



June 30, 2014

# Adaptation Fund Trust Fund

Administered by the International Bank for Reconstruction and Development as  
Interim Trustee

**World Bank Reference: TF069013**

**Independent Auditor's Report and Statement of Receipts,  
Disbursements and Fund Balance**

**The World Bank Group**

Trust Funds Division, Client Services Department  
Controller's Vice Presidency

[www.worldbank.org](http://www.worldbank.org)



**KPMG LLP**  
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## **Independent Auditors' Report**

International Bank for Reconstruction and Development as Interim Trustee of the Adaptation Fund Trust Fund – TF069013

We have audited the accompanying statement of receipts, disbursements and fund balance (the Statement) of the Adaptation Fund Trust Fund – TF069013 (the Trust Fund) under administration by the International Bank for Reconstruction and Development (the Interim Trustee) for the year ended June 30, 2014 and for the period from February 27, 2009 (date of inception) to June 30, 2014, and the related notes to the Statement.

### ***Management's Responsibility for the Statement***

Management is responsible for the preparation and fair presentation of the Statement in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the Statement in the circumstances.

Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, the Statement referred to above present fairly, in all material respects, the receipts, disbursements and fund balance of the Trust Fund for the year ended June 30, 2014 and for the period from February 27, 2009 (date of inception) to June 30, 2014, in accordance with the modified cash basis of accounting described in Note 2.

***Basis of Accounting***

We draw attention to Note 2 of the Statement, which describes the basis of accounting. The Statement is prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles or International Financial Reporting Standards. Our opinion is not modified with respect to this matter.

**KPMG LLP**

Washington, DC  
October 24, 2014

# STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

Expressed in U.S. dollars

	Notes	For the fiscal year ended June 30, 2014	February 27, 2009 (date of inception) to June 30, 2014
Proceeds from monetization of Certified Emission Reductions	4	\$ 2,097,239	\$ 190,366,435
Contributions :			
Brussels Capital Region		680,250	2,253,630
Government of the Republic of Austria		690,250	690,250
Government of France		53,340	53,340
Government of Japan		-	5,693
Government of Switzerland		10,936,133	14,230,097
Kingdom of Norway		2,439,381	2,527,081
Kingdom of Spain		-	57,092,250
Kingdom of Sweden		15,178,422	59,411,748
Principality of Monaco		-	12,252
Republic of Finland		6,803,000	6,870,534
Republic of Germany		40,834,000	54,667,500
United Kingdom		-	15,857,000
Other		-	1,093
Total contributions		77,614,776	213,672,468
Net investment income	5	878,352	3,213,518
<b>Total receipts</b>		<b>80,590,367</b>	<b>407,252,421</b>
Cash transfers for projects	6	37,793,047	90,424,170
Cash transfers for project supervision fees	7	3,275,378	9,116,035
Administrative budget disbursements, net	8	4,957,561	25,440,139
Advances repaid to donors of the Trust Fund for the Secretariat for the Adaptation Fund Board	9	-	691,340
<b>Total disbursements</b>		<b>46,025,986</b>	<b>125,671,684</b>
Excess of receipts over disbursements before foreign currency adjustments		34,564,381	281,580,737
Foreign currency adjustments	2	-	83,958
Excess of receipts over disbursements after foreign currency adjustments		34,564,381	281,664,695
<b>Fund Balance:</b>			
Beginning of period		247,100,314	-
End of period		<b>\$ 281,664,695</b>	<b>\$ 281,664,695</b>
Fund balance consists of:			
Trust Fund's share of the cash and investments in the Pool	3	\$ 281,664,695	\$ 281,664,695

The accompanying notes are an integral part of this Statement of Receipts, Disbursements and Fund Balance.

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2014

*All amounts expressed in U.S. dollars unless otherwise noted*

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## Note 1 - Organization

The Adaptation Fund (AF) was established under the Kyoto Protocol (KP) to the United Nations Framework Convention on Climate Change (UNFCCC), by the Conference of the Parties serving as the meeting of the Parties to the KP, herein referred to as the CMP, at their December 2007 meeting in Bali, Indonesia. The purpose of the AF is to finance climate change adaptation projects in eligible developing countries who are parties to the KP. The KP also established the Clean Development Mechanism (CDM). Under the CDM, Certified Emission Reductions (CERs) are issued for emission-reduction projects in developing countries. Two percent of all CERs issued by the CDM are transferred to the AF, with the exception of CERs issued in respect of projects in Least Developed Countries. The AF is funded by the proceeds of the sale of these CERs as well as other sources of funding.

At its December 2007 meeting the CMP also established the Adaptation Fund Board (AFB) as the operating body of the AF with the mandate to supervise and manage the AF under the authority and guidance of the CMP. Legislation was enacted by the Republic of Germany in February 2011, conferring legal capacity to the AFB.

At the December 2007 meeting, the CMP invited the International Bank for Reconstruction and Development (IBRD) to serve as the interim Trustee (the Trustee) and the Global Environment Facility (GEF) to provide secretariat (Secretariat) services to the AFB to support and facilitate its activities. Both invitations were made and accepted on an interim basis. The Trustee mandate would automatically expire three months after the sixth session of the CMP, unless the CMP and the Trustee affirmatively agreed to extend beyond March 2011. At its meetings in September 2010, the AFB decided to recommend to the CMP three-year extensions of IBRD's role as interim Trustee to March 2014. The recommendation was considered and approved by the CMP at its December 2010 meeting in Cancun, Mexico and was approved by the IBRD's Board of Executive Directors in February 2011. The CMP met again in Warsaw, Poland in November 2013 when they decided to undertake a review of the AF and its governance structure and adopted a recommendation by the AFB to extend IBRD's mandate as interim Trustee until May 2015, to permit continued operations of the AF. This recommendation was approved by the IBRD's Board of Executive Directors on February 28, 2014. The Secretariat mandate contains no automatic expiration.

The Trustee performs two core functions on behalf of the AF: (1) the sale ("monetization") of the CERs in accordance with the guidelines developed by IBRD as Trustee and approved by the AFB; and (2) management

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2014

All amounts expressed in U.S. dollars unless otherwise noted

of the Adaptation Fund Trust Fund (the Trust Fund). The Trustee established the Trust Fund on February 27, 2009 (date of inception, hereinafter referred to as “Inception”), to hold AF funds and then transfer them for projects, programs and other activities as instructed by the AFB. The Trustee also manages the investment of the Trust Fund balances, and provides accounting and financial reporting services for the Trust Fund.

The Trustee does not hold CERs in the Trust Fund. Once monetized, CERs are transferred directly to buyer accounts in exchange for cash proceeds that are deposited in the Trust Fund.

The AF’s activities are carried out by implementing entities (the IEs), who are responsible to the AFB for the execution of programs. IBRD also serves as an IE. Each IE implements projects related to the AF and administers funds transferred to it by IBRD, as Trustee, at the instruction of the AFB. In its capacity as IE of the AF, IBRD established a separate trust fund (Adaptation Fund – Implementing Agency Fund) to receive AF funds transferred by the Trustee from the Trust Fund.

This Statement of Receipts, Disbursements and Fund Balance (Statement) reports solely the receipts, disbursements and fund balance of the Trust Fund, and does not include the activities or financial position of the AF, the AFB or the IEs.

## Note 2 - Significant Accounting Policies

### *Basis of preparation*

This Statement has been prepared on the cash receipts and disbursements basis of accounting, modified to record the Trust Fund’s share in the pooled cash and investments at fair value (modified cash basis of accounting). Accordingly, net investment income includes the Trust Fund’s share of realized and unrealized investment income/loss (see Note 3).

The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards (IFRS); therefore, the Statement is not intended to be a presentation in conformity with U.S. GAAP or IFRS. Receipts, with the exception of net investment income, as described above and in Note 5, are reported when collected (i.e., when credited to the Trust Fund) rather than when pledged/earned, and disbursements are reported when paid (i.e., when debited to the Trust Fund) rather than when incurred. For example, the following transactions may be incurred in a different period than reported: (1) contributions not credited to the Trust Fund at the period end date due to timing or other reasons, and (2) any refunds of previous

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2014

All amounts expressed in U.S. dollars unless otherwise noted

disbursements deemed by the Trustee, to be ineligible in accordance with the Administration Agreements (Agreements).

## *Treatment of foreign currency transactions*

The Statement is presented in U.S. dollars, which is the Trust Fund's functional and presentation currency. Transactions in currencies other than U.S. dollars are reported as follows:

- (i) Contributions received by the Trust Fund in various currencies are converted into U.S. dollars by IBRD, as Trustee, upon receipt of funds and receipt of countersigned Agreements. Foreign currency transaction gains or losses, if any, on conversion of the contributions are borne by the Trust Fund. Beginning July 1, 2013, the realized USD proceeds (inclusive of any foreign exchange gains/losses) are reported as the contribution amount whereas prior to July 1, 2013, the foreign exchange gains /losses were reported under foreign currency adjustments.
- (ii) Cash transfers in currencies other than U.S. dollars, if any, are reported at the rates of exchange prevailing on the date of the transaction and hence do not result in any exchange gain/loss to the Trust Fund.
- (iii) At the end of each reporting period, fund balances that are not denominated in U.S. dollars are revalued at the market rates of exchange prevailing at the end of the respective reporting period. Any adjustment resulting from currency exchange rate changes is reported as a foreign currency adjustment.

## *Use of estimates*

The preparation of the Statement requires management to make estimates and assumptions based upon information available as of the date of the Statement. Actual results could differ from these estimates. Areas in which management makes estimates and assumptions in determining the amounts to be recorded include the fair value of Trust Fund's share of the pooled cash and investments.

## **Note 3 - Trust Fund's Share of the Cash and Investments in the Pool**

Amounts paid into the Trust Fund but not yet disbursed, are managed by IBRD, which maintains an investment portfolio (the Pool) for all of the trust funds administered by IBRD, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID) (collectively the World Bank Group).

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2014

*All amounts expressed in U.S. dollars unless otherwise noted*

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IBRD, on behalf of the World Bank Group, maintains all trust fund assets separate and apart from the funds of the World Bank Group.

The Pool is a trading portfolio and is reported at fair value, with realized and unrealized gains/losses included in net investment income. The share in pooled cash and investments represents the Trust Fund's share of the Pool's fair value at the end of each reporting period. The Trust Fund's share in the Pool is not traded in any market; however, the underlying assets within the Pool are traded and reported at fair value. All investment decisions are made and performance is monitored at the Pool level.

Generally, the Pool includes cash and liquid financial instruments such as government and agency obligations, time deposits, money market securities, and asset-backed securities. Additionally, the Pool includes derivative contracts such as currency forward contracts, currency swaps, interest rate swaps, and contracts to purchase or sell mortgage-backed securities to-be-announced (TBAs). Payables and receivables associated with the investment activities are also included in the Pool. The Pool may also include securities pledged as collateral under repurchase agreements as well as derivatives with other counterparties. The Pool may also include securities receivable from resale agreements as well as derivatives for which it has accepted collateral.

The Pool is divided into sub-portfolios to which allocations are made based on fund-specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD, on behalf of the World Bank Group. An individual sub-portfolio may hold all or a portion of the types of financial instruments held by the Pool.

The Trust Fund's share of the cash and investments in the Pool has a fair value of \$281,664,695 as of June 30, 2014.

## **Note 4 - Proceeds from Monetization of Certified Emission Reductions**

Cash proceeds from the monetization of CERs executed by IBRD as Trustee are recorded as receipts by the Trust Fund. Conversions of proceeds received in Euro (or any other currency) into U.S. dollars are initiated by IBRD as Trustee upon receipt of funds. Foreign currency transactions gains or losses, if any, on conversion of the proceeds, are borne by the Trust Fund. Beginning July 1, 2013, the realized USD proceeds (inclusive of any foreign exchange gains/losses) are reported as 'Proceeds from monetization of Certified Emission Reductions' whereas prior to July 1, 2013, foreign exchange gains/losses were reported under foreign currency



# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2014

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adjustments. The Trustee monetized 4.2 million tons of CERs, generating cash proceeds of \$2,097,239 and 20.7 million tons, generating cash proceeds of \$190,366,435 for the fiscal year ended June 30, 2014 and for the period from inception to June 30, 2014, respectively.

## Note 5 - Net Investment Income

Net investment income consists of the Trust Fund's allocated share of the following: interest income earned by the Pool, realized gains/losses from sales of securities, and unrealized gains/losses resulting from recording the assets held by the Pool at fair value.

## Note 6 - Cash Transfers for Projects

The Trust Fund made cash transfers for projects which represent payments made by IBRD as Trustee, from the Trust Fund to the IEs as follows:

	For the Fiscal Year Ended June 30, 2014	February 27, 2009 (date of inception) to June 30, 2014
Agencia Nacional de Investigación e Innovación	\$ 2,585,842	\$ 2,915,842
Agency for Agricultural Development	30,000	30,000
Centre de Suivi Ecologique of Senegal	-	8,294,000
Fundecooperacion Para El Desarrollo Sostenible	30,000	30,000
International Bank for Reconstruction and Development	-	500,000
International Fund for Agricultural Development	-	1,464,700
Ministry of Natural Resources, Rwanda	3,099,260	3,129,260
Ministry of Planning and International Cooperation, Jordan	29,500	29,500
National Bank for Agriculture and Rural Development	89,600	89,600
National Environment Fund, Benin	-	29,000
Planning Institute of Jamaica	2,313,950	5,550,750
South African National Biodiversity Institute	60,000	60,000
Unidad Para EL Cambio Rural	-	2,276,738
United Nations Development Programme	24,047,374	49,234,971
United Nations Environment Programme	3,631,723	6,535,850
United Nations World Food Programme	1,875,798	10,253,959
<b>Total</b>	<b>\$ 37,793,047</b>	<b>\$ 90,424,170</b>

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2014

All amounts expressed in U.S. dollars unless otherwise noted

## Note 7 – Cash Transfers for Project Supervision Fees

The Trust Fund made cash transfers for project supervision fees which represent payments made by IBRD as Trustee, from the Trust Fund to the IEs as follows:

	For the Fiscal Year Ended June 30, 2014	February 27, 2009 (date of inception) to June 30, 2014
Agencia Nacional de Investigación e Innovación	\$ 168,500	\$ 198,500
Centre de Suivi Ecologique of Senegal	-	325,000
International Bank for Reconstruction and Development	-	84,154
International Fund for Agricultural Development	-	124,500
Ministry of Natural Resources, Rwanda	150,660	150,660
Planning Institute of Jamaica	214,513	459,610
Unidad Para EL Cambio Rural	-	75,535
United Nations Development Programme	2,301,702	6,093,586
United Nations Environment Programme	308,697	555,548
United Nations World Food Programme	131,306	1,048,942
<b>Total</b>	<b>\$ 3,275,378</b>	<b>\$ 9,116,035</b>

## Note 8 - Administrative Budget Disbursements, Net

Upon approval by the AFB, the Trust Fund transfers administrative budget to the Trustee and the Secretariat as reimbursement for the fees, costs and expenses incurred by the Trustee and the Secretariat in connection with performing their functions under their respective terms and conditions. Any adjustments to the approved amount based on actual expenses are recorded in the Trust Fund when received.

Included in administrative budget disbursements, net are AFB daily subsistence allowance (DSA) payments made to AFB members for their attendance at the AFB meetings. Prior to each Board meeting, the funds are transferred to the entity with whom the Secretariat has entered into an agreement to provide logistical support and other services, including the distribution of DSA to Board members.

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2014

All amounts expressed in U.S. dollars unless otherwise noted

The Trust Fund transferred administrative budget in the amount of \$4,957,561 and \$25,440,139 for the fiscal year ended June 30, 2014 and for the period from Inception to June 30, 2014, respectively, as follows:

	For the Fiscal Year Ended June 30, 2014	February 27, 2009 (date of inception) to June 30, 2014
Secretariat	\$ 3,964,808	\$ 17,456,742
Trustee	579,364	7,029,870
Adaptation Fund Board DSA payments	75,414	615,552
Reimbursable deposit with clearing agent for monetization activities	337,975	337,975
<b>Total</b>	<b>\$ 4,957,561</b>	<b>\$ 25,440,139</b>

## Note 9 - Advances Repaid to Donors of the Trust Fund for the Secretariat for the Adaptation Fund Board

The Trust Fund for the Secretariat for the Adaptation Fund Board (a separate trust fund administered by the World Bank Group: reference no. TF071015) was established to receive advances from donors to fund AF activities prior to funds becoming available from the monetization of CERs. In accordance with the respective agreements, some advances made to the Trust Fund for the Secretariat for the Adaptation Fund Board are reimbursable and have been repaid from the Trust Fund (i.e., advances were received by and recorded in TF071015, and returned to the donors from this Trust Fund).

## Note 10 - Subsequent Events

Management has evaluated subsequent events through October 24, 2014, the date the Statement was available to be issued and there are no subsequent events that would require adjustment to or disclosure in this Statement.