



**FFA**

**TREATY ON FISHERIES  
BETWEEN THE  
GOVERNMENT OF  
CERTAIN PACIFIC ISLAND  
STATES AND THE  
GOVERNMENT OF THE  
UNITED STATES OF  
AMERICA**

**Financial statements for the year ended  
31 December 2017  
(30<sup>th</sup> licensing period)**

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**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Financial statements for the year ended 31 December 2017 (30th licensing period)**

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# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Director General's report

The Director General of Pacific Islands Forum Fisheries Agency ('FFA') is pleased to present the report on the financial statements of the Treaty on Fisheries between the Governments of certain Pacific Island States and the Government of the United States of America ('the Treaty') which comprises of the Treaty Administration, Project Development, Economic Development, Industry Development, Observer Placement, Observer Crewing, Observer Training and Observer Administration Funds for the year ended 31 December 2017 (30th licensing period). In order to comply with the provisions of the FFA's Financial Regulations, the Director General report as follows:

## Review of operations and changes in state of affairs

The Treaty came into force on 15 June 1988, and was in operation initially for 5 years (15 June 1988-14 June 1993); then extended for 10 years (15 June 1993-14 June 2003); then another 10 years (15 June 2003 — 14 June 2013); followed by transitional arrangements — firstly for 1½ years (15 June 2013-31 December 2014), then an additional 1 year (1 January-31 December 2015), and another 1 year (1 January-31 December 2016) pending agreement on outstanding negotiation issues. Parties to the Treaty finally agreed to extend the Treaty for another 6 year term from 1 January 2017 to 31 December 2022 with agreed funding for the first 4 years and pending funding for negotiation for the last 2 years. The Treaty does not have a sunset clause but its financial arrangement ends at the expiry date of each corresponding licensing period. The financial package varies for each licensing period, depending on the agreed level of fishing days purchased by the U.S. fleet.

The Pacific Island States that are parties to the Treaty, often called Pacific Island Parties (PIPs), are the 16 Members of the FFA - Tokelau is not a party because it is under New Zealand.

One of the primary objectives of the Treaty is to maximize benefits flowing from the development of the fisheries resources within the exclusive economic zones (EEZs) of the PIPs. Major activities implemented by the Treaty that contributed to achieving the Treaty objectives include: provision of technical and economic support to assist PIPs to maximise benefits from the Treaty; distribution of funds to the PIPs based on an agreed formula which include fishing days contributed by PIPs; and coordination of the meetings of the parties.

The core functions of the Treaty 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 Treaty other than that referred to in the financial statements or notes thereto. The Treaty reported a net deficit of US\$7,867 (2016: US\$202,466 surplus).

## Independent audit report

The financial statements have been audited by Ernst & Young and should be read in conjunction with the independent audit report on pages 3 to 4. Audit fees and non-audit fees are disclosed at Note 12.

## Other information

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

1 FFA Road  
P.O. Box 629  
Honiara  
Solomon Islands  
Tel: (677) 21124  
Fax: (677) 23995/20092  
Website: <http://www.ffa.int>

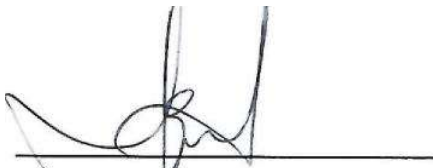
**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Director General's report continued**

**Director General's declaration**

The Director General declares that:

- (a) the financial statements fairly present the financial position of Treaty on Fisheries between the Governments of certain Pacific Island States and the Government of the United States of America (the Treaty') and its financial performance and cash flows as at the end of the 2017 financial year or the 30th licensing period;
- (b) the financial statements of the Treaty 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 Treaty has complied with the requirements of the Financial Regulations.



**James Movick**  
**Direciiireeliera I**

**Honiara, 29th March 2018.**

## **Independent Auditor's Report**

To the members of the Pacific Islands Parties (PIPs)

### **Opinion**

We have audited the financial statements of Treaty on Fisheries between the Governments of certain Pacific Island States and the Government of the United States of America ('the Treaty'), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Treaty as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards ("IPSAS").

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Treaty in accordance with the ethical requirements that are relevant to our audit of the financial statements in Fiji and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of the Director-General and Management for the Financial Statements**

The Director General and management are responsible for the preparation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as the Director General and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director General and management are responsible for assessing the Treaty's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Director General and management either intend to liquidate the Treaty or to cease operations, or have no realistic alternative but to do so.

The Director General and management are responsible for overseeing the Treaty's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:



Build:nr, a better  
working world

### **Auditors Responsibilities for the Audit of the Financial Statements *continued***

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Treaty's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Director General and management.
- Conclude on the appropriateness of the Director General and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Treaty's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention **in** our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Treaty to cease to continue as a going concern.

We communicate with the Director General and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young  
Chartered Accountants

Si keli Tuinamuana  
Suva, Fiji

29 March 2018

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Statement of financial performance**

**for the year ended 31 December 2017 (30th licensing period)**

	Notes	2017	2016
		US\$	US\$
<b>Income</b>			
Treaty funds received	5	69,468,247	67,807,050
Interest income	6	449,687	680,935
Benefit from property, plant and equipment		1,875	
Sundry income	7	68,938	2,308
<b>Total income</b>		<b>69,988,747</b>	<b>68,490,293</b>
<b>Expenditures</b>			
Administration expenses	8	500,035	755,793
Project Development Fund expenditures	9	2,465,283	2,634,846
Even share distribution	11	13,037,567	10,205,953
Days and exploratory share distribution	11	52,232,250	53,006,354
UST levy	11	315,000	315,000
Observer placement costs	10	917,530	966,557
Observer training costs	10		128,962
Observer administration costs	10	528,949	274,362
<b>Total expenditures</b>		<b>69,996,614</b>	<b>68,287,827</b>
<b>(Deficit) surplus for the year</b>		<b>(7,867)</b>	<b>202,466</b>

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

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Statement of financial position**

**as at 31 December 2017 (30th licensing period)**

	Notes	2017 US\$	2016 US\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	23(a)	53,698,101	52,217,108
Receivables from exchange transactions	14	314,389	135,732
Prepayments	15	962	1,200
<b>Total current assets</b>		<b>54,013,452</b>	<b>52,354,040</b>
<b>Non-current assets</b>			
Property, plant and equipment	16	5,786	
<b>Total non-current assets</b>		<b>5,786</b>	
<b>Total assets</b>		<b>54,019,238</b>	<b>52,354,040</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables and accruals from exchange transactions	17	48,776,217	47,129,616
Employee benefits	18	61,966	47,725
Deferred income liability	19	2,528	
<b>Total current liabilities</b>		<b>48,840,711</b>	<b>47,177,341</b>
<b>Non-current liabilities</b>			
Employee benefits	18	14,738	8,301
Deferred income liability	19	3,258	
<b>Total non-current liabilities</b>		<b>17,996</b>	<b>8,301</b>
<b>Total liabilities</b>		<b>48,858,707</b>	<b>47,185,642</b>
<b>Net assets</b>		<b>5,160,531</b>	<b>5,168,398</b>
<b>Equity</b>			
Accumulated surpluses		5,160,531	5,168,398
<b>Total equity</b>		<b>5,160,531</b>	<b>5,168,398</b>

Sign -d in accordance with the Financial Regulation of Pacific Islands Forum Fisheries

Agency: I -

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**James Movick,"**  
**Director General**

Honiara, 29<sup>th</sup> March 2018

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



**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Statement of changes in equity**

**for the year ended 31 December 2017 (30th licensing period)**

	<b>Accumulated funds</b>
	US\$
<b>Balance as at 1 January 2016</b>	<b>4,965,932</b>
Surplus for the year	202,466
<b>Balance as at 31 December 2016</b>	<b>5,168,398</b>
Loss for the year	(7,867)
<b>Balance as at 31 December 2017</b>	<b>5,160,531</b>

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

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Statement of cash flows**

**for the year ended 31 December 2017 (30th licensing period)**

	Notes	2017	2016
		US\$	US\$
<b>Cash flows from operating activities</b>			
Receipts from Treaty and other income		69,605,629	101,469,831
Payments to suppliers, employees and member countries		(68,514,387)	(85,549,656)
<b>Net cash generated/(used in) by operating activities</b>	23(b)	<b>1,091,242</b>	<b>15,920,175</b>
<b>Cash flows from investing activities</b>			
Interest received		397,411	648,636
Purchase of property, plant and equipment		(7,661)	
<b>Net cash(used in)/generated by investing activities</b>		<b>389,751</b>	<b>648,636</b>
Net increase/(decrease) in cash and cash equivalents		1,480,993	16,568,811
Cash and cash equivalents at the beginning of the year		52,217,108	35,648,297
Cash and cash equivalents at the end of the year	23(a)	<b>53,698,101</b>	<b>52,217,108</b>

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

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Statement of comparison of budget and actual amounts for the year ended 31 December 2017 (30th licensing period)**

	APPROVED BU		ACTUALS		VARIANCE	
	30 <sup>th</sup> LP	29 <sup>th</sup> LP	30 <sup>th</sup> LP	29 <sup>th</sup> LP	Approved Budget less Actual Amounts	
	2017	2016	2017	2016	2017	2016
	us\$	us\$	US\$	US\$	US\$	US\$
<b>Income</b>						
Treaty funds received	69,566,642	68,013,193	69,468,247	67,807,050	98,395	206,143
Interest income	434,333		449,687	680,935	(15,354)	(680,935)
Benefit from property, plant and equipment			1,875	-	(1,875)	-
Sundry income			68,938	2,308	(68,938)	(2,308)
<b>Total income</b>	<b>70,000,975</b>	<b>68,013,193</b>	<b>69,988,747</b>	<b>68,490,293</b>	<b>12,228</b>	<b>(477,100)</b>
<b>Expenditures</b>						
Administration expenses	950,000	950,000	500,035	755,793	449,965	194,207
Project Development Fund expenditures	2,500,000	2,500,000	2,465,283	2,634,846	34,717	(134,846)
Even share distribution	13,037,567	10,205,953	13,037,567	10,205,953		
Days/exploratory share distribution	51,710,925	52,333,529	52,232,250	53,006,354	(521,325)	(672,825)
UST levy	315,000	315,000	315,000	315,000		
Observer placement costs	870,540	1,041,421	917,530	966,557	(46,990)	74,864
Observer training costs		53,460		128,962		(75,502)
Observer administration costs	616,943	613,830	528,949	274,362	87,994	339,468
<b>Total expenditures</b>	<b>70,000,975</b>	<b>68,013,193</b>	<b>69,996,614</b>	<b>68,287,827</b>	<b>4,361</b>	<b>(274,634)</b>
<b>Net (deficit)/surplus</b>			<b>(7,867)</b>	<b>202,466</b>	<b>7,867</b>	<b>(202,466)</b>

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

# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Notes to the financial statements for the year ended 31 December 2017 (30th licensing period)

### 1. General information

The Treaty on Fisheries between the Governments of certain Pacific Island States and the Government of the United States of America (Treaty) is operated and managed by Pacific Islands Forum Fisheries Agency (**TFA**) from its headquarters in Honiara, Solomon Islands.

There are sixteen parties comprising of Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand (Tokelau), Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

The address 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 29th March 2018.

### 2. Significant accounting policies

#### 2.1 Statement of compliance and basis of preparation

The financial statements of the Treaty 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 Treaty 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 Treaty'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.

# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — continued

### 2. Significant accounting policies - continued

#### 2.4 Financial assets

The Treaty 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 Treaty 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 Treaty 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 Treaty 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 Treaty neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Treaty recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Treaty retains substantially all the risks and rewards of ownership of a transferred financial asset, the Treaty continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### 2.5 Financial liabilities

##### Other financial liabilities

The Treaty recognises all other financial liabilities on trade date at which the Treaty 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 Treaty derecognises financial liabilities when, and only when, the Treaty's obligations are discharged, cancelled or they expire.

# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — 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 Treaty, 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:

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 or deficit is recorded in deferred income liability for all donated assets. A revaluation surplus is recorded in other comprehensive revenue and expense and credited to the asset revaluation reserve in net assets/equity for **all** assets other than donated assets. 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:

- Plant, equipment and furniture                      3-5 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.

##### 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.

# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — continued

### 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 Treaty 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 Treaty. Gains and losses on the retention are fully accounted for in the statement of financial performance.

### 2.8 Equity

Equity is the parties' interest in the Treaty, 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 Treaty's accumulated surplus or deficit since the formation of the Treaty.

### 2.9 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Treaty 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 exchange transactions:

##### Treaty funds

Treaty funds are funds received from the United States of America in the form of transfers of resources to the Treaty in return for past or future compliance with certain conditions relating to the operating activities of the Treaty. Treaty funds are used only for the purposes specified under the Treaty and shall be accepted only if the purposes of such contributions from United States of America are consistent with the policies of the Treaty.

Treaty funds are not recognised until there is reasonable assurance that the Treaty will comply with the conditions attaching to them and the funds will be received. Treaty funds are recognised on an accrual basis. Treaty 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. Treaty 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.

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

# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — continued

### 2. Significant accounting policies - continued

#### 2.9 Revenue - continued

##### *Interest revenue*

Interest revenue is recognised when it is probable that the economic benefits will flow to the Treaty and the amount of revenue can be measured reliably. Interest revenue is accrued on a timely 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.

##### *Other income*

Other income includes fees from foreign exchange gains or losses and reimbursement of medical fees from insurance provider.

#### 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 Treaty 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 Treaty is only liable for pay-as-you-earn (PAYE) tax on local employees and withholding taxes under Solomon Islands Income Tax Act.

#### 2.12 Comparatives

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

#### 2.13 Budget information

The budget figures presented in these financial statements are those included in the Treaty's 2017 Annual Work Plan (AWP). The Annual Work Plan budget figures are initially approved by Pacific Islands Parties and the United States of America following a period of consultation with the parties. The AWP budget figures is then submitted for approval in the Pacific Islands Forum Fisheries Committee (FFC) at the beginning of each financial year. 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 26.



# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Notes to the financial statements for the year ended 31 December 2017 (30<sup>th</sup> licensing period) — continued

### 3. Significant accounting judgements, estimates and assumptions

In the application of the Treaty'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 Treaty'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 Treaty 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 Treaty. 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.

## TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

### Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — continued

#### 4. Capital management

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

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

The FFA Financial Regulation requires the Treaty 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 Treaty has to ensure that the expenditure needs identified in the following agreed outcomes:

Second Statement of Intent (S01\_2) agreed at RS13 held in October 2014 in Hawaii;  
Third Statement of Intent (S01\_3) agreed at RS16 in October 2015 in Brisbane;  
Varied Third Statement of Intent (S01\_3\_Varied) agreed at SPIP24 in February 2016 in Nadi, Fiji;  
and  
Work Programme,

are met in the manner set out in these plans. The FFC requires the Treaty 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 Treaty is required to consider when determining the most appropriate sources of funding for each of its activities are set out in the agreed S01\_2 and S01\_3\_Varied. The sources and levels of funding are set out in the funding and financial policies in the Treaty. The Treaty monitors actual expenditure incurred against the agreed outcomes above.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017.

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**5. Treaty funds received**

An analysis of the Treaty's revenue for the year (excluding investment revenue — see note 6) is as follows:

	2017	2016
	us\$	us\$
<i>Revenue from Treaty comprises of</i>		
- Treaty funds received for distribution	64,835,438	62,534,147
- Administration Funds	1,265,000	1,265,000
- Project Development Funds	2,500,000	2,500,000
- Observer placement funds received	1,290,077	1,296,583
- Observer training funds received	(34,909)	98,506
- Observer crewing funds received	(111,319)	
- Observer administration funds received	(276,040)	112,814
<b>Total Treaty funds received</b>	<b>69,468,247</b>	<b>67,807,050</b>
<i>Revenue from Treaty sourced from:</i>		
- United States of America Government funds	21,000,000	21,000,000
- United States of America Boat Association funds	48,468,247	46,807,050
<b>Total Treaty funds received</b>	<b>69,468,247</b>	<b>67,807,050</b>
<b>6. Interest income</b>		
USA Government - Economic Development Fund	37,567	15,387
USA Boat Association - Industry Development Fund	396,812	662,773
US Treaty Administration Fund	58	44
UST Project Development Fund	15,250	2,731
<b>Total interest earned</b>	<b>449,687</b>	<b>680,935</b>
Term deposits are held with Standard Chartered Bank, Singapore. The deposits earned floating interest between 0.25% to 1.20% (2016: 0.02% to 0.70%)		
<b>7. Sundry income</b>		
Exchange gains	8,559	2,308
Other income	60,379	
<b>Total sundry income</b>	<b>68,938</b>	<b>2,308</b>

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) - continued**

**8. Administration expenditures**

	<b>2017</b>	<b>2016</b>
	US\$	US\$
<i>Staff costs</i>		
Multilateral Treaty Manager	188,563	172,888
Senior Treaty Officer	22,329	27,132
Treaties Data Officer	8,389	7,594
Individual performance	6,574	2,522
Insurance - staff medical & life policy	24,624	16,894
	<b>250,479</b>	<b>227,030</b>
<i>Project costs</i>		
UST extension	8,400	187,603
Meeting advisory and coordination	49,645	86,333
Audit fees	12,000	7,859
Finance charges	14,195	97,128
Cost recovery	165,316	149,840
	<b>249,556</b>	<b>528,763</b>
<b>Total expenditures</b>	<b>500,035</b>	<b>755,793</b>
<b>9. Project Development Fund expenditures</b>		
PDF project payments	1,286,833	1,594,252
Membership contributions	171,966	120,254
Daily subsistence allowance	451,176	454,149
Airfares	539,605	415,919
Finance charges	3,581	7,207
Other	12,122	43,065
<b>Total expenditures</b>	<b>2,465,283</b>	<b>2,634,846</b>

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) - continued**

**10. Observer expenditures**

	<u>2017</u>	<u>16</u>
	US\$	US\$
<b>Observer placements costs</b>		
Airfares	194,564	210,006
Daily subsistence allowances	241,072	271,903
Sea allowances	425,821	427,771
Travel costs	2,983	11,829
Debriefing costs	22,725	17,881
Sundry expenses	30,365	27,167
<b>Total observer placement costs</b>	<b>917,530</b>	<b>966,557</b>
<b>Observer training costs</b>		
Regional observer training		128,962
<b>Total observer training costs</b>		<b>128,962</b>
<b>Observer administration costs</b>		
Staff costs		
- Observer Data Clerk	17,170	14,399
- Observer Programme Manager	137,206	70,844
- Observer Coordinator	29,586	28,840
- Observer Placement Assistant	24,637	23,921
- Observer- Data entry officer	17,343	17,430
- Finance Officer- USTO	20,292	17,700
- Individual performance	22,404	2,519
- Insurance - staff medical & life policy	40,277	31,292
<b>Total staff costs</b>	<b>308,915</b>	<b>206,945</b>
In-country support costs		
Data management	10,073	14,943
Other contingent provisions	19,228	13,254
Observer administration - Observer scheme coordinator	172,427	
Depreciation	1,875	
Other expenses	16,431	39,220
<b>Total observer administration costs</b>	<b>528,949</b>	<b>274,362</b>
<b>Total observer expenditures</b>	<b>1,446,479</b>	<b>1,369,881</b>

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) - continued**

**11. Summary of Economic Development and Industry Development Funds expenditures**

Pacific Islands Parties (PIPs)	Year ended 31 December 2017			Year ended 31 December 2016		
	Even share distribution	Days and exploratory share distribution	Other	Even share distribution	Days and exploratory share distribution	Other
Australia*	812,500					
Cook Islands**	815,005	3,499,047		680,397	2,839,901	
Federated State of Micronesia	815,005	5,476,399		680,397	11,623,702	
Fiji	815,004	200,401		680,397	30,000	
Kiribati	815,005	4,125,373		680,397	3,828,737	
Marshall Islands	815,005	5,476,400		680,397	5,883,493	
Nauru	815,005	5,476,400		680,397	3,301,027	
New Zealand/ Tokelau	815,005	5,476,400		680,397	8,433,088	
Niue	815,004	56,295		680,397	30,000	
Palau	815,005	5,476,400		680,397	149,865	
Papua New Guinea	815,004	5,476,400		680,397	5,517,454	
Samoa	815,004	343,298		680,397	30,000	
Solomon Islands	815,004	5,476,400		680,396	5,203,643	
Tonga	815,004	140,342		680,397	30,000	
Tuvalu	815,004	5,476,400		680,397	6,075,444	
Vanuatu	815,004	56,295		680,396	30,000	
UST Levy			315,000		-	315,000
<b>Total</b>	<b>13,037,567</b>	<b>52,232,250</b>	<b>315,000</b>	<b>10,205,953</b>	<b>53,006,354</b>	<b>315,000</b>

\*Australia closed off its EEZ to foreign fishing vessels, including the U.S. fleets in 2016, and accepted no entitlement to the Even Share allocation. Australia's Even Share for 2016 and 2017 were then retained pending instruction from Australia on how to use these funds.

\*\* Cook Islands offered 350 days as the part of the upfront days. However, only 327 days were purchased by the U.S. fleet therefore there was a slightly reduced amount for the Cook Islands as a result of this slight reduction of days purchased.

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**12. Audit fees and non-audit fees**

	<u>2017</u> US\$	<u>2016</u> US\$
Audit fees	4,700	4,400
Other charges relating to the audit	7,300	5,600
	<u>12,000</u>	<u>10,000</u>

**13. Commitments for expenditure**

The Treaty is not aware of any capital commitments as at the end of the financial year (2016: Nil).

**14. Receivables from exchange transactions**

Interest receivable	57,981	32,363
<b>Inter-entity</b> receivables	202,883	44,960
Sundry receivables	53,525	58,409
	<u>314,389</u>	<u>135,732</u>

Receivables from exchange transactions are non-interest bearing and are generally on terms of 30 to 90 days. As at 31 December, the ageing analysis of receivables from exchange transactions is as follows:

Ageing of past due but not impaired

Less than 30 days	57,981	32,363
30 - 60 days		
60 days and over	256,408	103,369
Total	<u>314,389</u>	<u>135,732</u>

**15. Prepayments**

Prepayments	<u>962</u>	<u>1,200</u>
	<u>962</u>	<u>1,200</u>
Current	<u>962</u>	<u>1,200</u>
	<u>962</u>	<u>1,200</u>

**16. Property, plant and equipment**

	Equipment and furniture at cost	Total
<b>Cost or valuation</b>		
Balance at 31 December 2016		
Additions	7,661	7,661
<b>Balance at 31 December 2017</b>	<u>7,661</u>	<u>7,661</u>
<b>Accumulated depreciation</b>		
Balance at 31 December 2016		
Depreciation expense	(1,875)	(1,875)
<b>Balance at 31 December 2017</b>	<u>(1,875)</u>	<u>(1,875)</u>
<b>Net book value</b>		
<b>Balance as at 31 December 2017</b>	<u>5,786</u>	<u>5,786</u>
<b>Balance as at 31 December 2016</b>		

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**17. Payables and accruals from exchange transactions**

	2017	2016
	US\$	US\$
Other creditors and accruals	4,031,923	2,636,929
Advance funds from US Government	44,452,341	44,259,391
Inter-entity payables	261,317	163,047
Others	30,636	70,249
<b>Total</b>	<b>48,776,217</b>	<b>47,129,616</b>

Terms and conditions of the above financial liabilities:

- Other creditors and accruals are non-interest bearing and are normally settled on 90-day terms; and
- Advance funds from US Government reflect Treaty funds for 31st Licensing Period received during the year towards the fiscal year for 1 January to 31 December 2018.
- Others comprise payables for employee costs especially taxes to Solomon Islands Government, superannuation contributions, credit union contributions and fees to Honiara City Council.

The Treaty 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.

**18. Employee benefits**

	7 2017	2016
		US\$
Annual leave	36,899	36,145
Retention	39,806	19,881
<b>Total</b>	<b>76,705</b>	<b>56,026</b>
Current	61,967	47,725
Non-current	14,738	8,301
<b>Total</b>	<b>76,705</b>	<b>56,026</b>

**19. Deferred income liability**

***Current***

Arising from fixed asset (i)	
- UST Observer Administration Fund	2,528
	<b>2,528</b>

***Non-current***

Arising from fixed asset (i)	
- UST Observer Administration Fund	3,258
	<b>3,258</b>

<b>Total</b>	<b>5,786</b>
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- (i) An amount of US\$1,875 was released from the deferred revenue which represents the depreciation charge for the year on the related property, plant and equipment (2016: Nil).



## TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

### Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — continued

#### 20. Retirement benefit plans

The local employees of the Treaty are members of a state-managed retirement benefit plan operated by the government of Solomon Islands. Other employees of the Treaty voluntarily become members of the state-managed retirement benefit plan. The Treaty 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 Treaty 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\$21,043 (2016: US\$17,947) is recognised in the statement of financial performance represents contributions payable to these plans by the Treaty at rates specified in the rules of the plans. As at 31 December 2017, contributions of US\$1,189 (2016: US\$1,488) 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.

#### 21. Financial assets and financial liabilities

##### 21.1 Financial risk management objectives and policies

The Treaty'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 Treaty's operations and commitments. The Treaty's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations.

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

##### 21.1.1 Foreign currency risk management

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

	Liabilities		Assets	
	2017	2016	2017	2016
	uss	uss	uss	uss
Currency of Solomon Islands	95,453	68,043	26,126	82,700
Currency of Australia	-		42,447	39,193

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

21. Financial assets and financial liabilities - continued

*21.1.1 Foreign currency risk management - continued*

Foreign currency sensitivity analysis

The Treaty is mainly exposed to the currencies of Solomon Islands and Australia.

The following table details the Treaty'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.

	<b>Total impact</b>	
	<b>2017</b>	<b>2016</b>
	USS	USS
Indicative foreign currency gain or loss(i)	2,688	5,385

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

The Treaty's sensitivity to foreign currency has decreased during the current period mainly due to the depreciation of SB\$ and AU\$ 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 Treaty will continue to seek advice and take action to reduce future exposure where possible to the impacts of ongoing exchange rate variations.

*21.1.2 Interest rate risk management*

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

The Treaty'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 analysis 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:

<b>Fixed-rate instruments</b>	<b>2017</b>	<b>2016</b>
	US\$	US\$
Short-term deposits	47,968,890	14,292,548
	47,968,890	14,292,548

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

# TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

## Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — continued

### 21. Financial assets and financial liabilities - continued

#### 21.1.2 interest rate risk management - continued

##### Interest rate sensitivity analysis - continued

- outcome for the year ended 31 December 2017 would increase/decrease by US\$2,059 (2016: increase/decrease by USD2,389). This is mainly attributable to the Treaty's exposure to interest rates on its variable rate borrowings.

The Treaty's sensitivity to interest rates has decreased during the current period mainly due to the stability of interest rates around 0.7% to 1.2%.

#### 21.3.3 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Treaty. The Treaty 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 Treaty's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Receivables consist of interest receivables and funds receivable from observers due to over payment. Ongoing credit evaluation is performed on the financial condition of accounts receivable in order to reduce any exposure to bad debts. The Treaty 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 Treaty's maximum exposure to credit risk without taking account of the value of any collateral obtained.

#### 21.3.4 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 Treaty's short-, medium- and long-term funding and liquidity management requirements. The Treaty 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.

### 22. Related party transactions

The Treaty has a related party relationship with Pacific Islands Forum Fisheries Agency and its executive officers (refer to Note 22.2). Following are the related parties:

- General Fund
- Trust Fund
- Vessel Monitoring and Surveillance Fund (VMS)
- Housing Fund
- Observer Cost Recovery Fund

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

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**22. Related party transactions - continued**

**22.1 Transactions between FFA and its related parties**

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

	<b>2017</b>	<b>2016</b>
	<b>USA</b>	<b>US\$</b>
Rent paid to Housing Fund	36,511	24,976
Housing allowance paid to Housing Fund	27,011	28,249
Administration fees paid to Housing Fund		411
Cost recovery paid to General Fund	165,316	149,840
Management fees paid to General Fund	315,000	315,000
	<b>543,838</b>	<b>518,476</b>

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

**Receivables**

General Fund		33,572
Observer Cost Recovery Fund	201,269	9,718
GEF	86	1,670
VMS	1,527	
	<b>202,883</b>	<b>44,960</b>

**Payables**

General Fund	(155,320)	(146,110)
Trust Fund	(105,997)	(16,937)
	<b>(261,317)</b>	<b>(163,047)</b>

Total receivables/(payables)	<b>(58,434)</b>	<b>(118,087)</b>
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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.

**22.2 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 Treaty:

- 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.
- Perry Head - Director Corporate Services.
- Dr. Manu Tupou-Roosen — Legal Counsel.
- Kaburoro Ruaia — Manager Treaty and Administration.
- Philip Lens — Observer Programme Manager

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**22.2 Key management personnel - continued**

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

	<u>2017</u>	<u>2016</u>
	<u>US\$</u>	<u>US\$</u>
Short-term <b>benefits (only</b> Manager Treaties and <b>Administration</b> and Observer Programme Manager's benefits are disclosed as the Directors and Legal Counsel benefits are funded under Core Funds)	325,769	243,731
	<u><b>325,769</b></u>	<u><b>243,731</b></u>

**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.

Key management personnel did not receive any remuneration or compensation other than **in** their capacity as key management personnel (2016: Nil).

The Treaty did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2016: Nil).

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

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**23. 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:

	2017	2016
	US\$	US\$
Cash at bank	5,729,211	37,924,560
Term deposits	47,968,890	14,292,548
	<b>53,698,101</b>	<b>52,217,108</b>

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 Treaty, and earn interest at the respective short-term deposit rates.

The cash and cash equivalents balance of the Treaty includes an amount of \$44,452,341 (2016: \$44,259,391) that relates to next fiscal year.

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

	2017	2016
	US\$	US\$
(Deficit)/surplus for the year	(7,867)	202,466
Depreciation expense	1,875	
Less: Interest received classified as investing activities	(397,411)	(648,636)
<i>Movement in assets and liabilities:</i>		
(Increase) in receivables from exchange transactions	(178,658)	(131,217)
Decrease in prepayment	238	154,914
Increase in payables and accruals from exchange transactions	1,646,600	16,331,610
Increase in employee benefits	20,679	11,038
Increase in deferred revenue	5,786	
	<b>1,091,242</b>	<b>15,920,175</b>

**24. Contingent liabilities and contingent assets**

The Treaty is not aware of any contingent liabilities as at the end of the financial year (2016: Nil).

**25. Events after the reporting period**

There are no material non-adjusting events after the reporting date (2016: Nil).

## TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA

### Notes to the financial statements for the year ended 31 December 2017 (30th licensing period) — continued

#### 26. Explanation of major variances against budget

Major variations from the statement of comparison of budget and actual are explained below:

The Treaty's net deficit was \$7,867. The net effect of the following items contributed to this variation:

##### ***Income:***

Treaty funds received were less than the budget by \$98,395 which is due to less funds received for the US Treaty Observer Programme. In addition, there was an additional revenue from the Exploratory Shares for 2016 which was not budgeted at the time. In 2017, funds of \$867,803 was received from the American Tunaboat Association (ATA) compared to the budgeted funds of \$1,487,483 - the difference of \$619,680 was funded by the accumulated surpluses from 2016 financial year. Also funds relating to Exploratory Shares for 2016 of \$546,009 were received in 2017 but was not included in the budget.

Interest income was higher than the budget by \$15,354. This is due to the interest received from the US industry on the quarterly payments and from investment in short term deposits.

Sundry income was \$68,938 which has no budget. The sundry income relates to foreign exchange gains and medical reimbursements.

##### ***Expenditures:***

##### **Administration expenses**

Administration expenses were lower than budgeted by \$449,965 and constitutes 47% of the Administration Budget. This is mainly due to delay of two staff positions and fewer meetings were held than the budgeted meetings for the year.

##### **Project Development Fund (PDF) expenditures**

The PDF expenses were lower than budgeted by \$34,717 which is constitute 1% of the budget. The underspending is due to PIPs utilizing their PDF to meet their project needs. All PIPs balances at the end of 31 December 2017 were positive (refer note 28) indicating that PIPs are spending within their allocated funds.

##### **Days and Exploratory Shares distributions**

The Days and Exploratory Shares distributions were higher than budget by \$521,325 which is 1% of the distribution budget. The main reason for the increase is due to the distribution of additional Exploratory Shares for 2016 for Fiji, Samoa and Tonga and interest received from the quarterly payments which was included in the final distribution.

##### **Observer placement costs**

Observer placement costs were higher than budgeted by \$46,990 and constitutes 5% of the Observer placement budget. This is due to increase in the number of trips compared to the budgeted trips.

##### **Observer administration costs**

Observer administration costs were lower than budgeted by \$87,994 - 14% of the observer administration budget. This is **mainly** due to huge savings in other activities such as other provisions, data management and observer administration.

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**27. Segment Reporting**

**27.1 Statement of financial performance for the year ended 31 December 2017**

	<b>Treaty Administration Fund</b>	<b>Project Development Fund</b>	<b>Economic and Industry Development Funds</b>	<b>Observer Funds</b>	<b>Elimination</b>	<b>Grand Total</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>INCOME</b>						
Treaty funds received	1,265,000	2,500,000	68,600,438	867,809	(3,765,000)	69,468,247
Interest income	58	15,250	-	434,378-	-	449,687
Benefit derived from property, plant and equipment	-	-	-	1,875	-	1,875
Sundry income	60,690	148	-	8,100	-	68,938
<b>Total income</b>	<b>1,325,748</b>	<b>2,515,398</b>	<b>69,034,816</b>	<b>877,784</b>	<b>(3,765,000)</b>	<b>69,988,747</b>
<b>EXPENDITURES</b>						
Administration expenses	500,035	-	-	-	-	500,035
Project Development Fund expenses	-	2,465,283	-	-	-	2,465,283
Administration budget distribution	-	-	1,265,000	-	(1,265,000)	-
Project Development Fund distribution	-	-	2,500,000	-	(2,500,000)	-
Even share distribution	-	-	-	13,037,567-	-	13,037,567
Days and exploratory share distribution	-	-	52,232,250	-	-	52,232,250
UST levy	315,000	-	-	-	-	315,000
Observer placement costs	-	-	-	917,530	-	917,530
Observer administration costs	-	-	-	528,949	-	528,949
<b>Total expenditures</b>	<b>815,035</b>	<b>2,465,283</b>	<b>69,034,816</b>	<b>1,446,479</b>	<b>(3,765,000)</b>	<b>69,996,614</b>
<b>Surplus/(deficit)for the year</b>	<b>510,713</b>	<b>50,115</b>	<b>-</b>	<b>(568,695)</b>	<b>-</b>	<b>(7,867)</b>



**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**27. Segment Reporting - continued**

**27.2 Statement of financial position as at 31 December 2017**

	Treaty Administration Fund	Project Development Fund	Economic and Industry Development Funds	Observer Funds	Elimination	Grand Total
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	4,043,915	4,150,538	44,100,000	1,403,648	-	53,698,101
Receivables from exchange transactions	482,989	3,884	3,036,784	1,308,127	(4,517,395)	314,389
Prepayments	412	-	-	550	-	962
<b>Total current assets</b>	<b>4,527,316</b>	<b>4,154,422</b>	<b>47,136,784</b>	<b>2,712,325</b>	<b>(4,517,395)</b>	<b>54,013,452</b>
<b>Non-current assets</b>						
Property, plant and equipment	-	-	-	5,786	-	5,786
<b>Total non-current assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,786</b>	<b>-</b>	<b>5,786</b>
Total assets	<b>4,527,316</b>	<b>4,154,422</b>	<b>47,136,784</b>	<b>2,718,111</b>	<b>(4,517,395)</b>	<b>54,019,238</b>

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) — continued**

**27. Segment Reporting - continued**

**27.2 Statement of financial position as at 31 December 2017 - continued**

	Treaty Administration Fund	Project Development Fund	Economic and Industry Development Funds	Observer Funds	Elimination	Grand Total
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Liabilities</b>						
<i>Current liabilities</i>						
Payables and accruals from exchange transactions	3,140,218	383,321	47,136,784	2,633,289	(4,517,395)	48,776,217
Employee benefits	46,778	-	-	15,188	-	61,966
Deferred income liability	-	-	-	2,528	-	2,528
<b>Total current liabilities</b>	<b>3,186,996</b>	<b>383,321</b>	<b>47,136,784</b>	<b>2,651,005</b>	<b>(4,517,395)</b>	<b>48,840,711</b>
<i>Non-current liabilities</i>						
Employee benefits	1,877	-	-	12,861	-	14,738
Deferred income liability	-	-	-	3,258	-	3,258
<b>Total non-current liabilities</b>	<b>1,877</b>	<b>-</b>	<b>-</b>	<b>16,119</b>	<b>-</b>	<b>17,996</b>
<b>Total liabilities</b>	<b>3,188,873</b>	<b>383,321</b>	<b>47,136,784</b>	<b>2,667,124</b>	<b>(4,517,395)</b>	<b>48,858,707</b>
<b>Net assets</b>	<b>1,338,443</b>		<b>3,771,101-</b>	<b>50,987</b>	<b>-</b>	<b>5,160,531</b>
<b>Equity</b>						
Accumulated funds	1,338,443		3,771,101-	50,987	-	5,160,531
<b>Total equity</b>	<b>1,338,443</b>		<b>3,771,101-</b>	<b>50,987</b>	<b>-</b>	<b>5,160,531</b>

**TREATY ON FISHERIES BETWEEN THE GOVERNMENT OF CERTAIN PACIFIC ISLAND STATES AND THE GOVERNMENT OF THE UNITED STATES OF AMERICA**

**Notes to the financial statements  
for the year ended 31 December 2017 (30th licensing period) - continued**

28. Accumulated funds as at 31 December 2017- Project Development Fund

Parties	Opening balance	PDF Share	Other income	Expenditures	Closing balance	PDF Share	Other income	Expenditures	Closing balance
	1 January 2016	31 1 January to December 2016	1 January to December 2016	1 January to 31 December 2016	31 December 2016	1 January to 31 December 2017	1 January to 31 December 2017	1 January to 31 December 2017	31 December 2017
Australia	-	156,250	-	(156,250)	-	156,250	-	(156,250)	-
Cook Islands	(50,057)	156,250	59	(56,145)	50,107	156,250	307	(94,756)	111,908
Federated States of Micronesia	516,709	156,250	336	(75,619)	597,676	156,250	2,842	(78,434)	678,334
Fiji	1,179,771	156,250	65	(482,104)	854,574	156,250	2,604	(334,171)	679,257
Kiribati	277,279	156,250	7	(4,034)	429,734	156,250	2,786	(94,573)	494,197
Marshall Islands	126,372	156,250	23	(237,872)	44,837	156,250	290	(135,410)	65,967
Nauru	102,028	156,250	9	(26,492)	231,925	156,250	1,379	(25)	389,529
New Zealand/Tokelau	337,994	156,250	87	(242,995)	251,019	156,250	1,070	(86,681)	321,658
Niue	40,803	156,250	13	(186,272)	10,792	156,250	80	(130,631)	36,491
Palau	128,164	156,250	9	(280,730)	3,737	156,250	86	(134,031)	26,042
Papua New Guinea	453,645	156,250	18	(88,625)	521,588	156,250	1,196	(342,987)	336,047
Samoa	361,877	156,250	0	(222,244)	296,179	156,250	1,590	(27,408)	426,611
Solomon Islands	44,568	156,250	11	(128,398)	72,497	156,250	231	(188,340)	40,638
Tonga	232,579	156,250	53	(167,114)	221,901	156,250	389	(338,014)	40,526
Tuvalu	15,508	156,250	31	(130,460)	41,771	156,250	313	(159,542)	38,792
Vanuatu	85,815	156,250	8	(149,492)	92,649	156,250	235	(164,030)	85,104
<b>Total</b>	<b>3,853,055</b>	<b>2,500,000</b>	<b>2,777</b>	<b>(2,634,846)</b>	<b>3,720,986</b>	<b>2,500,000</b>	<b>15,398</b>	<b>(2,465,283)</b>	<b>3,771,101</b>