds				-400		
<b>Other changes in own funds</b>						
Actuarial losses		-39 706				
<b>Subtotal after items directly recognized in net assets/equity</b>	<b>0</b>	<b>13 528</b>	<b>6 741</b>	<b>15 962</b>	<b>-125 100</b>	<b>-88 869</b>
Surplus (deficit) for the period		-3 629		-1 797		-5 426
<b>Net assets at end of period</b>	<b>0</b>	<b>9 899</b>	<b>6 741</b>	<b>14 165</b>	<b>-125 100</b>	<b>-94 295</b>

**IV – Comparison of budgeted amounts and actual amounts**

Revenue	Budgeted amounts			Actual amounts on a comparable basis	Difference between final budget and actual amounts
	Initial budget	Budget transfers	Final budget		
	2010	2010	2010		
<i>Assessed contributions</i>	129 924	-	129 924	128 724	-1 200
<i>Cost recovery</i>	27 629	-	27 629	23 030	-4 599
<i>Other revenue</i>	3 500	-	3 500	1 517	-1 983
<i>Withdrawal from Reserve Account</i>	8 218	-	8 218	3 730	-4 488
<b>Total revenue</b>	<b>169 271</b>	<b>-</b>	<b>169 271</b>	<b>157 000</b>	<b>-12 271</b>
Expenses	Budgeted amounts			Actual amounts on a comparable basis	Difference between final budget and actual amounts
	Initial budget	Budget transfers	Final budget		
	2010	2010	2010		
<i>General Secretariat</i>	93 255	110	93 365	89 690	3 675
<i>Radiocommunication Sector</i>	33 094	-110	32 984	30 818	2 166
<i>Telecommunication Standardization Sector</i>	12 872	-	12 872	12 884	-12
<i>Telecommunication Development Sector</i>	30 050	-	30 050	28 321	1 729
<i>Expenses not foreseen in approved budget</i>				881	-881
<b>Total expenses</b>	<b>169 271</b>	<b>-</b>	<b>169 271</b>	<b>162 595</b>	<b>6 676</b>
<b>Result</b>	<b>0</b>		<b>0</b>	<b>-5 595</b>	<b>-5 595</b>
<i>Changes in and use of provision for doubtful debts</i>				4 643	
<i>Recognition of inventories</i>				-78	
<i>Capitalization of fixed assets</i>				2 342	
<i>Depreciation</i>				-3 990	
<i>Exchange-rate gains and losses</i>				7 999	
<i>Correction of excess allocations to the provision for repatriation not considered as expenses</i>				2 193	
<i>ASHI</i>				-9 079	
<i>Repayment of FIPOI loan not considered as expense</i>				1 493	
<i>In-kind revenue</i>				1 004	
<i>In-kind expense</i>				-1 004	
<i>Others</i>				72	
<b>Total IPSAS differences</b>				<b>5 595</b>	
<i>Loss on Fund 1000/1010 covered by withdrawal from Reserve Account</i>				-3 730	
<b>Total losses covered by reserves</b>				<b>-3 730</b>	
<i>Perimeter differences</i>				-1 696	

Deficit as shown in the statement of financial performance					-5 426	
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Additional information is provided in Note 36.

**V – Table of cash flows for the period closed on 31 December 2010**

(in thousands of CHF)	
<b>Surplus (deficit) for the period</b>	<b>-5 426</b>
<b>Non-monetary movements</b>	
Depreciation	3 990
ASHI provision	9 079
Provisions for repatriation (LT)	442
Provisions for employee benefits (ST)	729
Provisions for accrued leave (LT)	376
Other provisions	792
Unrealized exchange-rate gain ASHI	-9 277
Interest received	-678
<b>Restated surplus (deficit) from non-monetary movements</b>	<b>27</b>
(Increase) decrease in inventories	-61
(Increase) decrease in short-term receivables	3 841
(Increase) decrease in other short-term receivables	-6 124
(Increase) decrease in long-term receivables	296
Increase (decrease) in suppliers	-7 786
Increase (decrease) in deferred revenue	-609
Increase (decrease) in other debts	3 976
Use of provisions for employee benefits (ST)	-863
Use of provision for repatriation (LT)	-945
Use of provision for accrued leave (LT)	-13
Increase (decrease) – Other provisions	-281
Increase (decrease) in third-party funds	405
Changes in own funds	-55
<b>Cash flow from operating activities</b>	<b>-8 192</b>
<b>Net cash flows from investment activities</b>	
(Increase) / decrease – Investments	5 898
Interest from short-term investments	678
(Acquisition) / sale of property, plant and equipment	-2 006
(Acquisition) / sale of intangible assets	-337
<b>Net cash flows from investment activities</b>	<b>4 233</b>
<b>Cash flows from finance activities</b>	
Repayment of FIPOI loan	-1 493
<b>Cash flows from finance activities</b>	<b>-1 493</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>-5 452</b>
<b>Cash and cash equivalents at opening of period</b>	<b>54 701</b>
<b>Cash and cash equivalents at closure of period</b>	<b>49 249</b>

## Notes to the financial statements

### Note 1. General information

The International Telecommunication Union (ITU) is the United Nations specialized agency for information and communication technologies (ICTs). As a global focal point bringing together governments and private sector, ITU helps the world to communicate through its three key Sectors: Radiocommunication, Telecommunication Standardization and Telecommunication Development. ITU fully recognizes each State's sovereign right to regulate its telecommunications.

ITU, which also organizes the TELECOM events, was the entity with prime responsibility for organizing the World Summit on the Information Society.

With its headquarters at Place des Nations, 1211 Geneva 20, Switzerland, ITU has 192 Member States and over 700 Sector Members and Associates. It has four regional offices, eight area offices and a coordination unit at headquarters for Europe.

The purposes of the Union are:

- to maintain and extend international cooperation among all its Member States for the improvement and rational use of telecommunications of all kinds;
- to promote the development of technical facilities and their most efficient operation with a view to improving the efficiency of telecommunication services, increasing their usefulness and making them, so far as possible, generally available to the public;
- to promote the extension of the benefits of the new telecommunication technologies to all the world's inhabitants;
- to promote the use of telecommunication services with the objective of facilitating peaceful relations;
- to harmonize the actions of Member States and promote fruitful and constructive cooperation and partnership between Member States and Sector Members in the attainment of those ends;
- to promote, at the international level, the adoption of a broader approach to the issues of telecommunications in the global information economy and society, by cooperating with other world and regional intergovernmental organizations and those non-governmental organizations concerned with telecommunications.

To this end, the Union shall in particular:

- effect allocation of bands of the radio-frequency spectrum, the allotment of radio frequencies and the registration of radio-frequency assignments and, for space services, of any associated orbital position in the geostationary-satellite orbit or of any associated characteristics of satellites in other orbits, in order to avoid harmful interference between radio stations of different countries;

- coordinate efforts to eliminate harmful interference between radio stations of different countries and to improve the use made of the radio-frequency spectrum for radiocommunication services and of the geostationary-satellite and other satellite orbits;
- facilitate the worldwide standardization of telecommunications, with a satisfactory quality of service;
- foster international cooperation and solidarity in the delivery of technical assistance to the developing countries and the creation, development and improvement of telecommunication equipment and networks in developing countries by every means at its disposal, including through its participation in the relevant programmes of the United Nations and the use of its own resources, as appropriate;
- coordinate efforts to harmonize the development of telecommunication facilities, notably those using space techniques, with a view to full advantage being taken of their possibilities;
- foster collaboration among Member States and Sector Members with a view to the establishment of rates at levels as low as possible consistent with an efficient service and taking into account the necessity for maintaining independent financial administration of telecommunications on a sound basis;
- promote the adoption of measures for ensuring the safety of life through the cooperation of telecommunication services;
- undertake studies, make regulations, adopt resolutions, formulate recommendations and opinions, and collect and publish information concerning telecommunication matters;
- promote, with international financial and development organizations, the establishment of preferential and favourable lines of credit to be used for the development of social projects aimed, *inter alia*, at extending telecommunication services to the most isolated areas in countries;
- promote participation of concerned entities in the activities of the Union and cooperation with regional and other organizations for the fulfilment of the purposes of the Union.

The Plenipotentiary Conference is ITU's supreme organ. Convened every four years, the conference:

- determines the Union's general policies;
  - adopts four-year strategic and financial plans;
- elects the senior management team of the organization, Member States of the Council and members of the Radio Regulations Board.

The Plenipotentiary Conference is the key event at which ITU Member States decide on the future role of the organization, thereby determining the organization's ability to influence and affect the development of ICTs worldwide.

Sector Members, regional telecommunication organizations and intergovernmental organizations, as well as the United Nations and its specialized agencies, likewise participate in the conference as observers.

## **Note 2. Principles governing preparation of the financial statements**

Pursuant to the United Nations General Assembly resolution on implementation of the International Public Sector Accounting Standards (IPSAS) in the organizations of the United Nations system, ITU decided to introduce IPSAS and that its first financial statements to be published under IPSAS would be those for the 2010 financial period (Decision 550, adopted by the Council at its 2008 session).

To achieve this goal, the SAP integrated management software package was implemented so as to enable accrual accounting and monitoring of budget performance in accordance with IPSAS requirements.

ITU's financial statements for the period closed on 31 December 2010 are the first to have been prepared under the IPSAS standards, which were elaborated by the International Public Sector Accounting Standards Board (IPSASB) and founded on the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) defined by the International Accounting Standards Board (IASB). Adoption of the standards has necessitated changes to the accounting methods previously followed by ITU. Thus, the financial statements are now drawn up on an annual rather than a biennial basis. The adoption of new accounting methods has required changes with respect to the assets and liabilities shown in the statement of ITU's financial position. Thus, the last audited statement of ITU's financial position, dated 31 December 2009, was restated, and the corresponding changes are described in the statement of changes in net assets and in Note 6 (Conversion to IPSAS). The overall impact on the organization's net assets of the accounting reclassifications and restatements necessitated by the adoption of IPSAS was a reduction of CHF 125.1 million at 1 January 2010.

ITU has, since 1 January 2010, been applying the accrual method of accounting and, in accordance with § 151 of IPSAS 1, will no longer present comparative figures for the statement of financial performance and table of cash flows. The financial statements were drawn up in line with the going concern principle and the accounting principles have been applied consistently throughout the financial period.

ITU has applied the IPSAS standards in force at 1 January 2010, and the accounting principles applied are described in Note 3. The only derogation made in the financial statements presented at 31 December 2010 is:

- the non-capitalization of direct labour costs, since not material to the valuation of inventories, contrary to the requirements of IPSAS 12.

ITU decided, moreover, to adopt IPSAS 25 "Employee benefits" ahead of the date of its entry into force, set at 1 January 2011.

ITU decided not to give advance application to the following IPSAS standards, published in 2010 and whose adoption is mandatory on or after 1 January 2011:

- IPSAS 27, Agriculture - Entry into force: 1 April 2011. This standard does not apply to ITU.
- IPSAS 28, Financial instruments: Presentation - Entry into force: 1 January 2013.

- IPSAS 29, Financial instruments: Recognition and measurement - Entry into force: 1 January 2013.
- IPSAS 30, Financial instruments: Disclosures - Entry into force: 1 January 2013.
- IPSAS 31, Intangible assets - Entry into force: 1 April 2011.

ITU's financial statements for the period closed on 31 December 2010 are to be confirmed and adopted by the ITU Council during its session from 11 to 22 October 2011.

### **Note 3. Main accounting principles**

#### **Foreign currencies**

The Swiss franc (CHF) is ITU's functional currency and the one used in the presentation of the financial statements.

Transactions in currencies other than the Swiss franc are converted into Swiss francs at the United Nations operational rate of exchange (UNORE) at the date of the transaction. Monetary assets and commitments denominated in foreign currencies are converted into Swiss francs at the UNORE rate of exchange in force at the date of closure of the financial period. Exchange-rate losses and gains, realized or unrealized, resulting from the settlement of such transactions and from conversion of the assets and commitments denominated in foreign currencies at the date of closure are recorded in the statement of financial performance. ITU applies the UNORE exchange rates communicated by the United Nations, as follows:

CHF for	31.12.2010	31.12.2009
1 US Dollar	0.968	1.001
1 Euro	1.295	1.507
1 BBD (Barbados)	0.484	0.500
1 BRL (Brazil)	0.563	0.585
1 CLP (Chile)	0.002	0.002
1 ETB (Ethiopia)	0.060	0.079
1 HNL (Honduras)	0.051	0.052
1 IDR (Indonesia)	0.00011	0.00011
1 EGP (Egypt)	0.168	0.183
1 RUB (Russia)	0.032	0.034
1 VND (Viet Nam)	0.00005	0.00006
1 XOF (Senegal)	0.002	0.002
1 XAF (Cameroon)	0.002	0.002
1 THB (Thailand)	0.032	0.301

#### **Financial assets and liabilities**

Financial assets and liabilities are presented in the balance sheet as current or non-current assets and liabilities according to whether their due date is less than or more than one year away. ITU

classifies its financial instruments by category according to their nature and characteristics. Details of the financial instruments are provided in the Notes.

Financial assets and liabilities are initially recognized at their fair value, taking into account any directly attributable transaction costs. The subsequent revaluation of financial assets is determined by their classification, which is reviewed at each date of closure of the balance sheet. Financial assets are derecognized once ITU has transferred its rights to receive the cash flows from the financial assets and the associated risks.

Interest-bearing financial liabilities are subsequently valued at amortized cost using the effective interest rate method.

ITU categorizes its financial assets and liabilities as follows: cash and cash equivalents, investments, receivables and loans, financial debts and trade debts.

#### Cash and cash equivalents, investments

Cash and cash equivalents comprise cash on hand, postal accounts, bank accounts and deposit accounts with the Swiss Confederation's Federal Department of Finance.

Investments comprise fixed-term deposits with a term of three to nine months that are highly liquid, convertible into a known cash amount and subject to a negligible risk of change in value. Investment revenue is recognized on a quarterly basis on the basis of actual return. Investments are recognized at their fair value.

#### Receivables and loans

ITU's receivables and loans are financial assets with fixed or determinable maturity dates that are not listed on an active market. They come into being when ITU enters into a contractual arrangement with a third party and remain so until the cash transfers associated with those financial assets have been executed and the associated risks and benefits have likewise been transferred to ITU. Such assets come under current assets, except those having maturity dates beyond 12 months after the date of closure, which are categorized as non-current assets.

Receivables are divided into two distinct categories, namely: receivables stemming from exchange transactions, such as those resulting from the sale of publications; and non-exchange receivables, notably those relating to contributions made to ITU. Assessed contributions are incorporated in the financial plan once the level of Member State contributions has been set by the Plenipotentiary Conference for a four-year period. These contributions are recognized annually.

Voluntary contributions are initially recognized when there is a written agreement with donors.

Financial assets are recognized at fair value at the time of their initial recognition. The fair value is adjusted when reviewing doubtful debts at the time of the annual closure of the accounts.

#### Determination of the provision for asset impairment

An assessment of the need to establish or adjust a provision for asset impairment is carried out according to the nature of the receivable, on the basis of the following categories of receivable:

##### 1 – Member States

In accordance with Article 28, No. 169, of the ITU Constitution, a Member State which is in arrears in its payments to the Union shall lose its right to vote as defined in Nos 27 and 28 of the Constitution for so long as the amount of its arrears equals or exceeds the amount of the contribution due for the two preceding years.

On the basis of this rule, a provision is established for Member States having arrears of over two years. Assessment and follow-up are carried out on the basis of the financial notification, which is produced quarterly. The provision is calculated on the basis of the notification for the final quarter of the year, which is produced at the beginning of the following year.

The amount of the provision is equal to 100 per cent of the debt that has remained unpaid for over two years, plus the interest on arrears charged since payment first became overdue.

#### 2 – Sector Members, Associates and academia

Where Sector Members and Associates are concerned, Resolution 152 (Rev. Guadalajara, 2010) of the Plenipotentiary Conference provides, in *resolves* 6, that in the event of late payment, suspension of participation in ITU shall occur six months (180 days) after the date on which payment of the annual contribution was due, and in the absence of a negotiated and agreed repayment schedule, exclusion of a Sector Member or an Associate on grounds of non-payment shall occur three months (90 days) after the date of receipt of the notification of suspension.

All unpaid debts, including interest on arrears, dating back beyond two years are 100 per cent provisioned.

#### 3 – SNF revenue

The Union establishes a provision for SNF invoices, arrears being subject to interest at 6 per cent as from the due date in the case of late payment. Since such invoices are payable within six months, a 100 per cent provision will be established at 31 December of the year following their presentation.

The amount of the provision is equal to 100 per cent of the unpaid debts at 31 December of the year following presentation of the corresponding invoices.

#### 4 – Publications

Publications are for the most part paid for in advance, with the exception of Member State administrations. This provision is established following exactly the same principle as for Member State and Sector Member contributions.

#### 5 – Other debtors (e.g. voluntary contributions)

The amount of the provision is equal to 100 per cent of the debts remaining unpaid at 31 December of the year following presentation of the invoices.

#### 6 – TELECOM

Receivables for TELECOM events are 100 per cent provisioned at the time of closure of the exhibition accounts.

#### **Use and release of a provision for asset impairment**

Where a debt is deemed to be uncollectable (for example, certificate of lack of assets or debt write-off), a bad debt loss is recorded. Also, use of a provision is recognized.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (for example, signature of a debt repayment schedule), the previously recognized impairment loss must be reversed, wholly or in part, by a release of provision.

In the case of members, the provision is reduced by the annual instalments settled under a debt repayment schedule, following the payment of each instalment. The interest on arrears is written off once the capital of the debt has been repaid, subject to approval by the Council. This amount includes receivables relating to publications.

If, in a subsequent period, new receivables meet the impairment criteria set out in the above paragraph, the establishment of a provision must be recognized at 31 December of that year.

### **Financial debts and trade debts**

Financial debts and trade debts comprise borrowings, other financing, bank overdrafts, suppliers and trade receivables. They are shown on the balance sheet as current or non-current liabilities according to whether they fall due in less than or more than one year.

ITU borrowed capital from the Building Foundation for International Organizations (FIPOI) for the construction and renovation of its premises in Geneva. Those borrowings were originally subject to interest. However, the Federal Department of Foreign Affairs (DFAE) ceased charging interest as from 1996. ITU therefore has to reimburse only the principal. In accordance with IPSAS 15, these borrowings are shown at their fair value in the balance sheet. To obtain this value, ITU discounted the various non-current loans obtained at a long-term interest rate of 3.25 per cent, which corresponds to the interest rate associated with the loans granted by FIPOI but not charged. In order to recognize this in-kind contribution, ITU recognizes a liability for an amount equal to the difference between the nominal value of the loan and its fair value at the date of closure. Thus, in the first calculation of this in-kind contribution at 1 January 2010, a liability of CHF 23.3 million was recognized. ITU has opted to present this amount under "Borrowings and financial debts" in the statement of financial position.

The gains and losses resulting from variations in the fair value of financial instruments are included in the statement of financial performance.

### **Inventories**

Inventories comprise publications and souvenirs bearing the ITU logo, consumable stores, maintenance materials and stocks of spare parts not allocated to the maintenance of specific assets. Inventories are measured at the lower of cost and net realizable value. The cost comprises the direct costs of the materials and, as the case may be, the overheads necessary to bring the inventories to their current location and condition. The weighted average cost method is applied for the recognition of supplies (i.e. paper for printing, consumables, etc.). A standard price is used for valuing publications.

The net realizable value represents the estimated sale price less the estimated costs of producing, marketing, selling and distributing the publications.

### **Property, plant and equipment**

Property, plant and equipment held by ITU are valued at historical cost less accumulated depreciation and accumulated impairment losses. Buildings were recognized in the opening statement of financial position under IPSAS on 1 January 2010 at their intrinsic value, on the basis of the study conducted by an external consultancy. Recognition of buildings was effected using the component-based approach. Land is not taken into account when calculating the intrinsic value of the buildings. The land rights (right of superficies) concerning the land areas made available by the State of Geneva is without cost to the Union.

Gifts are measured at fair value estimated at the date of receipt of the movable assets.

Goods with a value equal to or higher than CHF 5 000 are capitalized at the time of receipt and subsequently depreciated on a straight-line basis.

Goods with a cost lower than CHF 5 000 (low-value goods) are capitalized during the month of acquisition and fully recognized as expenses in the statement of financial performance at the monthly closure following acquisition.

Property, plant and equipment acquired in connection with projects conducted under extrabudgetary activities (in particular projects of the United Nations Development Programme, nationally-executed projects and voluntary contributions) are fully recognized as expenses in the statement of financial performance at the monthly closure following acquisition.

Subsequent costs related to fixed assets are capitalized and depreciated when they bring about an increase in service potential associated with use of the fixed asset and do not concern maintenance or repair costs for the fixed asset in question, these being recognized in the statement of financial performance.

Where a fixed asset comprises several significant components having different useful lives, each component is recognized separately. Depreciation is calculated on a straight-line basis according to the estimated useful life of each item, with a final residual period, if applicable. The residual values and useful lives of assets, as well as the depreciation methods, are reviewed, and adjusted if necessary, at each annual closure. Average useful lives are taken to be as follows:

Categories and subcategories of assets	Estimated useful life (in years)
Buildings	
Structure	100
Envelope (flat roof, insulation, sealing...)	60
Envelope (metal façades, aluminium window-frames...)	50
Interior finishing (raised flooring, partitions...)	50
Interior finishing (floor, wall and ceiling coverings...)	40
Special equipment	40
Technical installations (electricity)	50
Technical installations (plumbing)	40
Technical installations (heating, ventilation)	30
Transport facilities	40
Machinery and equipment	5
Furniture and fixtures	5
Vehicles	5
Computer hardware	3
Licences and software packages	3

At each annual closure date, ITU assesses whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recorded in the statement of financial performance when the carrying amount exceeds the recoverable amount.

The recoverable amount is the higher of the fair value less the costs of disposal, and the value in use. The recoverable amount of an asset is calculated individually. The value in use of fixed assets used for non-commercial purposes corresponds to the present value of the service potential expected from their use.

An impairment loss recognized in prior periods is reversed if there has been change in the estimates of the recoverable amount since the last estimate. The net carrying amount of the asset is increased, but shall not exceed the net carrying amount that would have applied to the asset had no impairment loss been recognized in the first place. The reverse is recorded in the statement of financial performance.

### **Fixed assets acquired under lease**

Within the framework of its activities, ITU may use leased assets. Leases were analysed with respect to the situations described and indicators provided in IPSAS 13 in order to determine whether they were operating leases or finance leases. As at 31 December 2010, leases concluded by ITU correspond to the definition of operating leases and are recognized as such. Payments made in respect of such leases are recognized as expenses in the statement of financial performance on a straight-line basis over the term of the lease.

### **Intangible assets**

Intangible assets, comprising IT licences and software, are recognized on the basis of their historical cost less any accumulated depreciation and impairment losses, except in the opening balance sheet where the net value has been used. Licences, software packages, patents and rights are amortized on a straight-line basis over a period of three years.

All costs equal to or lower than CHF 5 000 are capitalized at the time of receipt of the good and fully recognized as expenses in the statement of financial performance at the monthly closure following acquisition.

Costs associated with the development and maintenance of computer software are recognized as expenses when incurred. By contrast, expenses for the purpose of improving or expanding the performance of computer software beyond their original specifications are capitalized.

Licences, software packages and patents developed in house are not capitalized for the time being. The treatment of costs relating to internal development of intangible assets will be reviewed and updated with the application of IPSAS 31 "Intangible assets" for the 2012 period.

### **Provisions**

Provisions cover obligations for which the outcome, due date or amount is uncertain. They are entered in the statement of financial position when ITU has a legal or constructive obligation resulting from a past event, when it is probable that an outflow of resources will be required in order to settle the obligation and when the amount of the obligation can be reliably estimated. Where an outflow of resources is not probable or cannot be reliably estimated, the obligation is not recorded in the statement of financial position but disclosed in the Notes.

### **Contingent assets and liabilities**

Contingent assets and liabilities are possible rights and obligations arising from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within ITU's control. Such items are disclosed in the Notes.

### **Employee benefits**

The following employee benefits are recognized:

- Short-term benefits that are fully payable within the 12 months of the end of the period during which the employees provided the services in question
- Long-term benefits resulting from the possible deferral of benefits acquired during the prior period or periods
- Long-term post-employment benefits
- Other long-term employee benefits.

Long-term benefits cover:

- Obligations associated with the possibility of accruing unused leave days and having them taken into account when establishing the date of retirement
- Obligations associated with repatriation
- Obligations associated with the pension plan of the United Nations Joint Staff Pension Fund
- Obligations concerning the After Service Health and Life Insurance (ASHI), as specified under the United Nations ASHI programme
- Obligations relating to the former pension plan in order to define ITU's obligations at the date of closure of the period.

These last two benefits come under the heading of defined-benefit plans and, as is also the case for repatriation obligations, are the subject of actuarial studies.

ITU's permanent and fixed-term employees, as well as temporary employees with over six months of service, participate in the United Nations Joint Staff Pension Fund, which is a funded, multi-employer defined-benefit plan. Since it is not possible to identify ITU's share of the underlying financial position and performance of the INJSPF pension plan with sufficient reliability on an IPSAS 25 basis, it is considered to be a defined-contribution plan. Contributions to the pension plan during the financial period are recognized as expenses in the statement of financial performance.

ASHI obligations are the subject of an actuarial study pursuant to IPSAS 25 in order to identify and recognize the amount of ITU's future liability in relation to the corresponding benefits. This actuarial estimate is organized by the International Labour Office (ILO) within the framework of the long-term health insurance benefit obligations covering ILO employees as well as those of the International Social Security Association (ISSA), the Turin Centre and ITU. Recognition of the actuarial gains and losses of this plan follows the OCI method, which calls for recognition of actuarial gains and losses during the period as net assets in the statement of financial position.

The assumptions concerning ITU are described in the Notes relating to employee benefits.

## **Recognition of funds**

### ***Allocated third-party funds***

This refers to funding provided by third parties to support the Union in implementing development projects for third-world countries. Such contributions are tied to contractual conditions. Funding of this kind is recognized as revenue only where the donors have made a commitment in writing and as the expenses are incurred. Funded projects begin only once the funds have been paid to ITU. At the closure of the period, the unused balance of such funding is recognized in the balance of allocated funds in the statement of financial position. In some specific cases, the funds are paid to ITU in reimbursement of expenses incurred.

Such allocated third-party funds are distributed as follows:

#### **– United Nations Development Programme**

ITU has entered into an agreement with the United Nations Development Programme (UNDP).

ITU may be the sole executing agency, or joint executing agency with UNDP, for different projects. For projects that are either partially or entirely executed by ITU, the Union has a budgetary allocation from UNDP. At the end of each year, on the basis of the project delivery report (PDR), UNDP reimburses ITU for all expenses incurred, within the allocation. For the support that ITU provides to the projects, ITU has an allocation that is based pro rata on the expenses recorded in the PDRs.

#### **– Trust funds**

Trust funds are used to execute projects financed by governments, by voluntary contributions or by the ICT Development Fund (ICTDF), as well as by funds from the regular budget under the development action plan.

#### **– Voluntary contributions**

Contributions in cash or in kind can be used to finance conferences, meetings or seminars, expert services, training, fellowships, equipment and any other service or resource required by this type of activity. Voluntary contributions may be used to cover, entirely or in part, support costs associated with the implementation of technical cooperation programmes and projects. Voluntary contributions are occasionally also used to supplement activities already foreseen in the Union's budget by providing a source of additional funding to expand the scope of the activities in question.

Allocated voluntary contributions must be used for the execution of specific programmes or projects, and in accordance with the relevant agreements or arrangements.

The Union may receive contributions that have no attached conditions. Such contributions come under the heading of donations.

### ***Third-party funds in the process of allocation***

These are funds received from third parties and which have not yet been fully allocated.

### ***Allocated own funds***

#### **– ICT Development Fund**

In line with ITU's mission of fostering the expansion of modern communication services worldwide, the Council assigns a share of the surplus revenue derived from ITU TELECOM events to the ICT Development Fund (ICTDF), which serves to finance various national and regional development projects. In the case of project financing through the ICTDF, only the expenses are recognized in the statement of financial performance. At the closure of each period, the allocated own funds appearing on the balance sheet are reduced by the total amount of the expenses incurred during the same period. This same principle applies for projects financed under the development action plan, the funds available for these programmes having already been recognized as revenue in prior periods.

The ICTDF also registers contributions paid by members or third parties for the financing of ICT development projects.

#### **– ITU TELECOM Exhibition Working Capital Fund**

ITU TELECOM organizes world and regional telecommunication exhibitions and forums. As a partnership between States, companies and organizations, ITU TELECOM is in a unique position to organize such events on both a global and a regional scale. The mission of these events is to bring together the most influential representatives of government and the telecommunication industry to exchange ideas, knowledge and technology for the benefit of the global community, and in particular the developing world.

One of ITU TELECOM's main objectives is to finance specific telecommunication development projects from the surpluses generated, primarily in the UN-designated least developed countries (LDCs).

Any surplus revenue or deficit resulting from these events is recognized in the Exhibition Working Capital Fund. With the Council's approval, withdrawals are made for payment into the ICTDF.

#### **– Reserves**

The Union has set up a reserve to receive any remaining balances from closed projects. This reserve will be used to finance new projects or regional initiatives, as well as to cover certain projects in deficit.

#### **– ITU Staff Superannuation and Benevolent Funds**

The ITU Staff Superannuation and Benevolent Funds comprise three funds:

- Provident Fund
- Reserve and Complement Fund
- Assistance Fund.

They are the set of funds that guarantee the pensions of employees who were in service prior to 1 January 1960, the date on which ITU became affiliated to the United Nations Joint Staff Pension Fund. The Provident Fund covers one widow of a retired staff member who was subject to the regime in force prior to 1 January 1949; the Reserve and Complement Fund pays out 44 retirement pensions and 31 survivor's pensions; and the Assistance Fund serves to assist staff

members and pensioners in difficult financial situations. The assets of the Funds are invested in trustee securities.

### **Reserve Account**

The Reserve Account is included in the balance of allocated own funds. Variations in the Reserve Account are detailed in the statement of changes in the net assets of the Union. It is made up of:

- a) the positive or negative net balance (surplus/deficit) from each financial year
- b) transfers from other reserves/funds as decided by the Council
- c) any amounts to be credited to the Reserve Account as prescribed by the accounting standards common to the organizations of the United Nations system.

Notwithstanding the provisions of Article 13, § 4 b) of ITU's Financial Regulations, bearing in mind the need to maintain the Reserve Account at a minimum level determined by the Plenipotentiary Conference, withdrawals may be made from the Reserve Account by special decision of the Council, *inter alia*, for:

- a) reducing the amount of the contributory unit
- b) balancing the budget of the Union
- c) transfers to other reserves/funds
- d) any amounts to be debited to the Reserve Account as prescribed by the accounting standards common to the organizations of the United Nations system.

### **Recognition of revenue**

Revenue comprises assessed contributions, voluntary contributions and other recovered revenues.

Assessed contributions: This refers mainly to contributions from Member States, Sector Members and Associates. The Plenipotentiary Conference establishes the upper limit of the contributory unit to serve as the basis for calculating the Union's revenue for the biennial budgets for the next four years. Member States and Sector Members are free to choose their class of contribution for defraying Union expenses in accordance with the relevant provisions of the ITU Constitution, and pay, in respect of the year of their accession or admission, a contribution calculated as from the first day of the month of accession or admission. This revenue is used for the purpose of implementing the Union's activities as defined by the Plenipotentiary Conference.

Other recovered revenues comprise the products and services for which ITU applies the principle of cost recovery, namely:

- registration of universal international freephone numbers (UIFN)
- Memorandum of Understanding on global mobile personal communication systems (GMPCS-MoU)
- processing of satellite network filings
- publication sales
- project support revenue.

ITU receives contributions upfront for providing services for the registration of universal international freephone numbers (UIFN) and the registration of universal international premium-rate numbers (UIPRN) and universal international shared-cost numbers (UISCN).

Parties requesting these services must deposit upfront a sum of CHF 200 per number in the Union's accounts. As the numbers are used, ITU invoices its services. It is at the stage when the numbers are used that the Union recognizes revenue in its accounts. The corresponding invoices are settled from the account containing the customers' deposits.

Voluntary contributions are recognized when there is an agreement signed by the donors. Contributions received which relate to future financial periods are recognized under deferred revenues. The balance of unused voluntary contributions at the date of closure is recognized under third-party funds. Other revenue pertaining to future financial periods is recognized under deferred revenues.

Revenue from sales of publications is recognized at the time when the publications are dispatched, and revenue from sales of services involving access to ITU statistics and data in electronic form is recognized at the time when the data become accessible.

### **Segment reporting**

Segment reporting is based on ITU's main activities and sources of financing, and is done in a manner consistent with the structure of the financial information provided to the Director of Finance. The segments reflect the ITU's work programme for 2010-2011:

- General Secretariat
- Radiocommunication Sector (ITU-R): Management of international resources, namely the radio-frequency spectrum and satellite orbits
- Telecommunication Standardization Sector (ITU-T): Shaping harmonized working methods and establishment of flexible collaboration mechanisms to meet market needs
- Telecommunication Development Sector (ITU-D): Provision, under affordable conditions, of equitable and sustainable access to ICTs
- Projects: UNDP funds, trust funds, ICT Development Fund and voluntary contributions
- TELECOM.

On account of the nature of ITU's activities, its tangible and intangible fixed assets are used jointly by all its Sectors and are not managed by the individual Sectors. The Union's assets and liabilities, other than those representing its net assets, fall under the ownership or responsibility of the organization as a whole and do not constitute assets and liabilities of its component parts.

Extrabudgetary funds do not have any fixed assets. Assets and liabilities represent a wide range of activities that are common to the constituent parts of the Union. Any allocation of assets and liabilities to the different Sectors would inevitably be arbitrary and incoherent. It would thus run counter to the principles of IPSAS 18. It is for this reason that individual assets and liabilities will not be segmented.

**Budget comparison**

The draft budget of the Union for 2010-2011 is based on Decision 5 (Rev. Antalya, 2006) entitled "Income and expenditure for the Union for the period 2008-2011" and the strategic plan for the Union for 2008-2011 set out in Resolution 71 (Rev. Antalya, 2006) of the Plenipotentiary Conference. Furthermore, the programme budget is coordinated with the operational plans of the Sectors and the General Secretariat.

Pursuant to IPSAS, financial statements have to be drawn up annually. The draft budget of the Union for 2010-2011 is composed of two annual budgets. A budget estimate has been made for each of the financial years.

The final budget for 2010, which takes account of subsequent budget transfers as illustrated in Statement IV (Comparative statement of budgeted amounts and actual amounts) and in Note 36, was approved by the Council at its 2009 session by Resolution 1308. Statement IV contains a comparison of the final budget and actual amounts. Since the budget and the financial statements were not drawn up on the same basis, Statement IV contains a reconciliation of the amounts in the budget and the amounts in Statement II(Statement of financial performance). Perimeter differences reflect the incorporation of extrabudgetary funds in the Union's financial statements.

**Note 4. Management of net assets and financial risks**

The Union's net assets consist of own funds allocated to the organization or set aside for projects as well as unallocated own funds set aside for projects.

The table below shows the changes in the Reserve Account.

<b>MOVEMENTS IN THE RESERVE ACCOUNT IN THE 2010 FINANCIAL YEAR</b>	<b>Withdrawals 2010</b>	<b>Payments 2010</b>
<u>ITU Reserve Account (Fund 1000)</u>		
Position at 1 January 2010		37 504 393.17
Withdrawal from the Reserve Account authorized by the Council	3 729 997.71	
Total movements in 2010	3 729 997.71	0.00
Net movements in 2010		-3 729 997.71
Position at 31 December 2010		33 774 395.46

The table below shows the reconciliation between own funds allocated to the organization according to the statement of changes in ITU's net assets and the Reserve Account at 31 December 2010.

<b>Reserve Account (Fund 1000)</b>		<b>33 774</b>
Investment Fund		6 815
Welfare Fund		533
Centenary Fund		354
IPSAS Project Fund		235
ASHI loss		-39 706
SS&B Complement Fund		6 195
SS&B Provident Fund		1 503
SS&B Assistance Fund		195
<b>Own funds allocated to the organization according to the statement of changes in net assets</b>		<b>9 898</b>

In the course of its work, ITU is exposed to a number of financial risks, namely market risk (exchange rates), credit risk and liquidity flow risk. This Note outlines the principles adopted by ITU to manage financial risks and preserve its capital. The management of financial risks is centralized under the responsibility of the Secretary-General.

a) Credit risk

Credit risk is the risk that another party may fail to fulfil its obligations. ITU is exposed to credit risk in relation to financial instruments such as cash flow and cash-flow equivalents, investments and short- and medium/long-term receivables.

ITU mitigates credit risks on cash flow and cash-flow equivalents and on investments by spreading them among several banking institutions. ITU is currently studying the possibility of a wider spread of assets invested with banks which may be underwritten by a government guarantee.

Measures such as the sending of quarterly statements, suspension of participation in the work of ITU and loss of the right to vote have been introduced to ensure that Member States, Sector Members and Associates settle their arrears. It is unusual for a State to go bankrupt.

b) Market risk (exchange rates)

The exchange-rate risk to which ITU is exposed is associated with transactions and operations involving currency conversion. ITU's aim is to manage exchange-rate risk by assigning the necessary currencies directly to the appropriate bank accounts. ITU does not have recourse to fixed-term exchange contracts, futures, swaps or currency options.

c) Liquidity risk

Liquidity risk occurs when an entity has difficulty fulfilling its obligations to settle debts or other payment obligations. Liquidity risk may be considered negligible in the case of ITU

which, in the event it is short of cash, is able to call on a loan from the Swiss Confederation, in accordance with Article 17 of the Financial Regulations.

**Note 5. Judgment and accounting estimates**

Preparation of the financial statements under IPSAS calls for the use of estimates and/or assumptions having a bearing, on the one hand, on the amounts of the assets and liabilities disclosed and the disclosure of contingent assets and obligations at the date of the balance sheet and, on the other hand, on the amount of the revenues and expenses for the accounting period. Although the estimates are based on past experience and on various other factors deemed reasonable in the prevailing circumstances, the results actually obtained may differ from those foreseen when the estimates were made.

Areas entailing a high degree of judgment and complexity or in which assumptions and estimates have a negative impact on the establishment of the financial statements are:

- post-employment benefits,
- useful lives of fixed assets
- provisions for receivables
- probability of sale in stocks of publications
- deferred revenue from satellite network filings.

**Note 6. Conversion to IPSAS**

In order to produce an IPSAS-compliant opening balance sheet at 1 January 2010, the audited figures at 31 December 2009 were restated accordingly.

The impact of the conversion to IPSAS is presented in the table showing the statement of changes in net assets. The main changes are as follows:

- a) recognition of ASH obligation
- b) valuation of property, plant and equipment
- c) valuation of accrued leave obligation
- d) adjustment of accounts payable
- e) consideration of deferred SNF revenue.

**Note 7. Cash and cash equivalents**

In thousands of CHF	31.12.2010	31.12.2009 restated
Cash in CHF	13	8
Cash in foreign currency	73	37
Postal accounts in CHF	140	171
Bank current accounts in CHF	14 388	37 176
Bank current accounts in foreign currency	24 647	9 433
Sight accounts in CHF	9 987*	7 876
Cash and cash equivalents	49 248	54 701

\* The Federal Finance Administration inadvertently paid an amount of CHF 2.004 million into a sight account of the ITU Staff Superannuation and Benevolent Funds. This amount was refunded to the Federal Finance Administration in January 2011.

Funds in bank and postal accounts are remunerated at the market rates. The fair value of the cash item is equivalent to the carrying amount.

At 31 December 2010, ITU has no credit line. The use of cash is subject to the following restrictions:

- Sight accounts in favour of beneficiaries of the ITU pension funds which have been operating as closed funds since the organization's affiliation to UNJSPF and the Staff Health Insurance Fund, in the amount of CHF 7.982 million
- An amount of CHF 20.26 million representing available cash for executing projects financed by external funds.

#### Note 8. Investments

Fixed-term investments are remunerated at market rates.

In thousands of CHF	31.12.2010	31.12.2009
Fixed-term investments	123 459	129 357
<b>Investments</b>	<b>123 459</b>	<b>129 357</b>

A breakdown of fixed-term investments by date of maturity (period remaining) and by currency is shown below:

In thousands for each currency	31.12.2010			31.12.2009		
	CHF	USD	EUR	CHF	USD	EUR
Maturity:						
0-3 months	94 090	14 200	5 109	63 100	30 900	1 500
4-6 months		4 700		22 600	5 500	700
7-9 months		4 600		-	3 900	-
over 9 months				-	-	-
<b>Investments</b>	<b>94 090</b>	<b>23 500</b>	<b>5 109</b>	<b>85 700</b>	<b>40 300</b>	<b>2 200</b>

Restricted investments allocated to projects amount to CHF 20.52 million.

#### Note 9. Receivables

Receivables represent as yet uncollected revenue that Member States, Sector Members and Associates have committed to paying to ITU in respect of annual contributions, purchase of publications, satellite network filings or other invoices. Amounts due on contributions bear

interest from the beginning of the fourth month of each financial year of the Union at 3 per cent per annum during the following three months, and at 6 per cent per annum as from the beginning of the seventh month. Interest is credited to the Reserve for debtors' accounts in accordance with Article 24 of the Financial Regulations.

Non-current, non-exchange receivables represent receivables from the debt repayment schedules applicable to members having undertaken to repay such debts under an agreement spanning several financial periods.

Other receivables represent uncollected revenue for services associated with TELECOM and voluntary contributions.

In thousands of CHF	31.12.2010	31.12.2009 restated
Current receivables - exchange transactions	6 345	5 306
Provision for losses on current receivables - exchange transactions	-1 010	-1 083
<b>Current receivables - exchange transactions: net value</b>	<b>5 335</b>	<b>4 223</b>
Current receivables - non-exchange transactions	125 378	127 996
Provision for losses on current receivables - non-exchange transactions	-51 878	-49 543
<b>Current receivables - non-exchange transactions: net value</b>	<b>73 500</b>	<b>78 453</b>
Non-current receivables - exchange transactions	<b>548</b>	1 160
Provision for losses on non-current receivables - exchange transactions	<b>-548</b>	-864
<b>Non-current receivables - exchange transactions: net value</b>	<b>-</b>	<b>296</b>
Non-current receivables - non-exchange transactions	9 633	16 494
Provision for losses on non-current receivables - non-exchange transactions	-9 633	-16 494
<b>Non-current receivables - non-exchange transactions: net value</b>	<b>-</b>	<b>-</b>

#### Note 10. Inventories

In thousands of CHF	31.12.2010	31.12.2009 restated
Publications	375	424
Souvenirs	92	86
Supplies	665	561
<b>Inventories - net value</b>	<b>1 132</b>	<b>1 071</b>

Publications include publications for sale and publications distributed free of charge. Supplies include paper to be used for the printing of ITU publications, items handled by the Supplies and Stores Service and various consumables. An assessment of the need for depreciation of the value

of inventories for impairment losses was made at closure of the period. No such need was identified.

**Note 11. Other receivables**

In thousands of CHF	31.12.2010	31.12.2009 restated
Employee advances	2 859	1 266
UNDP current account	-	222
Yugoslavia	1 189	1 189
Provision for debt Yugoslavia	-1 189	-1 189
Tax at source	1 202	1 070
Pensions	417	460
Accrued interest	37	254
Accounts receivable	5 893	1 013
	-	
<b>Other receivables</b>	<b>10 408</b>	<b>4 285</b>

Employee advances mainly comprise the payment of 75 per cent of education expenses for staff members' children.

Tax at source comprises the withholding tax that is reimbursable by the Swiss Confederation's Federal Tax Administration as well as the income tax to be recovered from the Government of the United States of America. It is to be noted in this regard that the United States has not settled the amounts due since 2006. The balance to be recovered from that administration exceeded CHF 1 million (CHF 1 082 418.17) at the close of the 2010 period.

The debt of the former Federal Republic of Yugoslavia has been provisioned at 100 per cent.

Accounts receivable mainly comprise expenses recognized in advance for preparation of the TELECOM World 2011 exhibition.

An adjustment was made to take account of the closure of the ITU TELECOM World 2009 accounts and ensure correct application of the accrual principle.

**Note 12. Property, plant and equipment**

The ITU buildings comprise the following:

- Tower building, rue de Varembé, Geneva
- Varembé building, rue de Varembé, Geneva
- Extension C and Cafeteria, rue de Varembé, Geneva
- Montbrillant building, rue de Varembé, Geneva.

Buildings were recognized at their intrinsic values on the basis of a study conducted by an external consultancy. Those values totalled CHF 117 974 000 at 1 January 2010.

The changes in the net carrying amount of property, plant and equipment during the period are explained below.

Categories of asset	Buildings	Mach. & equip.	Furniture & fixtures	Computer equipment	Vehicles	Donations	Under constr.	Total
<b>Cost at 1 January</b>	<b>117 974</b>	<b>3 848</b>	<b>728</b>	<b>4 790</b>	<b>249</b>	<b>684</b>	<b>-</b>	<b>128 273</b>
Additions	645	46	-	209	40		1 066	2 066
Gifts	-	-	-					-
Disposals	-	-86	-25	-387		-54		-552
Impairment losses	-	-	-					-
Reclassifications	-	-	-					-
Revaluations	-	-	-					-
<b>Cost at 31 December</b>	<b>118 619</b>	<b>3 808</b>	<b>703</b>	<b>4 612</b>	<b>289</b>	<b>630</b>	<b>1 066</b>	<b>129 727</b>
<b>Depreciation at 1 January</b>	<b>-</b>	<b>3 596</b>	<b>656</b>	<b>4 527</b>	<b>136</b>	<b>684</b>	<b>-</b>	<b>9 599</b>
Recognized during the year	3 528	76	18	212	39			3 873
Disposals	-	-86	-25	-387		-54		-552
Impairment losses	-	-	-					-
Reclassifications	-	-	-					-
Revaluations	-	-	-					-
<b>Depreciation at 31 December</b>	<b>3 528</b>	<b>3 586</b>	<b>649</b>	<b>4 352</b>	<b>176</b>	<b>630</b>	<b>-</b>	<b>12 920</b>
<b>Net carrying amount at 1 January</b>	<b>117 974</b>	<b>252</b>	<b>72</b>	<b>263</b>	<b>113</b>	<b>-</b>	<b>-</b>	<b>118 674</b>
<b>Net carrying amount at 31 December</b>	<b>115 091</b>	<b>222</b>	<b>54</b>	<b>260</b>	<b>114</b>	<b>-</b>	<b>1 066</b>	<b>116 807</b>

At 31 December 2010, no property, plant or equipment had been pledged as security for debt.

#### Note 13. Intangible assets

Category of asset	Software	Total
<b>Cost at 1 January</b>	<b>195</b>	<b>195</b>
Additions	337	337
<b>Cost at 31 December</b>	<b>532</b>	<b>532</b>
<b>Depreciation at 1 January</b>	<b>-</b>	<b>-</b>
Recognized during the year	118	118
<b>Depreciation at 31 December</b>	<b>118</b>	<b>118</b>
<b>Net carrying amount at 1 January</b>	<b>195</b>	<b>195</b>
<b>Net carrying amount at 31 December</b>	<b>414</b>	<b>414</b>

All of the intangible assets correspond to the purchase of software packages or standard upgrades for the Union's routine activities.

#### Note 14. Suppliers and other creditors

In thousands of CHF	31.12.2010	31.12.2009 restated
Suppliers	1 957	5 586
Deposits received	3 759	4 159
Downpayments received	780	4 537
<b>Suppliers and other creditors</b>	<b>6 496</b>	<b>14 282</b>

Deposits concern advance payments received in 2004 and 2007 for regional radiocommunication conferences. These sums will be refunded to the beneficiaries or used to settle future contributions.

The amount of CHF 780 in respect of downpayments received corresponds to the balance of expenses covered by:

- PP-10 – Mexico (CHF 674)
- WTDC – India (CHF 106).

The Union will reimburse these sums to the two administrations in question during the 2011 financial period.

The amount shown for suppliers relates mainly to unpaid invoices that remain open, staff accounts and IOV invoices awaiting settlement with UNDP.

**Note 15. Deferred revenue**

In thousands of CHF	31.12.2010	31.12.2009 restated
Contributions – Member States	110 604	110 664
Contributions – Sector Members	15 618	16 551
Contributions – Associates	1 540	1 581
Publications & miscellaneous	712	530
SNF	3 629	3 386
<b>Deferred revenue</b>	<b>132 104</b>	<b>132 711</b>

The Member State, Sector Member and Associate contributions represent the revenue associated with the second year of the biennium for which the budget was voted.

**Note 16. Borrowings and other financial debts**

In thousands of CHF	Due date	31.12.2010	31.12.2009 restated
<u>Amounts initially borrowed from FIPOI</u>			
CHF 2 634 780 - in 1990	2020	1 021	1 122
CHF 19 627 590 - in 1990	2039	12 841	13 284
CHF 45 427 250 - in 2002	2051	37 251	38 159
CHF 2 000 000 - in 2002	2051	1 640	1 680
Borrowings		52 753	54 246
of which short term		1 493	1 493
of which long term		51 260	52 753
Borrowings		52 753	54 246

The present value of borrowings at 31 December 2010 is CHF 30 416 166. The difference in relation to the gross amount represents the present value of total unpaid interest up to the end of the borrowing term.

## Note 17. Employee benefits

Employee benefits refer to all forms of consideration given by ITU in return for services rendered by its employees. They are recognized as and when they are acquired by employees.

### 17.1 Short-term employee benefits

In thousands of CHF	Employee benefits – short term		
	Overtime	Accrued leave	Total employee benefits – short term
Balance 31.12.2009	69	14	83
Restatements		1 005	1 005
<b>Opening balance 1.1.2010</b>	<b>69</b>	<b>1019</b>	<b>1088</b>
<b>Closing balance</b>	<b>206</b>	<b>748</b>	<b>955</b>

Overtime is calculated according to the category of employee. Staff members in the General Service category who are required to work in excess of any normal working week shall be given compensatory time off, or may receive additional payment, under the conditions established in the Staff Rules, on the basis of local conditions and practices of local organizations of the United Nations common system.

Should the exigencies of the service permit, and subject to the prior approval of the Secretary-General or the Director of the Bureau concerned, as appropriate, occasional compensatory time off may be granted to staff members in the Professional category who have been required to work substantial or recurrent periods of overtime.

For General Service category staff serving in offices away from headquarters, overtime provisions shall be determined on the basis of local conditions and practices of local organizations of the United Nations common system.

Accrued leave refers to leave accrued during the financial period.

### 17.2 Long-term employee benefits

In thousands of CHF	Employee benefits – long term				
	ASHI	Pensions	Installation/repatriation	Accrued leave	Total employee benefits – long term
Balance 31.12.2009		-	10 727	103	10 830
Restatements	172 364	90		8 650	181 104
<b>Opening balance 1.1.2010</b>	<b>172 364</b>	<b>90</b>	<b>10 727</b>	<b>8 753</b>	<b>191 934</b>

<b>Closing balance</b>	<b>211 872</b>	<b>90</b>	<b>10 223</b>	<b>9 116</b>	<b>231 302</b>
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Long-term benefits are post-employment benefits, namely the ASHI plan, repatriation grant, accrued leave giving entitlement to a modification of retirement conditions, and obligations under former pension and health insurance plans for some former ITU employees.

### 17.2.1 Actuarial valuation of post-employment benefits under the ASHI plan

The amount of the obligations is determined by means of a biennial actuarial study carried out by an independent consultancy recommended by ILO. The most recent valuation, carried out in 2010, established at USD 172.1 million ITU's obligations in respect of post-employment sickness benefits due to employees meeting the specified conditions.

### 17.2.2 Actuarial valuation – assumptions and methods

Within the framework of the biennial valuation of obligations relating to the ASHI plan and of the contribution for the periods in question, ITU validates the assumptions and methods used by the actuaries. The assumptions and methods used for the valuation covering the periods 2009 and 2010 are described below. The introduction of IPSAS entailed for the first time at 1 January 2010 the recognition of a debt of USD 172.1 million.

The assumptions and methods used for determining the cost of benefits under the ASHI plan at 31 December 2010 are as follows:

Discount rate	3.25% for 2010 and 4% for 2009
Increase in medical costs	3.80% for 2010, falling to 3% over the following four years
Expected accounting rate of return on assets	5.50% for 2010 and 2009
Salary increases	2.5% for 2010 and 2009
Cost-of-living increases	2.00% for 2010 and 2009
Increase in coverage rate	2.00% for 2010 and 2009
Annual average cost of claims for reimbursement of medical expenses in 2009 and variation in medical expenses according to age	The average cost of claims for reimbursement at end 2010 was estimated as an average per age range of 50, 60, 70 and 80 years at USD 4 988, USD 6 248, USD 8 583 and USD 12 401, respectively, for men, and USD 5 560, USD 6 072, USD 6 340 and USD 9 629, respectively, for women.
Administrative expenses	The annual average administrative cost per person in 2010 was estimated at USD 214
Mortality	The mortality rate corresponds to that calculated in the 31 December 2010 valuation of the SHIF plan and is based on United Nations data projected to 2021 for former employees in retirement at the date of the valuation and on ILO data for future retirees.
Valuation of assets	Valuation of assets is the sum of two components: on the one hand, use of a rate of return of 5.5% including the impact of inflation, and, on the other hand, the fact that active employee contributions are higher than the reimbursements paid to inactive participants and serve to increase the available assets under the ASHI plan.
Disability rate	Varies according to age and gender and increases with age. The rate is based on ILO data.
Rates of conversion of benefit rights	Vary according to age and number of years of service, with requests for conversion being more frequent in the first year.
Employee turnover	The separation rate for employees leaving the organizations considered in the valuation varies according to age and gender.
Retirement rate	Varies according to age, with a higher probability for employees aged 60 and over.
Participation	97.5% of future retirees will opt to participate in the SHIF plan.
Spouse coverage	75% and 25% of male and female retirees have a spouse having requested affiliation to the SHIF insurance plan. Men are assumed to be five years older than their spouse.
Actuarial method	Projected unit credit method with an allocation period beginning at 45 years of age to

	reflect the fact that employees must be at least 55 years old and have completed 10 years of service in order to be eligible.
Approach for recognizing actuarial losses and gains as net assets	Net gains and losses resulting from variations due to the gap between assumptions and actual values and to changes in calculation assumptions are a component of net assets, in accordance with the option proposed in IPSAS 25.

Staff members (and their spouses, dependent children and survivors) separating from service at age 55 or over are entitled to post-employment health insurance coverage provided they have completed at least ten years' service with the United Nations or a specialized agency and were insured under the Staff Health Insurance Fund (ITU and ILO) during the five years immediately preceding their separation from service. The same benefits apply to staff members in receipt of a disability allowance from the United Nations Joint Staff Pension Fund. This regime is jointly financed, with ITU contributing 2/3 and the insured persons 1/3.

The following tables provide additional information and analyses concerning the liabilities arising from employee allowances calculated by the actuaries, as well as valuation of the assets held by the Fund. An update was performed to obtain the amounts at 31 December 2010.

	<i><b>In thousands of CHF</b></i>
Amount of obligations under the ASHI plan at 31 December 2010 in the statement of financial position	
Effect of changes in accounting method	172 364
Balance at 1 January 2010, following application of IPSAS	172 364
Total expenses recognized in the statement of financial performance	13 499
Actuarial losses recognized in net assets	39 706
Contributions during the period	-4 420
Unrealized exchange-rate difference	-9 277
Amount of obligations under the ASHI plan at 31 December 2010	211 872

The exchange difference resulting from the conversion into CHF of amounts managed in USD by the ASHI fund and data in USD provided in the actuarial report is recognized in the statement of financial performance as unrealized exchange-rate gains.

Although the assets under the ASHI plan are also used to reimburse the medical expenses of active employees, they represent the totality of the available assets of ITU's Staff Health Insurance Fund. The proportion of the assets that relate to active employee reimbursements cannot be estimated with sufficient reliability.

	<i><b>In thousands of CHF</b></i>
Valuation of assets	
Balance at 1 January 2010	6 999
Contributions by ITU	4 420
Reimbursements made under the ASHI plan	-7 227
Expected return on assets	325

Actuarial gains arising from the difference between active employee contributions and reimbursements made	2 226
Exchange-rate difference	-212
Balance at 31 December 2010	6 531

The following table shows the change in the net amount of the obligation at the end of the financial period.

Net amount of the obligation under the ASHI plan, as recognized in the statement of financial position	<i>In thousands of CHF</i>	
	<b>31 Dec. 2010</b>	<b>01 Jan. 2010</b>
Present value	218 403	179 363
Fair value of assets under the plan	-6 531	-6 999
Obligation recognized in balance sheet at end of period	211 872	172 364

The actuarial loss due to changes in actuarial estimates is recognized in net assets using the OCI method.

Analysis of actuarial losses recognized in net assets	<i>In thousands of CHF</i>
Obligation due to changes in assumptions	27 247
Obligation due to trends during the period	14 684
Gains in assets	-2 226
Total amount recognized in net assets at 31 December 2010	39 706

Amounts recognized in the statement of financial performance	<i>In thousands of CHF</i>
Updating of obligation and contributions for the period	
Service costs	6 479
Finance charge	7 345
Expected return on assets under the ASHI plan	<u>-325</u>
Total	13 499

Service costs for the period are composed of normal costs of CHF 6 255 000 and interests on those costs of CHF 224 000.

### **17.2.3 ASHI plan, sensitivity analysis and cost estimates for the 2011 period**

A 1 per cent increase in healthcare costs would result in a rise in the aggregate of service cost and interest costs of CHF 4 026 000 and have an impact on the defined-benefit obligation of CHF 42 768 000. A 1 per cent reduction would result in a drop of CHF 3 062 000 in service cost and interest costs and of CHF 34 057 000 in the defined-benefit obligation.

#### **17.2.4 Repatriation**

In principle, a repatriation grant shall be payable to staff members whom the Union is obligated to repatriate. Detailed conditions and definitions relating to eligibility and requisite evidence of relocation shall be determined by the Secretary-General.

Length of service, base salary and any language allowances were taken into account in calculating the total amount of the obligation at 31 December 2010. The economic assumptions used are a discount rate of 2.5 per cent and a rate of salary increase of 2.5 per cent.

#### **17.2.5 Payment of the repatriation grant**

Payment of the repatriation grant is governed by the conditions and definitions set out in the Staff Regulations and Staff Rules.

This provision is funded by a deduction of 3 per cent from the remuneration of staff members other than those engaged for conferences and other short-term service.

An IPSAS-compliant actuarial valuation is carried out each year by an independent consultancy.

#### **17.2.6 Employee benefits under the United Nations staff pension plan**

ITU is affiliated to the United Nations Joint Staff Pension Fund (hereinafter "UNJSPF"), which was established by the United Nations General Assembly in 1949 to provide the staff of the United Nations and other organizations affiliated to the Fund with retirement, death, disability and related benefits. UNJSPF is a funded defined-benefit plan.

An actuarial valuation of UNJSPF is prepared every two years. It presents and quantifies the actuarial obligations relating to employees and retirees of the affiliated organizations. UNJSPF is currently not in a position to isolate the assets, plan capital and benefit costs of each affiliated organization. ITU is therefore, in common with other affiliated organizations, not in a position to determine the actuarial assets and/or obligation to report in the accounts in conformity with IPSAS 25. Under these circumstances, UNJSPF's pension plan is considered as a defined-contribution plan.

The financial obligation of the organization to UNJSPF consists of its mandatory contribution at the rate set by the United Nations General Assembly, plus its share of any actuarial deficiency payment that may be required pursuant to Article 26 of the Fund's Regulations. Sums for the purpose of covering a deficiency are only payable where the United Nations General Assembly decides to invoke the provisions of Article 26, once it has been established that a deficiency payment is necessary, on the basis of the assessment of the actuarial situation of the Fund at the valuation date. The payment of such sums has thus far not been considered necessary.

In accordance with the Administrative Rules of UNJSPF, the Union submits a statement at the end of each financial year to the central administration of the Fund showing, in respect of each participant, the total contributions of every kind paid into the Fund, the total pensionable remuneration earned and any changes made in the amount of pensionable remuneration, with the dates on which they became effective. The movements of employees participating in the Fund during the year in question (including staff engaged for technical assistance projects) and the number of benefits granted and contributions paid are shown below.

The figures are taken from the Union's files and accounts.

**POSITION AT 31 DECEMBER 2010**  
**NUMBER OF PARTICIPANTS AT 31 DECEMBER 2010**

Number of participants at 31.12.2009	New participants	Transfers		Withdrawals	Number of participants at 31.12.2010
		to ITU	to another organization		
847	54	6	1	55	851

**Number of benefits paid during the financial year ending 31 December 2010**

Retirement benefits	Disability benefits	Survivor's benefits	Child's benefits	Other benefits		
					Deferred life annuities	TOTAL
751	19	186	47	0	135	1 138

**Recapitulation of contributions to the Fund for the period 1 January to 31 December 2010**  
**- United States dollars -**

Nature of contributions	Normal contributions	Service validation contributions	Balance of previous period	Total
Contributions by participants	8 282 949.24	143 289.73		8 426 238.97
Contributions by the Union	16 565 898.48	123 379.41		16 689 277.89
Other contributions	(3 338.50)	(6 677.00)	41 453.02	31 437.52
<b>Total</b>	<b>24 845 509.22</b>	<b>259 992.14</b>	<b>41 453.02</b>	<b>25 146 954.38</b>

It is to be noted that the Pension Committee and the Task Force on the introduction of IPSAS in United Nations organizations have thus far not seen fit to establish provisions for pensions in the balance sheet. Reflection in this regard is ongoing.

Obligations concerning other employee benefits

Before the establishment of UNJSPF and SHIF and ITU's affiliation thereto, the Union had set up funds to provide retirement, death, disability and health insurance benefits to its staff members. Since ITU's affiliation to the above-mentioned funds, the funds previously created have functioned as a closed fund. Obligations thereunder are shown as long-term liabilities. Agreements have been concluded between ITU and its funds to ensure the latter's financing.

The assumptions and methods used for determining the cost of the benefits under this plan at 31 December 2010 are as follows:

Discount rate	2.5%
Pension indexation rate	2.0%
Capital indexation rate	2.5%
Pension adjustment rate	2.0%. Variations of 3.2% to 5.2% since 1990, adjustments made every two to three years. On average, annually, these adjustments are slightly lower than 2%.
Fund administration expenses	2.0%
Mortality	For demographic assumptions, the bases commonly used in Switzerland have been employed, namely the LPP 2005 bases, with an additional margin to reflect the 0.5% annual increase in life expectancy since the last survey in 2004, i.e. a 3% addition to the calculated provisions.
Disability rate	Varies according to age and gender and increases with age. The rate is based on ILO data.

The amount to be recognized in the balance sheet for obligations arising from pensions currently being paid to former employees affiliated to the Staff Superannuation and Benevolent Funds stands at CHF 90 000, which was the provision made at 1 January 2010.

#### Note 18. Provisions

In thousands of CHF	Provision for litigation	SNF provision	Total
Balance at 31 December 2009		700	700
Restatements	552	-491	61
<b>Opening balance 1.1.2010</b>	<b>552</b>	<b>209</b>	<b>761</b>
<b>Closing balance 31.12.2010</b>	<b>1 110</b>	<b>163</b>	<b>1 273</b>

The provisions for risks and expenses include the provision for litigation which represents a valuation at the date of closure of future obligations associated with a past event in respect of various disputes to which ITU is a party.

The latter provision is based purely on estimates, on account of the aleatory nature of legal proceedings and, in particular, the uncertainties stemming from the recent fluctuations in ILOAT (ILO Administrative Tribunal) case law.

The provision for satellite network filings (SNF) comprises the amount corresponding to the free-of-charge publication that operators are entitled to request in the course of any given year.

**Note 19. Other debts**

In thousands of CHF	31.12.2010	31.12.2009 restated
Accounts payable	6 475	2 727
Employees miscellaneous	44	29
Regularization of former funds	-	228
Goods received awaiting invoice	488	-
UNDP	63	110
<b>Other debts</b>	<b>7 070</b>	<b>3 094</b>

Accounts payable refer to revenue recognized in advance for the TELECOM World 2011 event. An adjustment was made to take account of the closure of ITU TELECOM World 2009 and ensure correct application of the accrual principle.

**Note 20. Allocated and unallocated funds**

Funds were classified in external funds or in net assets according to the specific conditions relating to each category of financing as defined in Note 3. In accordance with IPSAS 23, the balance of funds at the date of closure represents financing received and not expended. Balances are presented in the corresponding line of the balance sheet and the movements in these funds are illustrated in the following table, which indicates whether or not the financing is allocated to a project.

	Third-party funds allocated	Third-party funds awaiting allocation	Total third-party funds	Own funds allocated to projects	Funds allocated to the organization	Total funds allocated	Own funds not allocated, set aside for projects	Total own funds
<b>Balance at 31.12.2009</b>	-	-	-	-	-	-	-	-
IPSAS restatement	40 845	1 399	<b>42 244</b>	6 277	53 353	<b>59 630</b>	16 362	<b>75 992</b>
<b>Balance at 1.1.2010</b>	40 845	1 399	<b>42 244</b>	6 277	53 353	<b>59 630</b>	16 362	<b>75 992</b>
Increase	12 062	570	<b>12 632</b>	2 162	313	<b>2 475</b>	277	<b>2 752</b>
Decrease	-12 127	-100	<b>-12 127</b>	-1 698	-43 767	<b>-45 465</b>	-2 474	<b>-47 939</b>
Exchange-rate difference			-		-	-		-
<b>Closing balances 31.12.2010</b>	40 780	1 869	<b>42 649</b>	6 741	9 899	<b>16 640</b>	14 165	<b>30 805</b>

**Note 21. Assessed contributions**

The following table shows the contributions actually posted to account during the 2010 period.

In thousands of CHF	2010
Contributions by Member States	110 672
Contributions by Sector Members	16 340
Contributions by Associates	1 613
Other recovered revenue	99
<b>Assessed contributions</b>	<b>128 724</b>

By its Resolution 1308, adopted at its 2009 session, the Council approved the budget of the Union for the period 2010-2011.

The Council set the amount of the contributory unit for Member States at CHF 318 000 for 2010 and 2011, on the basis of 348 units. In the same resolution, it set at CHF 63 600 the amount of the contributory unit for Sector Members for 2010 and 2011, this being 1/5 of the contributory unit for Member States. The financial contribution of Associates was set as follows: CHF 10 600 for Associates participating in the work of ITU-R and ITU-T, CHF 3 975 for Associates participating in the work of ITU-D, and CHF 1 987.50 for Associates participating in the work of ITU-D in the case of Associates from developing countries.

**Note 22. Voluntary contributions**

In thousands of CHF	2010
Voluntary contributions	11 065
<b>Voluntary contributions</b>	<b>11 065</b>

These are sources of funding from third parties to support the Union in implementing development projects in favour of third-world countries.

**Note 23. Other operating revenue**

In thousands of CHF	2010
Publication sales	9 725
Satellite network filings	11 797
Project support	692
UIFN/UIPRN-UISC	264
GMPCS-MoUs	4
Recovery – publications	3
Other revenue	1 497
<b>Other operating revenue</b>	<b>23 982</b>

The products and services for which ITU applies cost recovery are primarily:

- registration of universal international freephone numbers (UIFN)
- Memorandum of Understanding on global mobile personal communication systems (GMPCS MoUs)
- processing of satellite network filings

- registration of universal international premium-rate numbers (UIPRN) and universal international shared-cost numbers (UISCN)
- publication sales
- project support revenue
- other cost-recovery items.

**Note 24. Other revenue**

In thousands of CHF	2010
Miscellaneous revenue	1 172
Other revenue	38
<b>Other revenue</b>	<b>1 210</b>

**Note 25. Finance revenue**

In thousands of CHF	2010
Investment interest	678
Interest on sight accounts	47
Realized/unrealized exchange-rate gain	11 474
<b>Finance revenue</b>	<b>12 199</b>

Exchange-rate gains mainly comprise unrealized exchange-rate gains associated with the conversion into Swiss francs of the obligation arising from the ASHI plan, which is kept in USD.

**Note 26. Employee expenses**

In thousands of CHF	2010
Salaries & allowances	101 506
Other employee expenses	41 824
Installation & repatriation	983
Education grant	2 772
Home leave	1 246
Accrued leave	1 386
Health & accident insurance	8 723
UNJSPF contributions	17 007
Other expenses	628
ASHI adjustment	9 079
<b>Employee expenses</b>	<b>143 330</b>

Employee expenses cover all remuneration paid to staff members on permanent posts and all staff engaged for conferences or holding short-term contracts, such as base salary, post adjustment,

language allowance, non-resident allowance, dependency allowance and overtime, as well as other employee expenses. During the 2010 period, an adjustment to the provision for repatriation reduced employee expenses by an amount of CHF 2.19 million.

**Note 27. Mission expenses**

Mission expenses cover travel by experts and staff members sent on mission or participating in conferences or meetings.

In thousands of CHF	2010
Daily subsistence allowance	3 689
Transport	4 690
Other expenses	148
<b>Mission expenses</b>	<b>8 527</b>

**Note 28. Contractual services**

This category covers all emoluments, fees and expenses paid to companies providing consultants within the framework of agreements and contractual arrangements. It also covers special service agreements, expenses pertaining to language courses as part of training, and costs in respect of subcontracted services.

In thousands of CHF	2010
Advertising	22
Service contracts	11 014
Insurance	175
Training & seminars	671
Printing	457
Administrative expenses	335
<b>Contractual services</b>	<b>12 674</b>

**Note 29. Rental and maintenance of premises and equipment**

This category covers the rental of conference premises and meeting rooms, storage areas and parking spaces, IT equipment and other office equipment. It also covers the maintenance of buildings, green spaces, vehicles, technical and IT equipment and insurance against fire, flooding and other types of damage.

In thousands of CHF	2010
Rental and maintenance of premises and equipment	4 994
<b>Rental and maintenance of premises and equipment</b>	<b>4 994</b>

**Note 30. Equipment and supplies**

Equipment and supplies includes office supplies, printer supplies, forms, cards, journals, books and bindings, IT supplies and software products that are not recorded as assets.

In thousands of CHF	2010
Equipment and supplies	4 563
<b>Equipment and supplies</b>	<b>4 563</b>

**Note 31. Shipping, telecommunication and service expenses**

In thousands of CHF	2010
Postage	999
Telecommunications	577
Water, electricity and heating	1 170
<b>Shipping and telecommunication expenses</b>	<b>2 746</b>

**Note 32. Auditing of accounts, inter-organizational contributions**

These expenses relate to the statutory annual audit of ITU's books and accounts, carried out by the Federal Audit Office of the Swiss Confederation, as well as to the Union's participation in the inter-organizational committees and services of the United Nations such as the Joint Inspection Unit, the United Nations High-Level Committee on Management and the Office for Information and Communications Technology.

In thousands of CHF	2010
External audit expenses	92
Participation in United Nations expenses	551
<b>Auditing of accounts and inter-organizational contributions</b>	<b>643</b>

**Note 33. Other expenses**

In thousands of CHF	2010
Legal expenses	693
Adjustment of provisions and other	-3 373
<b>Other expenses</b>	<b>-2 680</b>

These other expenses are reduced by the payments received in relation to doubtful debts which had been provisioned during the previous period. During the 2010 financial year, ITU registered the payment of over CHF 6.4 million of debts which had already been provisioned.

**Note 34. Finance expenses**

<b>In thousands of CHF</b>	<b>2010</b>
Bank charges	303
Realized/unrealized exchange-rate losses	3 516
<b>Finance expenses</b>	<b>3 819</b>

The realized and unrealized exchange losses stem essentially from the revaluation of open items in other currencies at the time of the annual closure.

**Note 35. Segment reporting – Statement of financial performance**

In thousands of CHF	Gen. Secret.	Radioc. Sector	Telec. Stand. Sector	Telec. Dev't Sector	Not attributable to a segment	Total Funds 1000+1010	Insurance fund	Voluntary contribs	FIT	ICTDF	UNDP	TELECOM	Total
<b>REVENUE</b>													
Assessed contributions		6 911	9 291	1 750	110 772	128 724							128 724
Voluntary contributions								1 687	8 575		803		11 065
Other revenue	1 503	21 984	576	1 584	12 219	37 866	138	28	364				38 396
<b>Total revenue</b>	<b>1 503</b>	<b>28 895</b>	<b>9 867</b>	<b>3 334</b>	<b>122 991</b>	<b>166 590</b>	<b>138</b>	<b>1 715</b>	<b>8 939</b>	<b>-</b>	<b>803</b>	<b>-</b>	<b>178 185</b>
<b>EXPENSES</b>													
Employee expenses	73 513	27 334	11 299	21 159	6 896	140 201	37	668	1 464	249	711		143 330
Mission expenses	1 074	1 146	785	3 029		6 034		352	2 109		24	8	8 527
Contractual services	3 029	616	411	2 861		6 917		490	5 266				12 673
Rental and maintenance of premises and equipment	4 520	102	104	117		4 843		94	57				4 994
Equipment and supplies	1 258	1 918	74	675	9	3 934		9	619				4 562
Depreciation					3 990	3 990							3 990
Shipping and telecommunication expenses	1 816	455	175	253		2 699		2	46				2 747
Auditing of accounts and inter-organizational contributions	601	-	-	42		643							643
Other expenses	132	19	31	26	-3 883	-3 675		87	732	22	68	86	-2 680
Finance expenses	250	8	10	52	4 414	4 734		13	78				4 825
													-
<b>Total expenses</b>	<b>86 193</b>	<b>31 598</b>	<b>12 889</b>	<b>28 214</b>	<b>11 426</b>	<b>170 320</b>	<b>37</b>	<b>1 715</b>	<b>10 371</b>	<b>271</b>	<b>803</b>	<b>94</b>	<b>183 611</b>
<b>Surplus / (deficit) for the period</b>						<b>-3 730</b>	<b>101</b>		<b>-1 432</b>	<b>-271</b>		<b>-94</b>	<b>-5 426</b>

**Note 36. Reconciliation between budgeted amounts and actual amounts**

The financial statements are consolidated statements covering:

- ITU
- TELECOM exhibitions
- voluntary contributions
- SS&B funds
- UNDP, trust funds and ICTDF projects.

The Union's budget and financial statements are established on different bases. The 2010-2011 budget is established on a mixed basis, with a number of specific items that are not dealt with on an accrual basis. Furthermore, the ITU budget deals solely with the Union's core activity and not with activities financed by voluntary contributions, projects and funds.

The Union's financial statements are drawn up on an accrual basis using a classification based on the nature of the expenses recorded in the statement of financial performance (see Table II).

The difference between the approved budget of the Union and the other funds lies in the perimeter differences. In order to reconcile the final result for budgetary control of the net result of the period after IPSAS adjustments, account has to be taken of the differences between the budget presentation and the accrual accounting (see Table IV). In the budget, expenses relating to non-expendable equipment are recognized as investment expenses. In accrual accounting, non-expendable equipment (items over CHF 5 000) are entered in the accounts as fixed assets and depreciated over their probable period of use, with the exception of extrabudgetary funds. The depreciation expense associated with the fixed assets is recognized in the statement of financial performance and is not taken into account in the budget.

In the budget, expenses corresponding to employee benefits are taken into account as and when they are paid, whereas in accrual accounting a part of the expenses is estimated by an actuary using a methodology set out in the accounting standards. Post-employment health coverage obligations are recognized in the statement of financial position, as indicated in Note 17. Realized and unrealized exchange-rate differences are not taken into account in the budget but reflected in the statement of financial performance. The same goes for the provision for doubtful debts and recognition of inventories. Repayment of the FIPOI loan was not considered as an expense in the statement of financial performance, even though it had been budgeted.

Interest associated with the interest-free loans granted by FIPOI was calculated under normal market conditions and was not paid but was recognized as an in-kind contribution and expense in the statement of financial performance. Revenue in 2010 from the estimated contributions by Member States was budgeted at CHF 110 664 000. Total contributions actually posted to account and recognized as revenue amounted to CHF 110 672 281.

Revenue in 2010 from assessed contributions was budgeted at CHF 129.9 million. Total contributions actually posted to account amounted to CHF 128.7, a drop of CHF 1.2 million that was due to the denunciation of a number of Sector Members.

Cost recovery was budgeted at CHF 27.6 million, whereas only CHF 22.7 was posted to account during the 2010 period, representing a drop of CHF 4.8 million (-16.65 per cent), for the most part in the area of publications revenue.

Other revenue included in the budget for an amount of CHF 3.5 million concerns mainly interest revenue (budgeted at CHF 2.5 million). Revenue posted to account during the 2010 period amounted to CHF 1.5 million, representing a drop of some CHF 2 million (-56.67 per cent), as a result of a fall in market interest rates.

Where expenses are concerned, a budget transfer of CHF 110 000 was made from the Radiocommunication Bureau to the General Secretariat. In the General Secretariat, the main savings were made on intersectoral outputs such as the Plenipotentiary Conference and publications, as well as IT maintenance and reprography.

In the Conferences and Publications Department, the savings made were primarily on employee expenses.

Savings made in the Radiocommunication Sector concerned outputs such as study group meetings and activities and programmes, as well as the Bureau. Savings were made in respect of employee expenses as well as contractual services.

A slight overrun is to be noted for the Telecommunication Standardization Bureau, albeit offset by savings made on outputs such as TSAG, UIFN and publications.

The main savings noted within the Telecommunication Development Sector relate to outputs such as WTDC and regional preparations. Savings were also made on study group meetings and activities and programmes.

	2010			
	Operating	Investment	Finance	Total
in thousands of CHF				
<b>Results on a comparable basis</b>	-5 595			-5 595
Changes in and use of provision for doubtful debts	4 643			4 643
Recognition of inventories	-78			-78
Capitalization of fixed assets		2 243		2 243
Depreciation	-3 990			-3 990
Exchange-rate gains and losses	7 999			7 999
Correction of excess allocations to the provision for repatriation not considered as expenses	2 192			2 192
ASHI	-9 079			-9 079
Repayment of FIPOI loan not considered as expense			1 493	1 493
In-kind revenue	1 004			1 004
In-kind expenses	-1 004			-1 004
Other	72			72
<b>Total IPSAS differences</b>	<b>1 759</b>	<b>2 343</b>	<b>1 493</b>	<b>5 595</b>
Loss Fund 1000/1010 covered by withdrawal from Reserve Account	-3 730			-3 730
<b>Total losses covered by reserves</b>	<b>-3 730</b>	<b>-</b>	<b>-</b>	<b>-3 730</b>
<b>Perimeter differences</b>	<b>-1 696</b>			<b>-1 696</b>
<b>Deficit as shown in the statement of financial performance</b>	<b>-9 262</b>	<b>2 343</b>	<b>1 493</b>	<b>-5 426</b>

**Note 37. Related-party disclosures**

The following entities are to be considered as related parties:

- the Staff Health Insurance Fund (SHIF) with ILO

- the United Nations Joint Staff Pension Fund (UNJSPF).

The ITU Council comprises 48 Member States, without specific individuals being designated.

The Union is managed by the Secretary-General, as executive head, assisted in that task by the Deputy Secretary-General and the Directors of the Union's three Sectors (high-ranking officials sitting on the Coordination Committee): Radiocommunication Sector (ITU-R), Telecommunication Standardization Sector (ITU-T) and Telecommunication Development Sector (ITU-D). The five elected officials are assisted by five senior officials at grade D.2 (three deputies to the elected directors and two chiefs of department (SPM and Administration and Finance), and by 14 other management officials at grade D.1 (chiefs of department or heads of unit).

The total remuneration paid to key management officials comprises net salary, post adjustment, allowances such as representation expenses, installation grant, repatriation grant, accrued leave, rental subsidy and removal of personal effects.

Key management officials are also entitled to the same benefits as staff in the Professional category, namely:

- home leave
- education grant
- post-employment benefits.

These benefits cannot be separately quantified in a reliable manner.

Key management officials are ordinary participants in the United Nations Joint Staff Pension Fund.

In 2010, the Union did not grant any loan or pay any other remuneration to the main management officials or to members of their families.

In thousands of CHF	2010	
	Number of persons	Total remuneration
5 elected officials	5	2 247
<b>Main management officials</b>	<b>5</b>	<b>2 247</b>
D.2 directors	5	1 414
D.1 directors	14	3 423
<b>Total chiefs of department</b>	<b>19</b>	<b>4 837</b>
<b>Total main management officials - ITU</b>	<b>24</b>	<b>7 084</b>

**Note 38. Obligations**

ITU has concluded a contract with a third-party provider for the rental, installation and maintenance of digital black/white and colour printing systems. This contract entered into force on 20 March 2010 and will run until March 2014. ITU has no finance leases. Rentals payable under operating leases are recognized as expenses in the statement of financial performance. ITU will bear any additional costs in the event of the number of photocopies specified in the contract being exceeded.

Future minimum payments to be effected under this contract are as follows:

In thousands of CHF	31.12.2010
Less than one year	540
Between one and five years	1 170
Over five years	
<b>Leasing obligations</b>	<b>1 710</b>

The Union has contractual obligations with different service providers. These contracts, which can be terminated at short notice, do not represent a predefined financial commitment.

**Note 39. Events after the reporting date**

No event after the date of closure having a significant impact on the financial statements for the 2010 financial year is to be noted subsequent to the signature of the financial statements and their submission to the Council by the Secretary-General for approval on 19 September 2011.

## **AUDIT OPINION OF THE EXTERNAL AUDITOR**

I have audited the financial statements at 31 December 2010 of the International Telecommunication Union (ITU), comprising the balance sheet (financial statement I), revenue and expenses (financial statement II), the statement of changes in net assets (financial statement III), the comparison of budgeted amounts and actual amounts (financial statement IV) and the cash-flow statement (financial statement V) for the financial period ending on that date, as well as a summary of the main accounting methods and other explanatory notes.

### **Responsibility of the ITU General Secretariat for the financial statements**

It is the responsibility of the General Secretariat to draw up and faithfully present the financial statements in line with the requirements laid down in the International Public Sector Accounting Standards (IPSAS) and in the ITU Financial Regulations and Financial Rules. Furthermore, the General Secretariat is responsible for establishing such internal control system as it deems necessary to ensure the preparation of financial statements that are free of major anomalies, whether as a result of fraud or errors.

### **Responsibility of the auditor**

It is my responsibility to express an opinion on ITU's financial statements on the basis of my audit. I conducted my audit in accordance with the International Audit Standards, 2010 edition, published by the International Auditing and Assurance Standards Board (IAASB). Those standards require me to comply with ethical rules, and to plan and carry out the audit in such a way as to gain reasonable assurance that the financial statements are free of major anomalies. An audit entails the application of procedures to gather evidence attesting to the amounts and the data provided in the financial statements. The choice of procedures is left to the discretion of the auditor, as is assessment of the risk that the financial statements contain major anomalies, whether as a result of fraud or errors. In making this assessment, the auditor takes into account the internal control system in place in the entity for preparation of the financial statements, in order to determine suitable audit procedures in each case, but not with the aim of expressing an opinion on the efficient functioning of the entity's internal control system. An audit also includes assessment of the validity of the accounting methods adopted and of whether the accounting estimates made by the General Secretariat are reasonable, as well as appraisal of the overall presentation of the financial statements. I consider that the evidence gathered provides a sufficient and appropriate basis for my opinion.

### **Opinion**

In my opinion, the financial statements constitute a faithful reflection, on all essential points, of ITU's financial position at 31 December 2010, and of its financial performance and its cash flows for the financial period ending on that date, in accordance with the International Public Sector Accounting Standards (IPSAS) and the ITU Financial Regulations and Financial Rules.

In accordance with the additional terms of reference governing external audit in annex to the ITU Financial Regulations, I have also drawn up a detailed report, dated 20 September 2011, on my audit of the financial statements.

Bern, 20 September 2011

K. Grüter  
Director  
Swiss Federal Audit Office<sup>4</sup>  
(External Auditor)

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