



FFA

Pacific Islands Forum Fisheries Agency

**Financial statements for the year
ended 30 June 2016**

Financial statements for the year ended 30 June 2016

Table of contents

	<u>Page</u>
Directors' report	1
Independent auditor's report	3
Statement of financial performance	4
Statement of financial position	5
Statement of changes in equity	6
Statement of cash flows	7
Statement of comparison of budget and actual amounts	8
Notes to the financial statements	9

Director General's report

The Director General of Pacific Islands Forum Fisheries Agency ('the Secretariat') is pleased to present the report on the financial statements of the Secretariat which comprises of the General Fund, Trust Funds, Housing Fund and Vessel Register Fund for the financial year ended 30 June 2016. In order to comply with the provisions of the Secretariat's Financial Regulations, the Director General reports as follows:

Review of operations and changes in state of affairs

The Secretariat was established in August 1979 by an international convention. The Secretariat's current membership comprises of the governments of sixteen countries and one territory member government, a total of seventeen members. It was established to help member countries maximize benefits from sustainable use of the fisheries resources within their 200 miles exclusive economic zone.

As stipulated in the Secretariat Convention, the functions and responsibilities of the Secretariat are to:

- collect, analyse, evaluate and disseminate to Parties relevant statistical and biological information with respect to the living marine resources of the region and in particular the highly migratory species;
- collect and disseminate to Parties relevant information concerning management procedures, legislation and agreements adopted by other countries both within and beyond the region;
- collect and disseminate to Parties relevant information on prices, shipping, processing and marketing of fish and fish products;
- provide, on request, to any Party technical advice and information, assistance in the development of fisheries policies and negotiations, and assistance in the issue of licences, the collection of fees or in matters pertaining to surveillance and enforcement;
- seek to establish working arrangements with relevant regional and international organisations, particularly the South Pacific Commission; and
- undertake such other functions as the Committee may decide.

The core functions of the Secretariat remained unchanged during the financial year under review.

During the financial year there was no significant change in the principal activities or state of affairs of the Secretariat other than that referred to in the financial statements or notes thereto. The Secretariat reported a net deficit of US\$649,687 (2015: US\$1,359,170 deficit). This was an acceptable outcome noting VMS budgeted to use its reserves of \$602,754 and the balance relates to exchange rate impacts on donor funding and related challenges addressed by managers throughout the year.

Independent audit report

The financial statements have been audited by Ernst & Young and should be read in conjunction with the independent audit report on page 3. Audit fees and non-audit fees are disclosed at Note 8.

Other information

Pacific Islands Forum Fisheries Agency's registered office and its principal place of business are as follows:

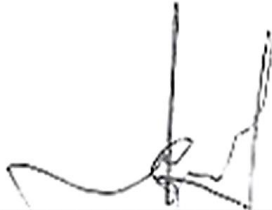
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Director General's report – continued

Director General's declaration

The Director General declares that:

- (a) the financial statements fairly present the financial position of Pacific Islands Forum Fisheries Agency ('the Secretariat') and its financial performance and cash flows as at the end of the 2016 financial year;
- (b) the financial statements of the Secretariat have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates;
- (c) all relevant financial reporting and accounting standards have been followed; and
- (d) in the conduct of its work, the Secretariat has complied with the requirements of the Financial Regulations.



James Movick
Director General

Honiara, 31st October 2016.

INDEPENDENT AUDIT REPORT

To the members of the Pacific Islands Fisheries Forum Agency

We have audited the accompanying Financial Statements of the Pacific Islands Forum Agency, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of financial position, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director-General and Management's Responsibility for the Financial Statements

The Director-General and management are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Secretariat's preparation and fair presentation of the Financial Statements 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 Secretariat's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

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

Opinion

In our audit opinion:

- a) proper books of the account have been kept by the Secretariat, so far as it appears from our examination of those books; and
- b) the accompanying Financial Statements which have been prepared in accordance with Internal Public Sector Accounting Standards;
 - i) are in agreement with books of the accounts; and
 - ii) to the best of our information and according to the explanations given to us, give a true and fair view of the state of affairs of the Secretariat as at 30 June 2016 and of its financial performance, changes in equity, and its cash flows for the year ended on that date.

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Statement of financial performance for the year ended 30 June 2016

	Notes	2016 US\$	2015 US\$
<u>Income</u>			
Member country contributions	5	1,686,959	1,639,413
Donor funds	6	10,529,173	13,194,410
Vessel registration fees		3,567,671	2,593,281
Housing rental receipts		37,513	92,897
Interest received		26,499	138,918
Program support and cost recovery		120,498	131,999
Australia's UST Project Development Fund donation		156,250	335,625
UST levy		314,075	156,575
Vessel levy		143,707	-
Benefit from property, plant and equipment		333,479	317,987
Other income		92,160	115,183
Total income		17,007,984	18,716,288
<u>Expenditures</u>			
Output 1: High Level Advice	7	3,285,343	4,950,207
Output 2: Fisheries Management	7	1,871,607	1,250,252
Output 3: Fisheries Development	7	2,888,948	4,082,500
Output 4: Fisheries Operations	7	4,338,286	4,127,277
Output 5: Corporate Services	7	5,273,487	5,665,222
Total expenditures		17,657,671	20,075,458
Deficit for the year		(649,687)	(1,359,170)


The above statement of financial performance should be read in conjunction with the notes to the financial statements.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Statement of financial position as at 30 June 2016

	Notes	2016 US\$	2015 US\$
Assets			
Current assets			
Cash and cash equivalents	21	10,072,717	9,121,360
Receivables from exchange transactions	10	836,845	825,006
Receivables from non-exchange transactions	11	624,475	151,866
Prepayments	12	189,346	529,330
Total current assets		11,723,383	10,627,562
Non-current assets			
Property, plant and equipment	13	5,609,172	5,924,078
Prepayments	12	78,359	68,269
Total non-current assets		5,687,531	5,992,347
Total assets		17,410,914	16,619,909
Liabilities			
Current liabilities			
Payables and accruals from exchange transactions	14	3,282,368	3,270,416
Payables and accruals from non-exchange transactions	15	6,299,624	4,545,618
Employee benefits	16	860,356	861,538
Deferred income liability	17	333,479	317,987
Total current liabilities		10,775,827	8,995,559
Non-current liabilities			
Employee benefits	16	142,074	150,754
Deferred income liability	17	5,115,168	5,446,064
Total non-current liabilities		5,257,242	5,596,818
Total liabilities		16,033,069	14,592,377
Net assets		1,377,845	2,027,532
Equity			
Accumulated surpluses		1,377,845	2,027,532
Total equity		1,377,845	2,027,532

Signed in accordance with the Financial Regulation of Pacific Islands Forum Fisheries Agency:



James Movick
Director General

Honiara, 31st October 2016.

The above statement of financial position should be read in conjunction with the notes to the financial statements.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Statement of changes in equity for the year ended 30 June 2016

	Accumulated funds
	US\$
Balance at 1 July 2014	3,386,702
Deficit for the year	<u>(1,359,170)</u>
Balance at 30 June 2015	2,027,532
Deficit for the year	<u>(649,687)</u>
Balance at 30 June 2016	<u>1,377,845</u>

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Statement of cash flows for the year ended 30 June 2016

	Notes	2016 US\$	2015 US\$
Cash flows from operating activities			
Receipts from member countries contribution	5	1,667,516	1,693,506
Donor funding	6	12,089,398	6,970,693
Receipts from vessel registration		3,382,828	3,463,395
Rental receipts		32,695	175,764
Receipts from program support		133,466	124,909
Other receipts		721,782	938,932
<i>Inflows from receipts</i>		<u>18,027,685</u>	<u>13,367,199</u>
Payments for staff costs		(6,650,237)	(7,195,062)
Payments for project costs		(8,970,681)	(10,710,848)
Payments for housing fund costs		(1,380,229)	(1,499,759)
<i>Outflows from payments</i>		<u>(17,001,147)</u>	<u>(19,405,669)</u>
Net cash generated by/(used in) operating activities	21(b)	<u>1,026,538</u>	<u>(6,038,470)</u>
Cash flows from investing activities			
Interest received		34,061	155,291
Investment in term deposits		-	1,046,068
Repayments by inter-entities		-	172,330
Payments for property, plant and equipment		(186,544)	(277,883)
Proceeds from disposal of assets		77,302	8,853
Net cash (used in)/generated by investing activities		<u>(75,181)</u>	<u>1,104,659</u>
Net increase/(decrease) in cash and cash equivalents		951,357	(4,933,811)
Cash and cash equivalents at the beginning of the year		9,121,360	14,055,171
Cash and cash equivalents at the end of the year	21(a)	<u>10,072,717</u>	<u>9,121,360</u>

The above statement of cash flows should be read in conjunction with the notes to the financial statements.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Statement of comparison of budget and actual amounts for the year ended 30 June 2016

	<u>BUDGET</u>				<u>ACTUALS</u>		<u>VARIANCE</u>	
	Approved	Revised	Approved	Revised	2016	2015	Revised Budget less Actual Amounts	
	2016	2016	2015	2015			2016	2015
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Income								
Member country contributions	1,686,955	1,686,955	1,617,630	1,639,412	1,686,959	1,639,413	(4)	(1)
Donor funds	13,488,145	13,101,792	15,391,009	15,498,696	10,529,173	13,194,410	2,572,619	2,304,286
Vessel registration fees	4,273,332	3,925,329	3,867,799	3,871,561	3,567,671	2,593,281	357,658	1,278,280
Housing rental receipts	1,234,075	1,296,939	1,296,906	1,212,132	37,513	92,897	1,259,426	1,119,235
Interest received	79,440	30,857	79,440	79,440	26,499	138,918	4,358	(59,478)
Program support and cost recovery	1,965,404	1,967,206	1,509,152	1,489,013	120,498	131,999	1,846,708	1,357,014
Australia's Project Development Fund donation	223,750	223,750	301,125	301,125	156,250	335,625	67,500	(34,500)
UST levy	315,000	315,000	-	157,500	314,075	156,575	925	925
Vessel levy	255,700	261,700	-	-	143,707	-	117,993	-
Benefit derived from property, plant and equipment	-	351,483	95,200	95,200	333,479	317,987	18,004	(222,787)
Other income	809,738	811,121	658,125	850,483	92,160	115,183	718,961	735,300
Total income	24,331,539	23,972,132	24,816,386	25,194,562	17,007,984	18,716,288	6,964,148	6,478,274
Expenditures								
Output 1: High Level Advice	4,889,609	4,560,745	4,739,497	4,851,609	3,285,343	4,950,207	1,275,402	(98,598)
Output 2: Fisheries Management	3,362,235	3,231,650	2,427,745	2,499,048	1,871,607	1,250,252	1,360,043	1,248,796
Output 3: Fisheries Development	4,441,637	4,250,706	5,567,806	5,687,509	2,888,948	4,082,500	1,361,758	1,605,009
Output 4: Fisheries Operations	6,255,255	6,398,292	6,458,567	6,463,530	4,338,286	4,127,277	2,060,006	2,336,253
Output 5: Corporate Services	5,382,803	5,530,739	5,622,771	5,692,866	5,273,487	5,665,222	257,252	27,644
Total expenditures	24,331,539	23,972,132	24,816,386	25,194,562	17,657,671	20,075,458	6,314,461	5,119,104
Net	-	-	-	-	(649,687)	(1,359,170)	649,687	1,359,170

The above statement of comparison of budget and actual amounts should be read in conjunction with the notes to the financial statements.

Notes to the financial statements for the year ended 30 June 2016

1. General information

The Pacific Islands Forum Fisheries Agency (Secretariat) was established in August 1979 to support and enable members to achieve sustainable fisheries and the highest levels of social and economic benefit in harmony with the broader environment.

The Secretariat's headquarter is located in Honiara, Solomon Islands. There are seventeen members comprising of Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tokelau, Tuvalu, and Vanuatu.

The addresses of its registered office and principal place of business are disclosed in the director's report.

The financial statements were authorised for issue by the Director General on 31st October 2016.

2. Significant accounting policies

2.1 Statement of compliance and basis of preparation

The financial statements of the Secretariat have been prepared on accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSAS) using the historic cost convention. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period.

The functional and reporting currency of the Secretariat is expressed in United States of America Dollar (USD). Amounts in the financial statements are rounded to the nearest dollars unless otherwise stated.

2.2 Foreign currencies

Transactions in currencies other than the Secretariat's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in surplus or deficit in the period in which they arise.

2.3 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

2. Significant accounting policies - continued

2.4 Financial assets

The Secretariat initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Secretariat becomes a party to the contractual provisions of the instruments.

Financial assets are classified into the following specified categories: financial assets 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Held-to-maturity investments

Term deposits with fixed maturity dates that the Secretariat has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables. Cash and cash equivalents comprises of cash on hand and cash at bank and short term deposits with a maturity of three months or less.

Derecognition of financial assets

The Secretariat derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Secretariat neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Secretariat recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Secretariat retains substantially all the risks and rewards of ownership of a transferred financial asset, the Secretariat continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.5 Financial liabilities

Other financial liabilities

The Secretariat recognises all other financial liabilities on trade date at which the Secretariat becomes a party to the contractual provision of the instrument.

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Other financial liabilities comprise trade and other payables.

Derecognition of financial liabilities

The Secretariat derecognises financial liabilities when, and only when, the Secretariat's obligations are discharged, cancelled or they expire.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

2. Significant accounting policies - continued

2.6 Property, plant and equipment

Initial recognition and subsequent expenditure

Property, plant and equipment is measured initially at cost. Cost includes expenditure that is directly attributable to the acquisition of the items. The cost of an item of property, plant and equipment is recognised only when it is probable that future economic benefit or service potential associated with the item will flow to the Secretariat, and if the item's cost or fair value can be measured reliably.

Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Measurement subsequent to initial recognition

Subsequent to initial recognition, property, plant and equipment are measured using either the cost model or the revaluation model, as described below:

Land and buildings are measured at fair value, less accumulated depreciation on leasehold land and buildings and any impairment losses recognised after the date of the revaluation. The fair value of land and buildings is their market value as determined by a registered valuer.

Revaluation is performed on a class-by-class basis. If an item of property, plant and equipment is revalued, the entire class to which the asset belongs is revalued. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The valuation cycle for revalued asset classes is normally three to five years.

A revaluation surplus is recorded in other comprehensive revenue and expense and credited to the asset revaluation reserve in net assets/equity. However, to the extent that it reverses a revaluation deficit of the same class of asset previously recognised in surplus or deficit, the increase is recognised in surplus or deficit. A revaluation deficit is recognised in the surplus or deficit, except to the extent that it offsets an existing surplus on the same asset class recognized in the asset revaluation reserve.

Plant and equipment are measured at cost, net of accumulated depreciation and impairment losses, if any.

Depreciation

Depreciation is charged on a straight-line basis over the useful life of the asset. Depreciation is charged at rates calculated to allocate the cost or valuation of the asset less any estimated residual value over its remaining useful life:

- | | |
|-------------------------------------|----------|
| • Leasehold land | 50 years |
| • Building | 40 years |
| • Office plant and equipment | 4 years |
| • Office furniture | 5 years |
| • Household equipment and furniture | 5 years |
| • Computers | 3 years |
| • Motor vehicles | 5 years |

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

For revalued assets, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

2. Significant accounting policies - continued

2.6 Property, plant and equipment - continued

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits or service potential are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in surplus or deficit. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to accumulated comprehensive revenue and expense.

2.7 Employee benefits

Wages, salaries and annual leave

Liabilities for wages and salaries (including non-monetary benefits) and annual leave are recognised in surplus or deficit during the period in which the employee rendered the related services, and are generally expected to be settled within twelve months of the reporting date. The liabilities for these short-term benefits are measured at the amounts expected to be paid when the liabilities are settled.

Retention

Employees of the Secretariat become eligible for retention after completion of their contract. The liability for retention is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date depending on their signed contract. Contracted employees are entitled to 7% retention per year of service to the Secretariat. Gains and losses on the retention are fully accounted for in the statement of financial performance.

2.8 Equity

Equity is the member countries' interest in the Secretariat, measured as the difference between total assets and total liabilities.

Equity is made up of accumulated comprehensive revenue and expense. Accumulated comprehensive revenue and expense is the Secretariat's accumulated surplus or deficit since the formation of the Secretariat.

2.9 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Secretariat and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

The specific recognition criteria described below must also be met before revenue is recognised.

Revenue from non-exchange transactions:

Member country contribution

Member country contribution revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Secretariat and the amount of revenue can be measured reliably) and by reference to assessed computations approved at annual conference. Contributions from member countries are recognised on an accrual basis.

Contributions from member countries received in advance for the next financial year are treated as advance funds.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

2. Significant accounting policies - continued

2.9 Revenue - continued

Revenue from non-exchange transactions: - continued

Donor funds

Donor funds are assistance by the government or organisation in the form of transfers of resources to the Secretariat in return for past or future compliance with certain conditions relating to the operating activities of the Secretariat. Donor funds are used only for the purposes specified by the donors and shall be accepted only if the purposes of such contributions from member governments, private organizations or other donors are consistent with the policies of the Secretariat.

Donor funds are not recognised until there is reasonable assurance that the Secretariat will comply with the conditions attaching to them and the funds will be received. Donor funds are recognised on a cash basis.

Donor funds whose primary condition is that the Secretariat should purchase or acquire long-term assets are recognised as deferred revenue in the statement of financial position and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Donor funds are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Donor funds that are receivable as compensation for expenses or deficits already incurred or for the purpose of giving immediate financial support to the entity with no future related costs are recognised as income of the period in which it becomes receivable.

Donor funds received during the financial year that are not spent by the end of that financial year are treated as deferred income and carried forward to the next financial year.

Donations

Donations are funds donated to the Secretariat by member countries. Such donations do not have specific conditions and as such the donations are recorded as revenue in the statement of financial performance.

Vessel levy

Vessel levy are charges imposed on vessels by the Secretariat to assist with its operations and the levy received are recorded as revenue in the statement of financial performance.

Revenue from exchange transactions:

Vessel registration fees

Vessel registration fees are often paid in advance and revenue is recognised when the license or the registration period falls within the financial year.

Vessel registration fees received prior to the start of the registration period it relates to are treated as advanced funds.

Housing rental income

Housing rental income is recognised on a monthly basis over the term of the tenancy agreement. Rental income is accrued for properties rented out to external parties, especially to other related parties such as US Treaty and employees of FFA. Rental income also includes rental income received to pay landlords on behalf of the employees for the other related parties.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

2. Significant accounting policies - continued

2.9 Revenue - continued

Revenue from exchange transactions: - continued

Vessel registration fees

Vessel registration fees are often paid in advance and revenue is recognised when the license or the registration period falls within the financial year.

Vessel registration fees received prior to the start of the registration period it relates to are treated as advanced funds.

Housing rental income

Housing rental income is recognised on a monthly basis over the term of the tenancy agreement. Rental income is accrued for properties rented out to external parties, especially to other related parties such as US Treaty and employees of FFA. Rental income also includes rental income received to pay landlords on behalf of the employees for the other related parties.

Interest revenue

Interest revenue is recognised when it is probable that the economic benefits will flow to the Secretariat and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest income is included in the statement of financial performance.

Program support and cost recovery

Revenue from program support is recognised based on agreement documented in Memorandum of Agreements (MOUs) between other donor funds and the Secretariat which is a management fee charged on funds received. The management fee is a percentage applied on funds received and varies from fund to fund and revenue is recognised on accrual basis.

Cost recovery revenue is recognised by reference to assessed computations approved at annual conference. The approved cost recovery is calculated 66% of total staff costs and it is recognised on accrual basis.

Other income

Other income includes fees from hire of conference centre, office rental, foreign exchange gains or losses, realised gains and losses on the sale of PP&E held at cost, reimbursement of medical fees from insurance provider and tea money received from employees.

2.10 Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

2.11 Income tax and other taxes

The Secretariat is exempt from corporate income tax, goods tax, duty tax and sales tax obligations under Section 11 of the Solomon Islands Diplomatic Privileges and Immunities Act. The Secretariat is only liable for pay-as-you-earn (PAYE) tax on local employees and withholding taxes under Solomon Islands Income Tax Act.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

2. Significant accounting policies - continued

2.12 Impairment of tangible asset

At the end of each reporting period, the Secretariat reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Secretariat estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest company of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.13 Comparatives

Where necessary comparatives have been changed to conform to the presentation in the current financial year.

2.14 Budget information

The budget figures presented in these financial statements are those included in the Secretariat's 2015/2016 Annual Work Plan (AWP). The Annual Work Plan budget figures are approved by the Pacific Islands Forum Fisheries Committee (FFC) at the beginning of each financial year following a period of consultation with the members as part of the Annual Work Plan process. These figures do include any additional expenditure subsequently approved by the FFC outside the Annual Work Plan process. The Annual Work Plan figures have been prepared in accordance with FFA's Financial Regulation and are consistent with the above accounting policies adopted by the FFC for the preparation of these financial statements. Explanation of major variances between actual results and budgeted figures is provided in Note 24.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

3. Significant accounting judgements, estimates and assumptions

In the application of the Secretariat's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, carrying amounts of assets and liabilities that are not readily apparent from other sources, and the accompanying disclosures. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Judgements in applying accounting policies

The following are the judgements, apart from those involving estimations (see 3.2 below), that the management has made in the process of applying the Secretariat's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

- Revenue recognition – refer note 2.9.
- Property, plant and equipment – refer to note 2.6.

3.2 Estimates and assumptions

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Secretariat based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Secretariat. Such changes are reflected in the assumptions when they occur.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 2.4 and 2.5 for further disclosures.

Revaluation of property, plant and equipment

The Secretariat measures land and buildings at revalued amounts with changes in fair value being recognised in other comprehensive revenue and expense. The Secretariat engaged an independent valuation specialist to assess fair value as at 31 June 2011 for revalued land and buildings. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The key assumptions used to determine the fair value of these non-financial assets and sensitivity analyses are provided in Note 13.

**Notes to the financial statements
for the year ended 30 June 2016 - continued**

3. Significant accounting judgements, estimates and assumptions

3.2 Estimates and assumptions - continued

Impairment of non-financial assets – non-cash-generating assets

The Secretariat reviews and tests the carrying value of non-cash-generating assets (other than property, plant and equipment measured using the revaluation model) when events or changes in circumstances suggest that there may be a reduction in the future service potential that can reasonably be expected to be derived from the asset. Where indicators of possible impairment are present, the Secretariat undertakes impairment tests, which require the determination of the asset's fair value less cost to sell and its recoverable service amount. The asset's fair value less costs to sell is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. In the absence of observable market evidence, fair value is measured using depreciated replacement cost (DRC). The value in use of the asset is calculated using DRC. DRC is determined by reference to the estimated cost of reproducing the asset or replacing the asset's service potential. The estimation of these inputs into the calculation relies on the use estimates and assumptions. Any subsequent changes to the factors supporting these estimates and assumptions may have an impact on the reported carrying amount of the related asset.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Secretariat
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

The estimated useful lives of the asset classes held by the Secretariat are listed in Note 2.6.

4. Capital management

For the purpose of the Secretariat's capital management, the Secretariat's capital is its equity, including accumulated comprehensive revenue and expenses and all equity reserves attributable to the Secretariat. Equity is represented by net assets.

The Secretariat manages capital largely as a by-product of managing its revenue, expenses, assets, liabilities and general financial dealings.

The FFA Regulation requires the Secretariat to manage its financial resources effectively, efficiently and economically against high standards of accountability, fairness and transparency.

In order to achieve this overall objective, the Secretariat has to ensure that the expenditure needs identified in the Secretariat's Strategic Plan, Statement of Intent and Annual Work Plan are met in the manner set out in these plans. The FFC requires the Secretariat to make adequate and effective provision in its Strategic Plan, Statement of Intent and in its Annual Work Plan to meet the expenditure needs identified in those plans. The factors that the Secretariat is required to consider when determining the most appropriate sources of funding for each of its activities are set out in the Financial Regulation. The sources and levels of funding are set out in the funding and financial policies in the Secretariat's Strategic Plan. The Secretariat monitors actual expenditure incurred against the Strategic Plan, Statement of Intent and Annual Work Plan.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2015 and 2016.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

5. Member country contribution reconciliation

	2016 US\$	2015 US\$
Member country:		
Contributions received	1,667,516	1,693,506
Less:		
Contribution arrears as at 1 July	32,897	88,098
Contributions received in advance (prepayment)	-	49,127
	32,897	137,225
Add:		
Contributions received in advance in prior year	49,127	50,235
Contribution arrears as at 30 June	3,213	32,897
	52,340	83,132
Assessed contributions	1,686,959	1,639,413

Member countries	Contributions received in advance – 30 June 2015 US\$	Contributions in arrears – 30 June 2015 US\$	Assessed contributions for 2016 US\$	Contributions received in 2016 US\$	Contributions received for 2017 US\$	Contributions in arrears – 30 June 2016 US\$
Australia	-	-	616,892	616,892	-	-
Cook Islands	19,597	-	19,597	-	-	-
FSM	9,933	-	42,362	32,429	-	-
Fiji	-	488	42,362	39,637	-	3,213
Kiribati	-	-	30,957	30,957	-	-
Marshall Islands	-	-	30,957	30,957	-	-
Nauru	-	-	30,957	30,957	-	-
New Zealand	-	-	616,892	616,892	-	-
Niue	19,597	-	19,597	-	-	-
Palau	-	-	30,957	30,957	-	-
Papua New Guinea	-	-	42,362	42,362	-	-
Samoa	-	-	19,597	19,597	-	-
Solomon Islands	-	-	42,362	42,362	-	-
Tokelau	-	-	19,597	19,597	-	-
Tonga	-	-	30,957	30,957	-	-
Tuvalu	-	-	19,597	19,597	-	-
Vanuatu	-	32,409	30,957	63,366	-	-
Total – 2016	49,127	32,897	1,686,959	1,667,516	-	3,213
Total – 2015	50,235	88,098	1,639,413	1,693,506	49,127	32,897

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

6. Donor funds income reconciliation

	2016 US\$	2015 US\$
Total donor funds received	12,089,398	6,970,693
Add: donor funds receivable	242,908	141,001
Total funds received and receivable	12,332,306	7,111,694
Add: Opening advance fund	4,496,491	10,579,207
Total funds available	16,828,797	17,690,901
Less: Advance funds carried forward	(6,299,624)	(4,496,491)
Total Trust Fund income	10,529,173	13,194,410

Donors	Funds received/ receivable 2016 US\$	Funds carried forward 2016 US\$	Total income 2016 US\$	Funds carried forward to 2017 US\$	Net income 2016 US\$
Australia (DFAT) – core funding	4,103,435	45,760	4,149,195	1,439,935	2,709,260
Australia (DAWR)	103,003	-	103,003	59,509	43,494
New Zealand (NZMFAT) – core funding	1,951,998	8,516	1,960,514	31,895	1,928,619
NZMFAT – Investment, Export Facilitation	635,190	308,073	943,263	506,743	436,520
NZMFAT – Pacific Fisheries Training	540,427	755,752	1,296,179	889,386	406,793
NZMFAT – Infrastructure	-	222,407	222,407	104,396	118,011
NZMFAT – Information & Management	681,733	609,956	1,291,689	652,405	639,284
NZMFAT – Te Vaka Moana	-	826,833	826,833	502,401	324,432
NZMFAT – Leaders Input	423,872	-	423,872	219,490	204,382
Taiwan (ROC)	-	4,852	4,852	-	4,852
Japan Promotion Fund (JPF)	889,357	1,072,472	1,961,829	1,073,651	888,178
Oceanic Fisheries Management Project (OFMP)/UNDP	605,599	-	605,599	107,844	497,755
OFMP/FAO	609,348	-	609,348	-	609,348
European Union (EU)/DevFish2	1,094,105	-	1,094,105	-	1,094,105
National Marine Fisheries Service (NMFS)	-	8,594	8,594	8,594	-
Australian Centre for International Agricultural Research (ACIAR)	-	12,264	12,264	12,264	-
SciCOFish	-	9,419	9,419	9,419	-
Food & Agriculture Organisation (FAO)	179,972	20,580	200,552	-	200,552
World Bank-IDA PROP	-	399,997	399,997	224,083	175,914
World Bank-GEF PROP	-	99,997	99,997	99,997	-
World Bank-GEF OPP	199,997	-	199,997	199,997	-
FFA/PNA Corporation	68,576	-	68,576	46,508	22,068
Environmental Defense Fund (EDF)	100,000	-	100,000	41,823	58,177
Wide World Fund – New Zealand	97,897	-	97,897	-	97,897
Other	47,797	91,019	138,816	69,284	69,532
Total – 2016	12,332,306	4,496,491	16,828,797	6,299,624	10,529,173
Total – 2015	7,111,694	10,579,207	17,690,901	4,496,491	13,194,410

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

7. Expenditures by outputs

	2016 US\$	2015 US\$
Output 1: High level advice		
Staff costs and benefits	2,409,868	2,487,734
Project expenditures	875,475	2,462,473
	3,285,343	4,950,207
Output 2: Fisheries management		
Staff costs and benefits	709,540	735,730
Project expenditures	1,162,067	514,522
	1,871,607	1,250,252
Output 3: Fisheries development		
Staff costs and benefits	1,037,812	1,200,462
Project expenditures	1,851,136	2,882,038
	2,888,948	4,082,500
Output 4: Fisheries operations		
Staff costs and benefits	1,231,736	1,352,007
Project expenditures	3,106,550	2,775,270
	4,338,286	4,127,277
Output 5: Corporate services		
Staff costs and benefits	1,416,675	1,606,778
Operating expenditures	3,360,547	3,502,872
Capital expenditures	40,439	109,621
Depreciation	455,826	445,951
	5,273,487	5,665,222
Total expenditures	17,657,671	20,075,458

8. Audit fees and non-audit fees

Audit fees	8,000	8,000
Other charges relating to the audit	15,000	12,000
	23,000	20,000

9. Commitments for expenditure

The Secretariat is not aware of any capital commitments as at the end of the financial year (2015: Nil).

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

10. Receivables from exchange transactions

	<u>2016</u>	<u>2015</u>
	US\$	US\$
Rental receivable	13,037	12,777
Interest receivable	2,701	10,262
Inter-entity receivables	393,410	338,015
Sundry recoverable	475,360	463,952
Total receivables	884,508	825,006
Provision for doubtful debts	(47,663)	-
Net receivables	836,845	825,006

Receivables from exchange transactions are non-interest bearing and are generally on terms of 30 to 2 years. As at 30 June, the ageing analysis of receivables from exchange transactions is as follows:

Ageing of past due but not impaired

Less than 30 days	276,999	26,642
30 – 60 days	34,622	93,537
60 – 90 days	2,874	5,764
90 days and over	570,013	699,063
Total	884,508	825,006

11. Receivables from non-exchange transactions

Membership contribution receivable	3,213	32,897
Donor fees receivable	621,262	118,969
	624,475	151,866

Receivables from non-exchange transactions are non-interest bearing and are generally on terms of 30 days to 1 year. As at 30 June, the ageing analysis of receivables from non-exchange transactions is as follows:

Ageing of past due but not impaired

Less than 30 days	617,828	118,968
30-60 days	3,213	-
90 days and over	3,434	32,898
Total	624,475	151,866

12. Prepayments

Prepayments	189,346	529,330
Rental bonds receivable	78,359	68,269
	267,705	597,599
Current	189,346	529,330
Non-current	78,359	68,269
	267,705	597,599

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

13. Property, plant and equipment

	Leasehold Land at fair value	Buildings at fair value	Plant, equipment and furniture at cost	Motor vehicles at cost	Total
	US\$	US\$	US\$	US\$	US\$
Cost or valuation					
Balance at 30 June 2014	2,250,600	4,140,935	568,419	179,982	7,139,936
Additions	-	-	245,982	31,902	277,884
Disposals	-	-	(3,480)	-	(3,480)
Balance at 30 June 2015	2,250,600	4,140,935	810,921	211,884	7,414,340
Additions	-	13,189	151,748	21,606	186,543
Disposals	-	(40,865)	(41,121)	(34,147)	(116,133)
Balance at 30 June 2016	2,250,600	4,113,259	921,548	199,343	7,484,750
Accumulated depreciation					
Balance at 30 June 2014	(367,927)	(265,880)	(289,972)	(122,575)	(1,046,354)
Disposal	-	-	2,043	-	2,043
Depreciation expense	(122,643)	(103,523)	(190,813)	(28,972)	(445,951)
Balance at 30 June 2015	(490,570)	(369,403)	(478,742)	(151,547)	(1,490,262)
Disposal	-	3,497	32,866	34,147	70,510
Depreciation expense	(122,643)	(103,505)	(208,913)	(20,765)	(455,826)
Balance at 30 June 2016	(613,213)	(469,411)	(654,789)	(138,165)	(1,875,578)
Net book value					
Balance as at 30 June 2016	1,637,387	3,643,848	266,759	61,178	5,609,172
Balance as at 30 June 2015	1,760,030	3,771,532	332,179	60,337	5,924,078

13.1 Leasehold land and buildings carried at valuation

The leasehold land was donated by Solomon Islands and the buildings were donated by various donors to Pacific Islands Forum Fisheries Agency. These had previously not been recorded. On transition to IFRS, and now IPSAS, the leasehold land and buildings and the related deferred income were brought to account. The leasehold land was not recorded in the financial statements for prior years since valuation. The leasehold land was included in the financial statements in 2015.

An independent valuation of the Secretariat's buildings was performed by Value Solutions Appraisal Ltd to determine the fair value of the buildings. The valuation, which conforms to International Valuation Standards, was determined by reference to discounted cash flows using a discount rate of 10%. The effective date of the valuation is 1 July 2011.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

	2016 US\$	2015 US\$
14. Payables and accruals from exchange transactions		
Other creditors and accruals	1,070,593	870,565
Advance vessel registration fees	2,054,275	2,239,119
Inter-entity payables	-	3,959
Others	157,500	156,773
	3,282,368	3,270,416

Terms and conditions of the above financial liabilities:

- Other creditors and accruals are non-interest bearing and are normally settled on 30-day terms; and
- Advance vessel registration fees reflect fees received from vessel owners during the year towards the fiscal year for 2016/2017 registration fees.
- Others comprise payables for employee costs especially taxes to Solomon Islands Government, superannuation contributions, credit union contributions and fees to Honiara City Council.

The Secretariat has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms or within 30 days of receiving the invoice.

15. Payables and accruals from non-exchange transactions

Advance member countries contributions	-	49,127
	-	49,127
Advance donor funds		
DFAT - program funding	1,439,935	45,760
DAWR	59,509	-
NZMFAT - program funding	31,895	8,516
NZMFAT - Pacific Fisheries Training	889,386	755,752
NZMFAT - Investment & Export Facilitation	506,743	308,073
NZMFAT - Information Management	613,093	609,956
NZMFAT - Infrastructure	143,708	222,407
NZMFAT – Te Vaka Moana	502,401	826,833
NZMFAT – Input into Leaders Report	219,490	-
Japan Promotion Fund/OFCF	1,073,651	1,072,472
Taiwan (ROC)	-	4,852
OFMP-UNDP/GEF	107,844	-
ACIAR	12,264	12,264
NMFS	8,594	8,594
SCICOFISH	9,419	9,419
Food & Agriculture Organisation (FAO)	-	20,580
World Bank/GEF PROP	99,997	99,997
World Bank/IDA PROP	224,083	399,997
World Bank/GEF OPP	199,997	-
FFA/PNA Cooperation	46,508	-
Environmental Defense Funds	41,823	-
Others	69,284	91,019
Total donor funds	6,299,624	4,496,491
Grand total	6,299,624	4,545,618

Notes to the financial statements
for the year ended 30 June 2016 – continued

15. Payables and accruals from non-exchange transactions - continued

Advanced member country contribution

No advanced member country contributions were received for financial year 2016/2017.

Advance donor funds

Advance donor funds relates to donor funds received from various donors for specific projects. The total amount received in 2016 was \$12,089,398 (2015: \$6,970,693) – refer note 6.

The Secretariat recognises as a liability conditions attached to donor funds. Conditions may be imposed by donors on the use of contributions, and include both a performance obligation to use the donation in a specified manner, and an enforceable return obligation to return the donation if it is not used in the specified manner. The amount recognised as a liability is the best estimate of the amount that would be required to settle the obligation at the reporting date. As the Secretariat satisfies the conditions on the donations through performance in the specified manner, the carrying amount of the liability is reduced and an amount of revenue equal to that reduction is recognized.

16. Employee benefits

	2016 US\$	2015 US\$
Annual leave	635,872	660,239
Retention	366,558	352,053
	1,002,430	1,012,292
Current	860,356	861,538
Non-current	142,074	150,754
	1,002,430	1,012,292

17. Deferred income liability

Current

Arising from fixed asset (i)

- General Fund	102,078	102,096
- Trust Fund	107,331	91,821
- Housing Fund	124,070	124,070
	333,479	317,987

Non-current

Arising from fixed asset (i)

- General Fund	2,489,433	2,615,672
- Trust Fund	60,082	140,669
- Housing Fund	2,565,653	2,689,723
	5,115,168	5,446,064
	5,448,647	5,764,051

(i) An amount of US\$333,479 was released from the deferred revenue which represents the depreciation charge for the year on the related property, plant and equipment (2015: US\$317,987).

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

18. Retirement benefit plans

The local employees of the Secretariat are members of a state-managed retirement benefit plan operated by the government of Solomon Islands. Other employees of the Secretariat voluntarily become members of the state-managed retirement benefit plan. The Secretariat is required by Solomon Islands National Provident Fund Act (SINPF) to contribute a fixed percentage of 7.5% as an employer contribution to the retirement benefit scheme to fund the benefits. The only obligation of the Secretariat with respect to the retirement benefit plan is to ensure compliance with the SINPF Act regarding the employer's contributions.

The total expense of US\$365,345 (2015: US\$362,785) is recognised in the statement of financial performance represents contributions payable to these plans by the Secretariat at rates specified in the rules of the plans. As at 30 June 2016, contributions of US\$11,366 (2015: US\$14,091) due in respect of the reporting period had not been paid over to the plans. The amounts were paid subsequent to the end of the reporting period.

19. Financial risk management objectives and policies

The Secretariat's principal financial liabilities, other than derivatives, comprise of loans and trade and other payables. The main purpose of these financial liabilities is to finance and provide guaranteed support for the Secretariat's operations and commitments. The Secretariat's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations.

The Secretariat is exposed to foreign currency risk, interest rate risk, credit risk and liquidity risk. The Secretariat's senior management oversees the management of these risks. The Secretariat's senior management is supported by a finance team that advises on financial risks and the appropriate financial risk governance framework for the Secretariat. The Secretariat's financial risk activities are governed by appropriate policies and procedures. Financial risks are identified, measured and managed in accordance with the Secretariat's policies and risk objectives. It is the Secretariat's policy that no trading in derivatives for speculative purposes may be undertaken. The Secretariat's Executive reviews and agrees policies for managing each of these risks, which are summarised below.

19.1 Foreign currency risk management

The Secretariat undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy.

The carrying amounts of the Secretariat's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2016	2015	2016	2015
	US\$	US\$	US\$	US\$
Currency of Solomon Islands	508,442	377,945	645,716	876,173
Currency of Australia	12,246	55,016	27,902	211,312
Currency of New Zealand	-	-	136,411	862,258

Foreign currency sensitivity analysis

The Secretariat is mainly exposed to the currencies of Solomon Islands, Australia and New Zealand.

The following table details the Secretariat's sensitivity to a 10% increase and decrease in the US\$ against the relevant foreign currencies. Sensitivity rate of 10% was used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in surplus and accumulated funds where the US\$ strengthens 10% against the relevant currency. For a 10% weakening of the US\$ against the relevant currency, there would be a comparable impact on the surplus and accumulated funds, and the balances below would be negative.

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

19. Financial assets and financial liabilities - continued

19.1 Foreign currency risk management - continued

		Total impact	
		2016	2015
		US\$	US\$
Indicative foreign currency gain or loss	(i)	28,934	151,678

(i) This is mainly attributable to the exposure outstanding on SB\$, AU\$ and NZ\$ cash and cash equivalents, receivables and payables in the Secretariat at the end of the reporting period.

The Secretariat's sensitivity to foreign currency has decreased during the current period mainly due to the depreciation of SB\$, AU\$ and NZ\$ against US\$ during the year.

In management's opinion, the sensitivity analysis does not adequately capture the current trends in foreign exchange movements in terms of prudent budget management. The Secretariat will continue to seek advice and take action to reduce future exposure where possible to the impacts of ongoing exchange rate variations.

19.2 Interest rate risk management

The Secretariat is exposed to interest rate risk because the Secretariat invests in term deposits at fixed interest rates. The risk is managed by the Secretariat by maintaining an appropriate mix between fixed rates from different banks.

The Secretariat's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The interest rate profile of the entity's interest-bearing financial instruments are as follows:

	2016	2015
	US\$	US\$
Fixed-rate instruments		
Short-term deposits	3,720,610	4,489,462
Long-term deposits	63,754	-
	3,784,364	4,489,462

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the outcome would be as follows:

- outcome for the year ended 30 June 2016 would increase/decrease by US\$253 (2015: increase/decrease by USD266). This is mainly attributable to the Secretariat's exposure to interest rates on its variable rate borrowings; and

The Secretariat's sensitivity to interest rates has decreased during the current period mainly due to the reduction in interest rates.

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

19.3 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Secretariat. The Secretariat has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Secretariat's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of member country contributions, funds receivable from donors, fees from vessel registration and funds from other managed funds. Ongoing credit evaluation is performed on the financial condition of accounts receivable in order to reduce any exposure to bad debts. The Secretariat does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Secretariat's maximum exposure to credit risk without taking account of the value of any collateral obtained.

19.4 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Director General, who has established an appropriate liquidity risk management framework for the management of the Secretariat's short-, medium- and long-term funding and liquidity management requirements. The Secretariat manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The entity's exposure to liquidity risk is considered not material.

20. Related party transactions

The Secretariat has a related party relationship with its managed funds and its executive officers. During the year the following funds were managed by the Secretariat:

- Multilateral Fisheries Treaty with the United States of America (UST)

Details of transactions between the Secretariat and other related parties are disclosed below.

20.1 Transactions between FFA and its related parties

During the financial year, the following transactions occurred between the Secretariat and its related parties:

	2016	2015
	US\$	US\$
Rent received from UST Funds	17,733	26,802
Housing allowance received from UST Funds	19,780	22,148
Cost recovery received from UST Administration Fund	120,498	131,999
	158,011	180,949

In addition, the net closing balances of accounts receivable and accounts payable arising from transactions between the Secretariat and its related parties are:

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

20. Related party transactions - continued

20.1 Transactions between FFA and its related parties - continued

	2016 US\$	2015 US\$
Receivables		
US Treaty Administration Fund	374,722	296,839
US Treaty Project Development Fund	15,715	6,728
US Treaty Observer Placement Fund	2,351	113
US Treaty Observer Training Fund	-	32,241
US Treaty Observer Administration Fund	622	2,094
	393,410	338,015
Payables		
US Treaty Administration Funds	-	(3,959)
	-	(3,959)
	393,410	334,056

All amounts advanced to or payable to related parties are unsecured.

The amounts outstanding will be settled in cash. No guarantees have been given or received. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

20.2 Key management personnel

During the year the following persons were the executives identified as key management personnel with the greatest authority and responsibility for planning, directing and controlling the activities of the Secretariat:

- James Movick - Director General
- Wez Norris - Deputy Director General
- Dr. Tim Adams - Director Fisheries Management.
- Mike Batty - Director Fisheries Development.
- Noan Pakop - Director Fisheries Operations.
- David Rupokets - Director Corporate Services (contract ended in November 2016). The position was vacant till January 2016 when Perry Head was appointed.
- Perry Head – Director Corporate Services (appointed in January 2016). The position of Director Corporate Services (DCS) was vacant from November to December 2015 and Perry Head was appointed as the new DCS in January 2016.
- Dr. Manu Tupou-Roosen – Legal Counsel

The aggregate compensation of the key management personnel comprises of short term benefits only and is set out below:

	2016 US\$	2015 US\$
Short-term benefits	1,741,826	1,823,738
	1,741,826	1,823,738

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

20. Related party transactions - continued

20.2 Key management personnel - continued

The remuneration of key management personnel is determined by the human resources section and approved in the annual Forum Fisheries Committee meeting having regard to the performance of individuals and market trends.

The amounts disclosed in the table are the amounts recognised as expenses during the reporting period related to key management personnel.

The Director General is provided a vehicle and housing benefits during the year.

Key management personnel did not receive any remuneration or compensation other than in their capacity as key management personnel (2015: nil).

The Secretariat did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2015: nil).

The Secretariat did not provide any loans to key management personnel or their close family members.

21. Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in term deposits with a maturity of three months or less. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	<u>2016</u>	<u>2015</u>
	<u>US\$</u>	<u>US\$</u>
Petty cash	250	54
Cash at bank	6,288,103	4,631,844
Term deposits	3,784,364	4,489,462
	<u>10,072,717</u>	<u>9,121,360</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Secretariat, and earn interest at the respective short-term deposit rates.

The cash and cash equivalents balance of the Secretariat includes an amount of \$6,299,624 (2015: \$4,496,491) that relates to unspent donor funds that are subject to restrictions. The unspent funds relate to activities funded under Trust Fund. The restrictions attached to these donor funds specify that the funds must be spent for the aforementioned respective purposes, and provide a timeframe within which the agreed-upon deliverables required for achieving the purpose of the funds must be completed.

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

21. Cash and cash equivalents - continued

(b) Reconciliation of surplus for the year to net cash flows from operating activities

	<u>2016</u>	<u>2015</u>
	US\$	US\$
Deficit for the year	(649,687)	(1,359,170)
Less: Interest received classified as investing activities	(34,061)	(155,291)
Add: Depreciation	455,826	445,951
Less: Gain on disposal of assets	(31,678)	(7,417)
<i>Movement in assets and liabilities:</i>		
Increase in receivables from exchange transactions	(11,840)	(30,127)
(Increase)/decrease in receivables from non-exchange transactions	(472,609)	82,607
Increase in prepayment	329,894	210,431
Increase in payables and accruals from exchange transactions	11,952	1,124,600
Increase/(decrease) in payables and accruals from non-exchange transactions	1,754,005	(6,183,824)
(Decrease) in employee benefits	(9,863)	(6,895)
(Decrease) in deferred income liabilities	(315,403)	(159,335)
	<u>1,026,538</u>	<u>(6,038,470)</u>

22. Contingent liabilities and contingent assets

The Secretariat is not aware of any contingent liabilities as at the end of the financial year (2015: Nil).

23. Events after the reporting period

There are no material non-adjusting events after the reporting date (2015: Nil).

24. Explanation of major variances against budget

The Secretariat's net deficit was \$649,687. The net effect of the following items contributed to this variation - those major variations of income and expenses or projects which have overspend (underspend) by more (less) than 5%

Income:

Donor revenue was lower than budgeted by \$2,572,619. This is due to the Secretariat's deferral of some projects to the next financial year.

Vessel registration fees were lower than budgeted by \$357,658. This is due to over budgeting of fees and does not consider the discounts given to member country flagged vessels and vessels that pay in advance using the old rate.

Housing rental receipts and program support and cost recovery income were lower than budgeted due to elimination of inter-entity transactions of \$1,259,426 and \$1,846,708 respectively.

FFA vessel levy is lower than budget by \$117,993 due to the late implementation of the levy, not levy for Kiribati flagged vessels and decrease in number of vessels registration during the financial year. Most vessels paid the registration fees earlier before the implementation of the levy.

Other income was lower than budgeted by \$718,961 as a result of some projects been funded through reserves. For instance, VMS budgeted to use \$605,755 from reserves which indicated that they will be in deficit in this financial year – actually making a deficit of \$623,789.

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

24. Explanation of major variances against budget - continued

Expenditures:

Output 1: High Level Advise (HLA)

HLA expenses were lower than budgeted by \$1,275,402 and constitutes 26% of the Output 1 budget. This is mainly due to 'project funded' activities being rolled over into the 2016/17 FY for implementation including funding for the attendance of international meetings, legal capacity building and fisheries training.

Output 2: Fisheries Management (FM)

FM expenses were lower than budgeted by \$1,360,044 which is 54% of the Output 2 budget. The main reason for the shortfall in expenditure against the budget is further delay in implementation of World Bank projects and GEF OFMP2 projects.

Output 3: Fisheries Development (FD)

FD expenses were lower than budgeted by \$1,361,758 and constitutes 24% of the Output 3 budget. The decrease in project is due to the following:

- reduced demand for FD planning;
- No manager to drive the Investment Facilitation project. The funds mainly carry overs from slow start in year 1;
- Trade news project and advice on trade negotiations extended to cover work in following year; and
- There was low demand for services from TVM members. In addition, no substantive project coordinator for much of the period.

Overall, the underspending is mainly due to lack of flexibility in project funding which resulted in delays in implementation, especially when staff posts are not filled.

Output 4: Fisheries Operations (FO)

FO expenses were lower than budgeted by \$2,060,006 which is 32% of the Output 4 budget. Staff costs and project expenses were lower than budgeted by \$256,136 and \$1,803,870 respectively.

The decrease in staff costs is due to delays in recruiting of VMS Operation Assistants and Subregional Arrangement Officer and savings from other staff costs.

The decrease in project expenses is due to the following:

- No observer placements, debriefings and related activities due to the suspension of the US Treaty Observer Programme;
- Members did not fully utilise the VMS financial assistance funds available to them during the financial year;
- No additional Mobile Transceiver Units (MTUs) requested from members (Cook Islands, Samoa, Tonga) for domestic fleet monitoring;
- Members did not fully utilize VMS and MCS fellowships and attachment programs throughout the year.;
- Still awaiting site confirmation from Kiribati where the VSAT will be installed;
- Limited travel by VMS staff for onsite support and no consultancies were engaged during the year;
- Left over funds for ongoing WCPFC/members VMS support services relating to claims made for transport and communications costs by on-call staff; and
- IT project funds were under-utilised because there were a number of positions / vacancies that were yet to be filled at that time

Output 5: Corporate Services (CS)

CS expenses were lower than budgeted by \$257,251 which constitute 5% of the Output 5 budget. Staff costs and project expenses were lower than budgeted by \$231,937 and \$25,314 respectively.

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

25. Segment Reporting

25.1 Statement of financial performance

	General Fund US\$	Trust Fund US\$	Housing Fund US\$	VMS US\$	Elimination US\$	Grand Total US\$
INCOME						
Member country contributions	1,686,959	-	-	-	-	1,686,959
Donor funds	-	10,176,382	-	-	352,791	10,529,173
Vessel registration fees	-	-	-	3,567,671	-	3,567,671
Housing rental receipts	-	-	1,215,787	-	(1,178,274)	37,513
Interest received	709	20,694	70	5,026	-	26,499
Program support and cost recovery	1,693,098	-	-	-	(1,572,600)	120,498
Australia Project Development Fund donation	156,250	-	-	-	-	156,250
UST levy	314,075	-	-	-	-	314,075
Vessel levy	143,707	-	-	-	-	143,707
Benefit from property, plant and equipment	102,078	107,331	124,070	-	-	333,479
Other income	58,366	-	79,516	33,794	(79,516)	92,160
Total income	4,155,242	10,304,407	1,419,443	3,606,491	(2,477,599)	17,007,984
EXPENDITURES						
Output 1: High Level Advice	1,354,286	2,160,253	-	132,948	(362,144)	3,285,343
Output 2: Fisheries Management	-	2,035,019	-	-	(163,412)	1,871,607
Output 3: Fisheries Development	-	3,202,886	-	-	(313,938)	2,888,948
Output 4: Fisheries Operations	-	1,754,939	-	3,892,567	(1,309,220)	4,338,286
Output 5: Corporate Services	2,798,556	1,183,504	1,415,547	204,765	(328,885)	5,273,487
Total expenditures	4,152,842	10,336,601	1,415,547	4,230,280	(2,477,599)	17,657,671
Deficit for the year	2,400	(32,194)	3,896	(623,789)	-	(649,687)

PACIFIC ISLANDS FORUM FISHERIES AGENCY

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

25. Segment Reporting - continued

25.2 Statement of financial position

	General Fund US\$	Trust Fund US\$	Housing Fund US\$	VMS US\$	Elimination US\$	Grand Total US\$
<u>Assets</u>						
<i>Current assets</i>						
Cash and cash equivalents	547,810	6,593,177	157,164	2,774,566	-	10,072,717
Receivables from exchange transactions	1,201,411	1,117,839	48,533	683,387	(2,214,325)	836,845
Receivables from non-exchange transactions	3,213	621,262	-	-	-	624,475
Prepayments	36,667	22,819	77,580	52,280	-	189,346
<i>Total current assets</i>	1,789,101	8,355,097	283,277	3,510,233	(2,214,325)	11,723,383
<i>Non-current assets</i>						
Property, plant and equipment	2,652,717	167,413	2,719,536	69,506	-	5,609,172
Prepayments	-	-	78,359	-	-	78,359
<i>Total non-current assets</i>	2,652,717	167,413	2,797,895	69,506	-	5,687,531
Total assets	4,441,818	8,522,510	3,081,172	3,579,739	(2,214,325)	17,410,914

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

25. Segment Reporting - continued

25.2 Statement of financial position - continued

	General Fund US\$	Trust Fund US\$	Housing Fund US\$	VMS US\$	Elimination US\$	Grand Total US\$
Liabilities						
Current liabilities						
Payables and accruals from exchange transactions	1,015,757	955,892	367,529	3,157,515	(2,214,325)	3,282,368
Payables and accruals from no-exchange transactions	-	6,299,624	-	-	-	6,299,624
Employee benefits	255,012	458,770	70	146,504	-	860,356
Deferred revenue	102,078	107,331	124,070	-	-	333,479
Total current liabilities	1,372,847	7,821,617	491,669	3,304,019	(2,214,325)	10,775,827
Non-current liabilities						
Employee benefits	44,772	74,094	1,326	21,882	-	142,074
Deferred revenue	2,489,433	60,082	2,565,653	-	-	5,115,168
Total non-current liabilities	2,534,205	134,176	2,566,979	21,882	-	5,257,242
Total liabilities	3,907,052	7,955,793	3,058,648	3,325,901	(2,214,325)	16,033,069
Net assets	534,766	566,717	22,524	253,838	-	1,377,845
Equity						
Accumulated funds	534,766	566,717	22,524	253,838	-	1,377,845
Total equity	534,766	566,717	22,524	253,838	-	1,377,845

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

26. Summary of Trust Fund expenditures

Donors	2016 Budget USD	% of Total	2016 Actual USD	% of Total	2015 Actual USD	% of Total
DFAT						
Output 1: High level advice	1,063,879		863,705		1,348,263	
Output 2: Fisheries management	527,849		407,395		597,005	
Output 3: Fisheries development	575,288		530,260		23,689	
Output 4: Fisheries operations	362,159		266,070		223,196	
Output 5: Corporate services	278,736		417,874		311,645	
	2,807,911	21.19%	2,485,304	24.06%	2,503,798	18.89%
DFAT XB						
Output 1: High level advice	-		-		583,216	
Output 2: Fisheries management	-		-		185,956	
Output 3: Fisheries development	-		-		675,648	
Output 4: Fisheries operations	-		-		452,018	
	-	0.00%	-	0.00%	1,896,838	14.31%
DAWR						
Output 1: High level advice	62,367		43,494		104,146	
	62,367	0.47%	43,494	0.42%	104,146	0.78%
NZAID						
Output 1: High level advice	652,237		637,457		779,763	
Output 2: Fisheries management	296,981		288,542		557,601	
Output 3: Fisheries development	674,890		609,543		748,420	
Output 4: Fisheries operations	-		-		328,284	
Output 5: Corporate services	8,516		393,077		29,802	
	1,632,624	12.32%	1,928,619	18.67%	2,443,870	18.42%
NZAID XB - Observer Program						
Output 4: Fisheries operation	-		-		82,896	
	-	0.00%	-	0.00%	82,896	0.63%
NZAID XB - Investment, Export Facilitation						
Output 3: Fisheries development	808,073		436,520		582,477	
	808,073	6.10%	436,520	4.23%	582,477	4.39%
NZAID XB - Pacific Fisheries Training						
Output 1: High level advice	677,812		406,793		715,908	
	677,812	5.12%	406,793	3.94%	715,908	5.40%

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

26. Summary of Trust Fund expenditure - continued

Donors	2016 Budget USD	% of Total	2016 Actual USD	% of Total	2015 Actual USD	% of Total
NZAID XB – Information Management						
Output 4: Fisheries operation	812,070		639,284		519,821	
	812,070	6.13%	639,284	6.19%	519,821	3.92%
NZAID XB – Infrastructure Investment						
Output 4: Fisheries operation	60,503		96,731		39,001	
Output 5: Corporate services	161,431		21,280		757,275	
	221,934	1.68%	118,011	1.14%	796,276	6.01%
NZAID XB – Te Vaka Moana						
Output 3: Fisheries development	558,888		227,540		120,431	
Output 4: Fisheries operations	192,359		96,892		10,021	
	751,247	5.67%	324,432	3.14%	130,452	0.98%
NZ MFAT - Input to Leaders Report						
Output 3: Fisheries development	-		156,923		-	
	-	0.00%	156,923	1.52%	-	-
OFCF/JPF						
Output 1: High level advice	478,674		208,312		280,393	
Output 2: Fisheries management	-		-		62,350	
Output 3: Fisheries development	598,640		243,116		385,663	
Output 4: Fisheries operations	444,843		355,373		256,170	
	1,522,157	11.49%	806,801	7.81%	984,576	7.43%
UNDP/GEF						
Output 2: Fisheries management	1,306,820		1,104,991		9,215	
Output 4: Fisheries operations	-		2,112		-	
	1,306,820	9.86%	1,107,103	10.72%	9,215	0.07%
EU/DEVFISH						
Output 3: Fisheries development	1,004,219		996,764		1,753,840	
Output 5: Corporate services	48,313		97,701		18,088	
	1,052,532	7.94%	1,094,465	10.60%	1,771,928	13.37%
ROC/Taiwan						
Output 1: High level advice	1,549		492		-	
Output 3: Fisheries development	710		2,219		9,766	
Output 4: Fisheries operation	2,593		2,140		1,950	
Output 5: Corporate services	-		-		26,157	
	4,852	0.04%	4,851	0.05%	37,873	0.29%
SCICOFISH						
Output 3: Fisheries development	9,419		-		4,775	
	9,419	0.07%	-	0.00%	4,775	0.04%

PACIFIC ISLANDS FORUM FISHERIES AGENCY

Notes to the financial statements for the year ended 30 June 2016 – continued

26. Summary of Trust Fund expenditure - continued

Donors	2016 Budget USD	% of Total	2016 Actual USD	% of Total	2015 Actual USD	% of Total
FAO						
Output 3: Fisheries development	20,580		-		-	
Output 4: Fisheries operation	264,032		200,552		101,760	
	284,612	2.15%	200,552	1.94%	101,760	0.77%
WB-IDA PROP						
Output 2: Fisheries management	1,100,000		175,914		-	
	1,100,000	8.30%	175,914	1.70%	-	-
FFA/PNA Corporation						
Output 5: Corporate services	-		22,068		-	
	-	0.00%	22,068	0.21%	-	-
WWF						
Output 4: Fisheries operation	-		97,897		-	
	-	0.00%	97,897	0.95%	-	-
EDF						
Output 4: Fisheries operation	-		58,177		-	
	-	0.00%	58,177	0.56%	-	-
Other						
Output 4: Fisheries operations	25,793		-		102,252	
Output 5: Corporate services	168,202		220,834		405,549	
	193,995	1.46%	220,834	2.14%	507,801	4.30%
Total donor funding	13,248,425	100.00%	10,328,042	100.00%	13,194,410	100.00%

**Notes to the financial statements
for the year ended 30 June 2016 – continued**

27. Recognition of interest from bonds provided by Japan

Background

The Pacific Islands Forum Fisheries Agency (“FFA”) signed a Memorandum of Understanding (“MOU”) with Overseas Fishery Co-operation Foundation (“OFCF”) dated 20 June 2008 involving an income stream to the FFA for a period up to ten years. Under the Agreement, OFCF purchased Japanese Government Bonds (JGB) with a face value of Y\$8,300,000,000 at a cost of Y\$8,130,929,000, on behalf of FFA.

The loan arrangement states in particular that:

- The proceeds of the loan can only be used by Japanese Government bonds that are to be held by a custodian (Mitsubishi UFJ Securities);
- FFA is required to pledge the bonds as security for the loan and it is expected that FFA will repay the loan by surrendering the bonds;
- The interest on the bond, less commissions, remittance fees and custodian fees, can only be paid into a Promotion Fund account at the Toranomon Branch of The Bank of Tokyo-Mitsubishi UFJ, established under the MOU between FFA and OFCF;
- FFA must use this income stream for projects set out in the MOU, being projects that accord the FFA’s Strategic Plan 2020 and business plan, recommended by a Joint (FFA-OFCF) Committee and approved by the Forum Fisheries Committee (FFC);
- FFA is not able to sell the bonds or use them for other purposes.

Accounting treatment of the bond, loan and interest.

Bond and loan

Due to the substance of loan arrangement, the bond and the loans do not meet the definition of an asset and liability respectively because FFA does not control the economic benefits of the bond and obligations of the loan.

Interest

The net interest from Japanese Government Bonds financed by the Overseas Fishery Co-operation Foundation (OFCF) and paid into an account at the Bank of Tokyo-Mitsubishi UFJ Limited is accounted for when the funding conditions are met and the interest is received.