



**INTERNATIONAL TROPICAL  
TIMBER COUNCIL**

**COMMITTEE ON  
FINANCE AND ADMINISTRATION**

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**FINANCIAL REPORTS PREPARED IN ACCORDANCE WITH  
ITTO FINANCIAL RULES AND PROCEDURES (ANNEX 4)**

(Item 9 of the Provisional Agenda)

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**Executive Summary of ITTO's Financial Statements**  
**for the year ended 31 December 2017**  
  
**prepared by the ITTO Management**



## Executive summary

The audited financial statements provide information on the financial position and performance of the International Tropical Timber Organization (ITTO) for the fiscal year ended 31 December 2017 (FY2017). Following the impairment of investments amounting to \$18 million in 2015-16, the International Tropical Timber Council (ITTC) adopted Decision 6(LII) in November 2016 to address the financial shortfall, which ITTO implemented to reorganize its finances in order to regain sufficient levels of funds to fully meet its financial obligations and resume its regular operations. As part of the requirement of the Decision, ITTO, at the 53<sup>rd</sup> Session of the ITTC in November 2017, provided a detailed report on the implementation of the Decision and concluded that all impacted projects/activities were fully operational and achieving their expected outputs and objectives and that ITTO is able to fully meet its financial obligations. The measures detailed in this report (ITTC(LIII)/12) were finalized and approved by the ITTC through Decision 7(LIII) on 2 December 2017.

For ITTO's Project accounts in FY2017, new voluntary contribution pledges of \$1.3 million were announced at the Council Session while total project cost expenses during this period were \$4.4 million from projects mostly funded prior to FY2017. Total Administrative Account assessed contribution revenues were \$7.2 million, of which \$1 million was not received during FY2017 and accounted for as assessed contributions receivable (arrears).

In accordance with the Financial Rules and Procedures, ITTO has adopted the International Public Sector Accounting Standards (IPSAS) as its standard for preparing its financial statements. As this is the second year reporting under IPSAS, comparative information is available now for most information. Highlights include, among others:

1. The figures in the statement of financial performance have changed significantly between 2016 and 2017. This is due to 2016 including a non-recurring revenue of \$5.3 million in write-off of obligations approved under Decision 6(LII). The surplus/deficit for 2017 is close to zero and can be considered reasonable under regular operations for a non-profit organization.
2. Voluntary contributions receivable increased by \$3.9 million between 2016 and 2017. This is mainly due to ITTO receiving assurance on the continuation of funding to certain projects in 2017.
3. Net cash outflow increased by \$2.4 million due to the recommencing of projects/activities in 2017, which were previously suspended in 2016 due to the financial impairment.

ITTO is committed to creating a solid foundation for transparent and effective financial management and reporting. In addition to the adoption of best practices for internal control introduced in the new financial rules, ITTO has developed an internal audit system in 2017 which is compliant with international standards to give assurance on the effectiveness and integrity of the controls that are implemented. It is recommended that ITTO continue to implement and strengthen its internal control and accountability measures by proactively evaluating and improving its systems and by adopting best practices from Organizations similar in nature. At the same time, the importance of Council's role as the governing body should be emphasized through regular reporting from ITTO and adequate oversight from ITTC members.



**ITTO's Financial Statements**  
**for the year ended 31 December 2017**

**audited by the Independent Auditors**





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## Chapter I Independent Auditor's Report

To the Executive Director of International Tropical Timber Organization

### *Opinion*

We have audited the financial statements of International Tropical Timber Organization (the Organization), which comprise the statement of financial position as at December 31, 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget to actual amounts 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 present fairly, in all material respects, the financial position of the Organization as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB).

### *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 Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical 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.

### *Information other than the Organization's 2017 Financial Statements and Auditor's Report Thereon*

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the ITTO Management Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs, and for such internal control as management determines 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, management is responsible for assessing the Organization'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 management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization'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 or 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 these financial statements.

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

- 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Organization's ability to continue as a going concern. If we conclude that a 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 Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

The partner in charge of the audit resulting in this independent auditor's report is Takashi Kubo.

Tokyo, Japan  
June 26, 2018

*Ernst & Young Shin Nihon LLC*

## Chapter II

### Financial statements for the year ended 31 December 2017

#### International Tropical Timber Organization I. Statement of financial position as at 31 December

(United States dollars)

|                                                        | Reference           | 31 December 2017  | 31 December 2016  |
|--------------------------------------------------------|---------------------|-------------------|-------------------|
| <b>Assets</b>                                          |                     |                   |                   |
| <b>Current assets</b>                                  |                     |                   |                   |
| Cash and cash equivalents                              | Note 6              | 16,878,793        | 19,661,535        |
| Investments                                            | Note 7              | -                 | -                 |
| Assessed and voluntary contributions receivable        | Notes 8, 21 and 22  | 6,060,384         | 1,936,461         |
| Other accounts receivable                              | Notes 8 and 21      | 60,686            | 66,741            |
| Advance transfers - Projects                           | Note 9              | 1,691,886         | 614,170           |
| Advance transfers - Others                             | Note 10             | 257,687           | 176,226           |
| <b>Total current assets</b>                            |                     | <b>24,949,435</b> | <b>22,455,134</b> |
| <b>Total assets</b>                                    |                     | <b>24,949,435</b> | <b>22,455,134</b> |
| <b>Liabilities</b>                                     |                     |                   |                   |
| <b>Current liabilities</b>                             |                     |                   |                   |
| Accounts payable - Member States                       |                     | -                 | 41,038            |
| Accounts payable - Others                              | Notes 11, 21 and 22 | 921,079           | 381,563           |
| Voluntary contributions advance receipts - allocated   | Note 12             | 4,848,275         | 7,884,439         |
| Voluntary contributions advance receipts - unallocated | Note 13             | 284,326           | 522,392           |
| Assessed contributions advance receipts                | Note 14             | 305,561           | 500,040           |
| <b>Total current liabilities</b>                       |                     | <b>6,359,241</b>  | <b>9,329,472</b>  |
| <b>Non-current liabilities</b>                         |                     |                   |                   |
| Accounts payable - Others                              | Notes 11 and 21     | 728,758           | 813,420           |
| Voluntary contributions advance receipts - allocated   | Note 12             | 10,031,805        | 4,461,310         |
| <b>Total non-current liabilities</b>                   |                     | <b>10,760,563</b> | <b>5,274,730</b>  |
| <b>Total liabilities</b>                               |                     | <b>17,119,803</b> | <b>14,604,203</b> |
| <b>Net of total assets and total liabilities</b>       |                     | <b>7,829,632</b>  | <b>7,850,931</b>  |
| <b>Net assets</b>                                      |                     |                   |                   |
| Accumulated surplus - Restricted                       | Note 15             | 4,886,695         | 5,720,974         |
| Accumulated surplus - Unrestricted                     | Note 15             | 442,936           | 279,957           |
| Reserves                                               | Note 15             | 2,500,000         | 1,850,000         |
| <b>Total net assets</b>                                |                     | <b>7,829,632</b>  | <b>7,850,931</b>  |

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

**International Tropical Timber Organization**

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

(United States dollars)

|                                       | <i>Reference</i> | <i>2017</i>       | <i>2016</i>       |
|---------------------------------------|------------------|-------------------|-------------------|
| Revenue                               |                  |                   |                   |
| Administrative Account                |                  |                   |                   |
| Assessed contributions                | Note 16          | 7,178,516         | 7,445,429         |
| Other voluntary contributions         | Note 16          | 852,092           | 1,492,454         |
| Financial revenue                     | Note 17          | 15,197            | 15,470            |
| Other income                          |                  | 1,185             | 1,637             |
| Project Account                       |                  |                   |                   |
| Member States voluntary contributions | Note 16          | 3,377,631         | 5,223,502         |
| Other voluntary contributions         | Note 16          | 66,268            | 5,331,013         |
| Programme support Revenue             | Note 16          | 198,265           | 524,727           |
| Expost evaluation Revenue             | Note 16          | 13,631            | -                 |
| Financial revenue                     | Note 17          | 20,764            | 7,711             |
| <b>Total revenue</b>                  |                  | <b>11,723,551</b> | <b>20,041,944</b> |
| Expenses                              |                  |                   |                   |
| Administrative Account                |                  |                   |                   |
| Employee benefits                     | Note 18          | 4,147,181         | 4,298,697         |
| Other operating expenses              | Note 19          | 3,226,019         | 3,114,974         |
| Project Account                       |                  |                   |                   |
| Project expenses                      | Note 20          | 4,371,650         | 6,328,401         |
| <b>Total expenses</b>                 |                  | <b>11,744,850</b> | <b>13,742,073</b> |
| <b>Surplus/(deficit) for the year</b> |                  | <b>(21,299)</b>   | <b>6,299,871</b>  |

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

**International Tropical Timber Organization**  
**III. Statement of changes in net assets for the year ended 31 December**  
(United States dollars)

|                                                    | <i>Restricted<br/>accumulated<br/>surplus</i> | <i>Unrestricted<br/>accumulated<br/>surplus</i> | <i>Reserves</i>  |
|----------------------------------------------------|-----------------------------------------------|-------------------------------------------------|------------------|
| <b>Net assets as at 31 December 2015</b>           | <b>13,476,609</b>                             | <b>(13,425,549)</b>                             | <b>1,500,000</b> |
| Reclassification following Decision 6(LII)         | (8,759,725)                                   | 8,409,725                                       | 350,000          |
| Result of the accounting period                    | 1,004,091                                     | 5,295,781                                       | -                |
| <b>Net assets as at 31 December 2016 (Note 15)</b> | <b>5,720,974</b>                              | <b>279,957</b>                                  | <b>1,850,000</b> |
| Result of the accounting period                    | (834,279)                                     | 162,980                                         | 650,000          |
| <b>Net assets as at 31 December 2017 (Note 15)</b> | <b>4,886,695</b>                              | <b>442,937</b>                                  | <b>2,500,000</b> |

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

**International Tropical Timber Organization**  
**IV. Statement of cash flows for the year ended 31 December**

(United States dollars)

|                                                                               | 2017               | 2016              |
|-------------------------------------------------------------------------------|--------------------|-------------------|
| <b>Cash flows from operating activities</b>                                   |                    |                   |
| Surplus/(deficit) for the year                                                | (21,299)           | 6,299,871         |
| <b>Adjustments to reconcile deficit/surplus to net cash flows</b>             |                    |                   |
| Increase/(decrease) in allowance for doubtful receivables                     | 559,409            | 268,961           |
| <b>Changes in assets</b>                                                      |                    |                   |
| (Increase)/decrease in Assessed contributions receivable                      | (1,019,075)        | (385,775)         |
| (Increase)/decrease in Voluntary contributions receivable                     | (3,664,255)        | (406,966)         |
| (Increase)/decrease in Other accounts receivable                              | 6,055              | 138,853           |
| (Increase)/decrease in Advance transfers - Projects                           | (1,077,715)        | 1,588,313         |
| (Increase)/decrease in Advance transfers - Others                             | (81,461)           | (6,006)           |
| <b>Changes in liabilities</b>                                                 |                    |                   |
| (Decrease)/increase in Accounts payable - Member States                       | (41,038)           | (81,385)          |
| (Decrease)/increase in Accounts payable - Others                              | 454,854            | (232,703)         |
| (Decrease)/increase in Voluntary contributions advance receipts - allocated   | 2,534,330          | (6,014,909)       |
| (Decrease)/increase in Voluntary contributions advance receipts - unallocated | (238,067)          | (1,978,631)       |
| (Decrease)/increase in Assessed contributions advance receipts                | (194,478)          | 453,335           |
| <b>Net cash flows from operating activities</b>                               | <b>(2,782,742)</b> | <b>(357,042)</b>  |
| <b>Net Increase/(decrease) in cash and cash equivalents</b>                   | <b>(2,782,742)</b> | <b>(357,042)</b>  |
| Cash and cash equivalents — beginning of year (Note 6)                        | 19,661,535         | 20,018,577        |
| <b>Cash and cash equivalents — end of year (Note 6)</b>                       | <b>16,878,793</b>  | <b>19,661,535</b> |

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



**International Tropical Timber Organization**

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

(United States dollars)

| Budget Heading                    | Original budget  | Final budget     | Actual on comparable basis (Note 5) | Difference between final and actual |
|-----------------------------------|------------------|------------------|-------------------------------------|-------------------------------------|
| <b>Basic administrative costs</b> |                  |                  |                                     |                                     |
| Salaries and benefits             | 4,225,326        | 4,225,326        | 3,079,291                           | 1,146,035                           |
| Installation costs                | 107,209          | 107,209          | 55,895                              | 51,314                              |
| Official travel                   | 134,029          | 134,029          | 119,784                             | 14,245                              |
| Social security                   | 1,054,670        | 1,054,670        | 746,076                             | 308,594                             |
| Special activities                | 58,378           | 58,378           | 53,059                              | 5,319                               |
| Data processing                   | 106,202          | 106,202          | 94,457                              | 11,745                              |
| Other costs                       | 314,412          | 314,412          | 242,167                             | 72,245                              |
| Council meetings                  | 207,921          | 207,921          | 207,469                             | 452                                 |
| <b>Total</b>                      | <b>6,208,147</b> | <b>6,208,147</b> | <b>4,598,198</b>                    | <b>1,609,949</b>                    |
|                                   |                  |                  |                                     |                                     |
| Budget Heading                    | Original budget  | Final budget     | Actual on comparable basis (Note 5) | Difference between final and actual |
| <b>Core operational costs</b>     |                  |                  |                                     |                                     |
| Communication and outreach        | 428,675          | 428,675          | 393,370                             | 35,305                              |
| Expert meetings by Council        | 140,000          | 140,000          | 104,683                             | 35,317                              |
| Policy work                       | -                | -                | -                                   | -                                   |
| Statistics, studies & information | 302,000          | 302,000          | 293,859                             | 8,141                               |
| Annual report & biennial review   | 30,000           | 30,000           | 28,188                              | 1,812                               |
| <b>Total</b>                      | <b>900,675</b>   | <b>900,675</b>   | <b>820,100</b>                      | <b>80,575</b>                       |
| <b>Grand Total</b>                | <b>7,108,822</b> | <b>7,108,822</b> | <b>5,418,298</b>                    | <b>1,690,524</b>                    |

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

## International Tropical Timber Organization

### Notes to the 2017 financial statements

#### Note 1

##### Reporting entity

1. The International Tropical Timber Organization (ITTO) was established pursuant to the International Tropical Timber Agreement, 1983, with its headquarters in Yokohama, Japan, and continues to operate from this location. The Agreement was succeeded by the International Tropical Timber Agreement, 1994 and 2006 (“the Agreement”).
2. The objectives of the Organization are laid down in Article 1 of the Agreement and include the provision of a consultative forum for producing and consuming members on all aspects of the world timber economy; promotion of the expansion, diversification, and structural improvement of the international tropical timber trade together with more transparency and better distribution; the encouragement of reforestation and other forest management activities; promotion of further processing of tropical timber in the producing countries, with research and development as well as technology transfer to support both of these goals; and support for development of national policies in sustainable utilization and conservation of tropical forests, with special regard for ecological balance and genetic resources.
3. ITTO's governing body is the International Tropical Timber Council, which comprises all the Organization's members. The Council adopts such rules and regulations as are necessary to carry out the provisions of the Agreement. The Council is also responsible for the approval of ITTO's financial statements.
4. The financial statements include only the operations of ITTO. ITTO has no subsidiaries or interests in associates or jointly controlled entities.

#### Note 2

##### Statement of approval of the Executive Director

ITTO's financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The financial statements were authorised for issue by the Executive Director on 27 June 2018, and will be submitted to the International Tropical Timber Council (ITTC) for approval at the next annual Council Session.

#### Note 3

##### Basis of preparation

##### A. Basis of measurement

1. The financial statements have been prepared on a full-accrual method of accounting under International Public Sector Accounting Standards (IPSAS). The accounting policies have been applied consistently throughout the reporting period. ITTO applies the historical cost principle.

2. ITTO applies the transitional provisions of IPSAS 17: Property, plant and equipment, where a first-time adopter, who has not recognized assets under its previous basis of accounting, it is not required to recognize and/or measure assets for reporting periods beginning on a date within three years.

The impact of this transitional provision should not affect the fairness of the financial statements.

3. These financial statements are expressed in United States dollars rounded to the nearest whole number, unless otherwise indicated.

## **B. Foreign currency translation**

### *Functional and presentation currency*

4. Items included in the financial statements are measured using the currency of the primary economic environment in which an entity operates (“the functional currency”). The functional and presentation currency of ITTO is the United States dollar.

### *Transactions and balances*

5. Foreign currency transactions are translated into United States dollars at the prevailing United Nations operational rate of exchange at the time of the transaction. The United Nations rates approximate market rates. Monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rate in effect at the reporting date. Non-monetary items in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising upon revaluation are recognized in the statement of financial performance and included under gains and losses.

## **C. Use of estimates and critical judgments**

6. The preparation of financial statements in accordance with IPSAS requires ITTO management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Since uncertainty is inherent in the use of estimates and assumptions, actual results may differ significantly from management estimates.

7. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Examples of estimates include: valuation and impairment of investments; collectability of receivables; provisions and adjustments of advance receipts; accrued liabilities for employee benefits; recognition of project expenses; and contingencies.

8. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements and which could have a significant risk of resulting in a material adjustment is included in the following notes:

(a) Investments (Note 7) and receivables (Note 8) valuation : if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present

value of estimated future cash flows. The amount of the loss is recognized in the statement of financial performance.

(b) Note 8, Contributions receivable and other receivables, and note 16, Revenue from contributions are defined in IPSAS 23: Revenue from non-exchange transactions (taxes and transfers). Where non-exchange transactions are deemed to include conditions, IPSAS 23 requires that a liability be recognized until such time that the condition is satisfied, at which time revenue may be recorded. The determination of the existence of conditions for non-exchange transactions requires significant professional judgment. Many ITTO contribution agreements with donors include general stipulations; for those that include conditions, deferred revenue is recognized (advance receipts);

(c) Project expenses (Note 20) incurred by the executing agencies are recognized based on the audit reports of the projects. When those audit reports could not be obtained for the year 2017, an estimation has been built based on the available reports. When no contradictory information is available, it is the best estimate of the management that the costs are spend by the executing agencies on a straight line basis.

(d) Note 25, Contingencies: legal proceedings covering a wide range of matters are or may be pending or threatened in various jurisdictions against ITTO.

9. Provisions are recorded for pending matters when it is determined that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Owing to the inherently uncertain nature of the matters, the ultimate outcome or actual cost of settlement may materially vary from estimates.

#### **D. Future accounting changes**

10. The International Public Sector Accounting Standards Board has published IPSAS 39: Employee benefits and impairment of revalued assets (amendments to IPSAS 21 and IPSAS 26). IPSAS 39: Employee benefits will replace IPSAS 25: Employee benefits on 1 January 2018 with earlier application encouraged. Initial assessment of the impact of the new IPSAS has been carried out and the impact is not likely to significantly affect ITTO's financial statements.

#### **Note 4**

##### **Significant accounting policies**

##### **Financial assets**

1. The designation of financial assets depends on the purpose for which the financial assets are acquired and is determined at initial recognition. All financial assets of ITTO that have a residual value are categorized as loans and receivables.

| <i>Major financial asset type</i>           | <i>Classification</i> |
|---------------------------------------------|-----------------------|
| Contributions and other accounts receivable | Loans and receivables |
| Other assets                                | Loans and receivables |

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

*Loans and receivables*

3. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

4. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. Such loans and receivables are classified as non-current assets.

5. Unused transfers of cash assistance due from executing agencies represent the claims to the unused cash assistance funds remaining with executing agencies after the completion or termination of a project. They are recorded as “other receivables” and are recovered from executing agencies.

6. Cash generating assets and non-cash generating assets are distinguished based on whether those assets bring revenue from exchange transactions or not. As ITTO only generates non-exchange transactions revenue, all assets are considered non-cash generating assets.

**Impairment of financial assets — assets carried at amortized cost**

7. At the end of each reporting period, ITTO assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. ITTO considers impairment of financial assets at a specific asset level.

8. A financial asset or a group of financial assets is impaired and impairment loss is incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. No collective impairment is made.

9. The amount of the loss is measured as the difference between the carrying amount of the asset and the estimated recoverable amount. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of financial performance and reflected in an allowance account in the statement of financial position.

10. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as receipt of funds), the reversal of the previously recognized impairment loss is recognized in the statement of financial performance. Off-setting of the impairment is done when there is no legal possibility that the corresponding asset would be recovered.

11. Receivables relate to contractual amounts agreed to be paid by governments and intragovernmental organizations.

### **Advances to executing agencies**

12. Projects prepaid expenses represent transfers of cash where executing agencies have not yet met performance obligations as specified by ITTO. ITTO monitors the utilization of cash by executing agencies and recognizes expenses only when those funds have been used by executing agencies as specified by ITTO.

13. Reporting by executing agencies of the utilization of advances is due usually every six months. Where an executing agency fails to report on the utilization of the advance, or breaches the performance obligation, those amounts, as well as any unused funds, are followed up by ITTO with the executing agency.

### **Property and equipment**

14. ITTO applies the transitional provisions of IPSAS 17: Property, plant and equipment, where a first-time adopter, who has not recognized assets under its previous basis of accounting, is not required to recognize and/or measure assets for reporting periods beginning on a date within three years. In line with this provision, ITTO will start recognizing fixed assets from the year ending 31 December 2018.

### **Financial liabilities**

15. Other financial liabilities are initially recognized at fair value, less transaction costs, and subsequently measured at amortized cost using the effective interest method.

| <i>Major financial liability type</i> | <i>Classification</i> |
|---------------------------------------|-----------------------|
| Accounts payable                      | Loans and receivables |
| Other liabilities                     | Loans and receivables |

16. Accounts payable and accruals arising from the purchase of goods and services are recognized when supplies are delivered or services consumed. Liabilities are stated at the invoice amounts, less the payment discounts if eligible at the reporting date. Where invoices are not available at the reporting date, the liability is estimated and recorded. Financial liabilities measured at amortized cost, due within 12 months of the date of the statement of financial position, are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

17. There was no discounting of advance receipts by donors as the impact is considered as not significant. The amounts paid to executing agencies are always the contribution amount received from the donors, hence the financial risks on the advance receipts are considered remote.

### **Employee benefits**

18. ITTO recognizes the following categories of employee benefits:

- (a) Short-term employee benefits;
- (b) Post-employment benefits;

- (c) Other long-term employee benefits;
- (d) Termination benefits.

*Short-term employee benefits*

19. Short-term employee benefits are those that are due to be settled within 12 months after the end of the period during which employees have provided related services. These benefits include wages and salaries, compensated absences (such as paid leave and annual leave) and other benefits, including medical care and housing subsidies. An expense is recognized when a staff member provides services in exchange for employee benefits. A liability is reported for any entitlement that has not been settled as at the reporting date and represents the amount expected to be paid to settle the liability. Owing to the short-term nature of such entitlements, the liability is not discounted for the time value of money.

*Post-employment benefits*

20. Post-employment benefits are those payable after completion of or separation from employment, excluding termination payments.

21. All staff of ITTO participate in a provident fund as their pension plan, which was established by the Staff Regulations and Rules to provide retirement related benefits to employees. Contributions to the provident fund which are payable monthly are set at the percentage rates defined by the United Nations Joint Staff Pension Fund (UNJSPF). Therefore, the provident fund is classified as a defined-contribution plan in line with the requirements of IPSAS 25: Employee benefits. The fund's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

*Other long-term employee benefits*

22. Other long-term employee benefits obligations are those that are not due to be settled within 12 months after the end of the period in which employees provide the related service. These benefits comprise home leave, annual leave and repatriation grant. The discounting of those obligations was considered not material considering the amount of the current obligations.

*Termination benefits*

23. Termination benefits are recognized as an expense only when ITTO is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date. No termination benefit was recognized at the beginning nor the end of the reporting period.

**Leases**

24. ITTO leases certain property and equipment.

25. Leases of property and equipment where ITTO substantially assumes all the risks and rewards of ownership are classified as finance leases. In 2017, ITTO has not been part of any finance lease transaction.

26. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of incentives received from the lessor, if any) are recognized on a straight-line basis under other expenses in the statement of financial performance over the period of the lease.

### **Provisions**

27. A provision is recognized if, as a result of a past event, ITTO has a present legal or constructive obligation that can be estimated reliably, and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Where the provision is expected to be settled beyond the next 12 months, the increase in the provision due to the passage of time is recognized as interest expense. When an outflow is dependent upon a future event that is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

28. A provision for the return of unused funds to donors is reported for unused balances related to projects that have expired at year-end where the donor agreement requires unused funds to be returned and where it is probable that funds will be returned as opposed to being reallocated. Where the donor has not disbursed all the cash to ITTO, the receivable balance is written down to net realizable value. A provision for returns of unused funds is reported only if there are funds to be returned after the receivable has been fully written down. The effects of changes resulting from revisions to the timing or the amount of the original estimate of the provision are reflected on a prospective basis. The expense arising from reporting a provision (or reducing any receivable) for unused funds is presented in the statement of financial performance.

### **Revenue recognition**

#### *Assessed contributions*

29. Assessed contributions are non-exchange transactions, which means that resources (such as cash, items of property and equipment or enforceable rights to such) are received by ITTO with no or nominal consideration provided directly in return to the donor. The resources are to be applied towards advancing the Organization's mission.

30. Assessed contributions are determined during the Council session of the year preceding considering the budget of the Organization and the number of votes of each member.

31. Assessed contributions are received from members.

32. The fair value of assessed contributions is determined by the cash inflow.

33. Assessed contributions are recognized in the year of the budget it is meant to cover.



*Voluntary contributions*

34. Voluntary contributions are non-exchange transactions, which means that resources (such as cash, items of property and equipment or enforceable rights to such) are received by ITTO with no or nominal consideration provided directly in return to the donor. The resources are to be applied towards advancing the Organization's mission.

35. Voluntary contributions are received from members, regional and international financial institutions, the common fund for commodities, and other sources.

36. The fair value of voluntary contributions is determined by the cash inflow.

37. Voluntary contributions may be subject to terms in a binding agreement imposed upon the use of the resource (termed earmarked funds) or may be free of specific terms allowing ITTO to direct such resources according to its mandate (termed unearmarked fund). Earmarked funds may be subject to conditions where terms not only restrict the use of resources, but also require the return of resources, if not used as specified.

38. With regard to unearmarked funds and earmarked funds with no conditions attached, ITTO recognizes an asset (cash or receivable) and revenue at the earlier of cash received or formal acknowledgement/agreement of the contribution to be provided unless the agreement specifies a later contribution start date.

Examples of such funds with no conditions attached are:

- Donors pledges to Thematic Programme funds
- Programme support recognized from donors pledges
- Donors pledges to Fellowship programme
- Projects' ex-post budgets when the project is officially finished

39. For earmarked contributions:

(a) Where the agreement has a legislative clause, the receivable and related revenue is not recorded until ITTO is notified of the legislative approval;

(b) Where the agreement has a performance clause, the receivable and related revenue is not recorded until the obligation is met.

40. For earmarked contributions with a condition attached, ITTO recognizes an asset (cash or receivable) and a liability (contributions advance receipts or deferred revenue) at the earlier of cash received or formal written acknowledgement/agreement of the contribution to be provided (unless the contribution specifies a later start date). The liability is reduced and revenue is recognized only when conditions have been satisfied.

41. Revenue from voluntary contributions is shown net of realized gains and losses on foreign exchange as ITTO does not assume the risk of foreign exchange on contribution revenue.

### *Pledges*

42. Pledges of contributions to ITTO are received at two annual donor meetings. ITTO does not recognize pledges as assets or revenue until they are enforceable at the earlier of written confirmation of the pledge or receipt of funds. Once enforceable, the asset and related revenue are recognized consistent with the revenue recognition policy for voluntary contributions referred to above. Until that time, the pledges are disclosed as contingent assets.

### *Contributions in kind*

43. ITTO receives contributions of services and office space and other facilities from the Host Government. These contributions, as well as in-kind contributions of goods, are initially measured and recorded at their fair value at the date of receipt. The fair value of these non-monetary assets is determined by reference to observable market values or by independent appraisal. The revenue and the corresponding expense are recorded in the statement of financial performance as part of voluntary contributions.

### **Recognition of expenses**

44. Expenses are recognized in the statement of financial performance in the period to which they relate.

### *Transfers of cash assistance and programme supplies*

45. In fulfilling its mandate, ITTO transfers cash to governments, non-governmental organizations and other third parties (“executing agencies”). Transfers of cash assistance are initially reported as an advance on the statement of financial position where there are performance obligations imposed on the executing agency, and are expensed when ITTO is satisfied that those performance obligations are met. An accrual against advances is recorded at year-end for expenses incurred by executing agencies reported to but not processed by ITTO.

46. Project expenses incurred by the executing agencies are recognized based on the audit reports of the projects. When those audit reports could not be obtained for the year 2017, an estimation has been built based on the available reports. When no contradictory information is available, it is the best estimate of the management that the costs are spent by the executing agencies on a straight line basis.

### **Commitments**

47. Commitments are future expenses and liabilities to be incurred on contracts outstanding at the reporting date for which ITTO has little, if any, discretion to avoid in the ordinary course of operations, including:

- (a) Capital commitments: represents the aggregate amount of capital expenditures contracted for but not recognized as paid or provided for at the period-end;

- (b) Contracts for the supply of goods or services that ITTO is expecting to be delivered in the ordinary course of operations;

- (c) Cash transfers;

- (d) Other non-cancellable commitments.

ITTO does not have any non-cancellable lease agreements.

## **Contingencies**

### *Contingent assets*

48. A contingent asset is a possible asset that is not wholly within the control of the organization. Contingent assets are reviewed to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an asset is no longer contingent and the asset's value can be measured reliably, the asset is recognized during the period in which the change occurs.

### *Contingent liabilities*

49. A contingent liability is disclosed unless the possibility that it will be realized is remote. If it becomes probable that a contingent liability will be realized, a provision is recorded during the period in which the change of probability occurs. A contingent liability will also arise in cases where there are liabilities that cannot be measured reliably.

## **Segment reporting**

50. The ITTO governing body and management does not manage the organization based on service segments or geographical segments.

## **Budget**

51. ITTO budgets, which are approved by the Council for each financial biennium, permit expenditures to be incurred within the Administrative Account. ITTO has classified its budgets as: (a) basic administrative costs budgets; and (b) core operational costs budgets.

52. The basic administrative costs budget includes costs such as salaries and benefits, installation costs, and official travel. The core operational costs budget includes costs such as those related to communication and outreach, expert meetings convened by the Council and preparation and publication of studies and assessments pursuant to articles 24, 27 and 28 of the Agreement.

53. An original budget is defined by IPSAS as "the initial approved budget for the budget period". The final budget is defined as:

- (a) The original budget as defined above;
- (b) All subsequent changes to the budget approved by the Council.

54. While ITTO's financial statements are prepared under the IPSAS full-accrual basis, ITTO budgets are prepared and managed on a modified cash basis. The most significant differences are as follows:

- (a) The budget does not include assets, investing and financing activities. Revenue is based on estimated expenses.

(b) Budget costs are recorded on a modified cash basis in contrast with expenses in the financial statements that are prepared under the IPSAS full-accrual basis.

(c) Expenses for projects and activities funded by voluntary contributions are not included in the budget of ITTO.

## Note 5

### Comparison to budget

Statement V documents the various budgets to the actual amounts incurred against them. Both budgets and actual amounts (cash and budgetary commitments) are calculated on the same modified cash basis. Explanations of material differences between the final budgets and actual amounts are as follows.

(a) There were months where senior-level positions including the Executive Director, Assistant Director of division of operations, Assistant Director of division of forest management, and projects manager were vacant during the reporting period.

(b) Assessed contributions amounting to approximately \$1,000,000 were not received during the reporting period, which had an influence on management's decision regarding budget spending.

The following table presents the reconciliation of actual budget amounts on a comparable basis in the statement of comparison of budget to actual amounts and the Administrative Account expenses in the statement of financial performance.

|                                                                       |                  |
|-----------------------------------------------------------------------|------------------|
| (United States dollars)                                               |                  |
| <i>Budget actual for year 2017</i>                                    | <i>5,418,298</i> |
| 2016 budget for Council held outside of host country in 2017          | 200,000          |
| Exchange loss                                                         | 26,717           |
| Allowance expense for debt                                            | 559,409          |
| Services received through in-kind contributions                       | 538,657          |
| Working capital reserve expenses in accordance with Council decisions | 308,305          |
| Adjustment for staff income tax                                       | 313,435          |
| Accrual for long-term employee benefits                               | 8,379            |
| <b>Administrative Account expenses</b>                                | <b>7,373,200</b> |

## Note 6

### Cash and cash equivalents

All cash in ITTO is at bank or on hand and convertible (freely exchanged to other currencies without licence or authorization).

**Note 7****Investments**

(United States dollars)

| <i>Breakdown of Investments</i>      | <i>2017</i>       | <i>2016</i>       |
|--------------------------------------|-------------------|-------------------|
| <b>Non-current investments</b>       |                   |                   |
| Securities                           | 12,014,000        | 12,014,000        |
| <b>Total non-current investments</b> | <b>12,014,000</b> | <b>12,014,000</b> |
| Provision for Impairment on security | (12,014,000)      | (12,014,000)      |
| <b>Net investments</b>               | <b>-</b>          | <b>-</b>          |

\$12,014,000 was provided in 2015 on the balance of the investment in Ardent Fund. On 26 April 2016, Blackstar Capital Star Limited, the sole owner of Ardent Harmony Inc. presented a petition of voluntary liquidation to the Grand Court of the Cayman Island and the court issued a supervision order that the liquidation of Ardent Harmony Inc be continued. The management received an official report from the liquidator dated on 20 June 2016. Based on the content regarding the residual assets, the management estimated there was no collectible amount from the investment. The investment will continue to be recognized as long as legal obligations to pay ITTO exist.

**Note 8****Accounts receivables****Assessed contributions: receivables from non-exchange transactions**

(United States dollars)

| <i>Administrative account</i>                                        | <i>Member States</i> | <i>Allowance for doubtful assessed contributions receivable</i> | <i>Total assessed contributions receivable</i> |
|----------------------------------------------------------------------|----------------------|-----------------------------------------------------------------|------------------------------------------------|
| Balance as of 31 December 2015                                       | 6,215,042            | (4,802,361)                                                     | <b>1,412,681</b>                               |
| Assessed Contribution for 2016                                       | 7,445,429            | -                                                               | <b>7,445,429</b>                               |
| Receipt                                                              | (7,012,949)          | -                                                               | <b>(7,012,949)</b>                             |
| Advance Receipt Reclassification                                     | (46,705)             | -                                                               | <b>(46,705)</b>                                |
| Increase of Allowance for doubtful assessed contributions receivable | -                    | (268,961)                                                       | <b>(268,961)</b>                               |
| <b>Balance as of 31 December 2016</b>                                | <b>6,600,817</b>     | <b>(5,071,322)</b>                                              | <b>1,529,495</b>                               |

(United States dollars)

| <i>Administrative account</i>                                        | <i>Member States</i> | <i>Allowance for doubtful assessed contributions receivable</i> | <i>Total assessed contributions receivable</i> |
|----------------------------------------------------------------------|----------------------|-----------------------------------------------------------------|------------------------------------------------|
| Balance as of 31 December 2016                                       | 6,600,817            | (5,071,322)                                                     | <b>1,529,495</b>                               |
| Assessed Contribution for 2017                                       | 7,178,516            | -                                                               | <b>7,178,516</b>                               |
| Receipt                                                              | (5,674,230)          | -                                                               | <b>(5,674,230)</b>                             |
| Advance Receipt Reclassification                                     | (485,211)            | -                                                               | <b>(485,211)</b>                               |
| Write-off                                                            | (525,507)            | 525,507                                                         | -                                              |
| Increase of Allowance for doubtful assessed contributions receivable | -                    | (559,409)                                                       | <b>(559,409)</b>                               |
| <b>Balance as of 31 December 2017</b>                                | <b>7,094,386</b>     | <b>(5,105,224)</b>                                              | <b>1,989,162</b>                               |

### Voluntary contributions: receivables from non-exchange transactions

(United States dollars)

| <i>Project account</i>                   | <i>Member States</i> | <i>Allowance for doubtful voluntary contributions receivable</i> | <i>Total voluntary contributions receivable</i> |
|------------------------------------------|----------------------|------------------------------------------------------------------|-------------------------------------------------|
| Balance as of 31 December 2015           | -                    | -                                                                | -                                               |
| Pledges recorded in 2016                 | 5,433,894            | -                                                                | <b>5,433,894</b>                                |
| Cash-in                                  | (3,005,077)          | -                                                                | <b>(3,005,077)</b>                              |
| Reclassification from Donor's pool funds | (2,328,817)          | -                                                                | <b>(2,328,817)</b>                              |
| <b>Balance as of 31 December 2016</b>    | <b>100,000</b>       | <b>-</b>                                                         | <b>100,000</b>                                  |
| Pledges recorded in 2017                 | 6,029,311            | -                                                                | <b>6,029,311</b>                                |
| Cash-in                                  | (1,925,322)          | -                                                                | <b>(1,925,322)</b>                              |
| Reclassification from Donor's pool funds | (192,335)            | -                                                                | <b>(192,335)</b>                                |
| <b>Balance as of 31 December 2017</b>    | <b>4,011,656</b>     | <b>-</b>                                                         | <b>4,011,656</b>                                |

(United States dollars)

| <i>Administrative account</i>         | <i>Member States</i> | <i>Allowance for doubtful voluntary contributions receivable</i> | <i>Total voluntary contributions receivable</i> |
|---------------------------------------|----------------------|------------------------------------------------------------------|-------------------------------------------------|
| Balance as of 31 December 2015        | -                    | -                                                                | -                                               |
| Claims                                | 506,966              | -                                                                | <b>506,966</b>                                  |
| Cash-in                               | (200,000)            | -                                                                | <b>(200,000)</b>                                |
| <b>Balance as of 31 December 2016</b> | <b>306,966</b>       | -                                                                | <b>306,966</b>                                  |
| Claims                                | 272,397              | -                                                                | <b>272,397</b>                                  |
| Cash-in                               | (519,797)            | -                                                                | <b>(519,797)</b>                                |
| <b>Balance as of 31 December 2017</b> | <b>59,566</b>        | -                                                                | <b>59,566</b>                                   |

1. Receivables are earmarked when agreements specify terms for the use of contributions, such as the purpose, geographical area and period of use, and are unearmarked when contributions are free of specific terms, allowing ITTO to direct such resources according to its mandate. Both earmarked and unearmarked receivables are recorded when contribution agreements become enforceable, which occurs at the date when the agreement is signed, free of legislative/parliamentary approval clauses, or at the date when donor's notification of the amount to be disbursed to ITTO, when such a clause exists, is fulfilled. Ageing of receivables as well as the exposure to credit and currency risks related to those receivables are disclosed in Note 22, Financial risk management.
2. The exposure of ITTO to credit and currency risks related to receivables are disclosed in Note 22, Financial risk management.

#### **Other accounts receivable**

Other accounts receivable are mainly composed by amounts related to cancelled travel expenses pending reimbursement and accrued interest.

**Note 9**  
**Advance transfers - Projects**

| (United States dollars)               |                  |                |
|---------------------------------------|------------------|----------------|
| <i>Category</i>                       | <i>2017</i>      | <i>2016</i>    |
| Reforestation and Forest Management   | 1,306,560        | 501,081        |
| Economics, Statistics and Market      | 66,033           | 94,160         |
| Forest Industry                       | 48,832           | 18,929         |
| Activities                            | 270,461          | -              |
| <b>Total advance transfer by type</b> | <b>1,691,886</b> | <b>614,170</b> |

Reconciliation of advance transfer balances

|                                                    |                  |
|----------------------------------------------------|------------------|
| (United States dollars)                            |                  |
| Advance transfer as at 31 December 2015            | 2,202,483        |
| Expenses paid in previous years recognized         | (1,526,519)      |
| Termination of ongoing projects (Decision 6 (LII)) | (460,801)        |
| Expenses paid in 2016                              | 4,755,924        |
| Expenses paid in 2016 recognized                   | (4,356,917)      |
| <b>Advance transfers as at 31 December 2016</b>    | <b>614,170</b>   |
| Expenses recognized through reports from EAs       | (4,322,135)      |
| Expenses paid in 2017                              | 5,399,850        |
| <b>Advance transfers as at 31 December 2017</b>    | <b>1,691,886</b> |

Advance transfers - Projects represent transfers of cash where executing agencies have not yet met performance obligations as specified by ITTO. ITTO monitors the utilization of cash by executing agencies and recognizes expenses only when those funds have been used by executing agencies as specified by ITTO.

**Note 10**  
**Advance transfers – Others**

| (United States dollars)                        |                |                |
|------------------------------------------------|----------------|----------------|
| <i>Breakdown of Advance transfers – Others</i> | <i>2017</i>    | <i>2016</i>    |
| Prepaid expenses - staff                       | 185,666        | 129,902        |
| Prepaid expenses - others                      | 72,021         | 46,324         |
| <b>Total</b>                                   | <b>257,687</b> | <b>176,226</b> |



# **Note 11**

## **Accounts payable - Others**

(United States dollars)

| <i>Breakdown of Accounts payable - Others</i> | <i>2017</i>      | <i>2016</i>      |
|-----------------------------------------------|------------------|------------------|
| Other accounts payable                        | 359,782          | 4,250            |
| Employee benefits accrued liabilities         | 946,973          | 971,536          |
| Other accrued liabilities                     | 343,082          | 219,197          |
| <b>Total</b>                                  | <b>1,649,837</b> | <b>1,194,983</b> |

## **Employee benefits liabilities breakdown**

(United States dollars)

|                                                        | <i>2017</i>    | <i>2016</i>    |
|--------------------------------------------------------|----------------|----------------|
| <b>Current employee benefits liabilities</b>           |                |                |
| Home leave                                             | 89,650         | 35,015         |
| Accrued salaries and allowances                        | 39,618         | 80,025         |
| Accrued social securities                              | 88,947         | 81,482         |
| <b>Total current employee benefits liabilities</b>     | <b>218,215</b> | <b>196,522</b> |
| <b>Non-current employee benefits liabilities</b>       |                |                |
| Home leave                                             | 13,792         | 38,379         |
| Repatriation benefits                                  | 301,264        | 299,932        |
| Annual Leave                                           | 413,702        | 436,703        |
| <b>Total non-current employee benefits liabilities</b> | <b>728,758</b> | <b>775,014</b> |
| <b>Total employee benefits liabilities</b>             | <b>946,973</b> | <b>971,536</b> |

# **Note 12**

## **Voluntary contributions advance receipts – allocated**

### **Deferred revenue**

(United States dollars)

| <i>Category</i>                           | <i>2017</i>       | <i>2016</i>       |
|-------------------------------------------|-------------------|-------------------|
| Reforestation and Forest Management (F)   | 6,475,397         | 8,391,381         |
| Economics, Statistics and Markets (M)     | 707,901           | 992,250           |
| Forest Industry (I)                       | 745,942           | 892,201           |
| Activities (A)                            | 6,950,839         | 2,069,917         |
| <b>Total deferred revenue by category</b> | <b>14,880,080</b> | <b>12,345,749</b> |

# Reconciliation of deferred revenue balances

|                                                            |             |
|------------------------------------------------------------|-------------|
| (United States dollars)                                    |             |
| Deferred revenue as at 31 December 2015                    | 18,360,658  |
| Liabilities recognized for obligations attached to pledges | 4,637,669   |
| Revenue recognized from ongoing projects                   | (4,845,518) |
| Transfers to other liabilities                             | (330,706)   |
| Termination of ongoing projects (Decision 6 (LII))         | (5,476,353) |
| Deferred revenue as at 31 December 2016                    | 12,345,750  |
| Liabilities recognized for obligations attached to pledges | 5,764,265   |
| Revenue recognized from ongoing projects                   | (3,324,481) |
| Reduction of project budget haircut                        | 94,546      |
| Deferred revenue as at 31 December 2017                    | 14,880,080  |

Deferred revenue consists of contributions receivable which are not yet due, and, based on the terms of agreements, are to be used by ITTO in future periods specified by donors.

## Detail of projects with balance as of 31 December 2017

(United States dollars)

| Project ID                     | Category | ITTO Budget | Expenses  | Programme | Advance   | Advance   |
|--------------------------------|----------|-------------|-----------|-----------|-----------|-----------|
|                                |          |             |           | support   | receipts  | transfers |
| PD 419/06 Rev.3 (F)EXT.TICAD   | F        | 1,800,000   | 966,018   | 192,857   | (641,125) | 549,261   |
| PD 452/07 Rev.5 (F)            | F        | 556,963     | 26,262    | 70,353    | (460,348) | 96,563    |
| PD 454/07 Rev.3 (F)            | F        | 490,318     | 378,029   | 38,039    | (74,250)  | 30,832    |
| PD 456/07 Rev.4 (F)-JICA E/N   | F        | 3,297,355   | 2,403,105 | 244,249   | (650,001) | 46,878    |
| PD 456/07 Rev.4 (F) Non-JICA   | F        | 555,556     | 218,896   | 43,950    | (292,709) | 130,611   |
| PD 470/07 Rev.1 (F) /C44       | F        | 206,577     | 11,904    | 15,524    | (179,149) | 65,000    |
| PD 477/07 Rev.4 (F) /C48       | F        | 332,477     | 177,840   | 25,056    | (129,581) | 2,636     |
| PD 495/08 Rev.4 (F) /C47       | F        | 477,602     | 393,690   | 36,488    | (47,424)  | 26,876    |
| PD 507/08 Rev.1 (F) /C44       | F        | 385,800     | 244,101   | 29,356    | (112,343) | 61,029    |
| PD 552/09 Rev.1 (F) /C45       | F        | 621,578     | 435,880   | 41,844    | (143,854) | 1,926     |
| PD 563/09 Rev.5 (F) /SP'14     | F        | 460,000     | 361,310   | 49,286    | (49,404)  | -         |
| PD 599/11 Rev.1 (M) /C47       | M        | 490,624     | 344,514   | 36,884    | (109,226) | -         |
| PD 600/11 Rev.1 (I) 2011       | I        | 532,525     | 477,739   | 39,786    | (15,000)  | -         |
| PD 601/11 Rev.3 (F) /C49       | F        | 473,602     | 370,720   | 36,762    | (66,120)  | 48,992    |
| PD 602/11 Rev.3 (F) /C49       | F        | 333,067     | 287,681   | 25,956    | (19,430)  | -         |
| PD 617/11 Rev.1 (F) /C47       | F        | 907,948     | 624,588   | 100,881   | (182,480) | 89,777    |
| PD 635/12 Rev.2 (F) /C48       | F        | 496,247     | 444,509   | 38,330    | (13,408)  | -         |
| PD 646/12 Rev.3 (F) /C50       | F        | 427,210     | 88,275    | 46,627    | (292,308) | -         |
| PD 668/12 Rev.1 (F) /C48       | F        | 611,132     | 532,414   | 47,529    | (31,189)  | -         |
| PD 692/13 Rev.1 (M) /C49       | M        | 264,704     | 167,510   | 24,427    | (72,767)  | -         |
| PD 696/13 Rev.2 (F) /C49       | F        | 294,444     | 86,537    | 33,276    | (174,631) | 76,032    |
| PD 710/13 Rev.1 (F) /C49       | F        | 447,936     | 271,595   | 51,426    | (124,915) | 25,047    |
| PD 721/13 Rev.3 (F)/03'16      | F        | 440,873     | 33,753    | 47,236    | (359,884) | 26,373    |
| PD 723/13 R.2(F) Ph.I St.1/C52 | F        | 140,000     | 45        | 15,000    | (124,955) | -         |
| PD 725/13 Rev.2 (F) /C50       | F        | 141,396     | 90,892    | 16,008    | (34,496)  | 7,297     |
| PD 732/14 Rev.2 (M)/03'16      | M        | 321,138     | 44        | 34,408    | (286,687) | -         |
| PD 737/14 Rev.2 (I)/03'16      | I        | 589,863     | 51,208    | 63,200    | (475,455) | 48,831    |
| PD 740/14 Rev.2 (F) /C50       | F        | 450,542     | 123,178   | 51,942    | (275,422) | 1,232     |
| PD 741/14 Rev.3 (F)/03'16      | F        | 437,478     | 71,105    | 46,872    | (319,501) | 9,084     |
| PD 751/14 Rev.3 (M)/C52        | M        | 130,000     | 69        | 13,929    | (116,002) | 40,000    |
| PD 754/14 Rev.3 (F)/03'16      | F        | 541,031     | 99,455    | 57,968    | (383,608) | 7,551     |
| PD 756/14 Rev.1 (M) /C50       | M        | 140,012     | 72,219    | 16,001    | (51,792)  | -         |
| PD 764/14 Rev.3 (F)/04'16      | F        | 606,313     | 173       | 51,886    | (554,254) | -         |
| PD 765/14 R.2 (F) Ph.I/C52     | F        | 250,000     | 294       | 16,070    | (233,636) | -         |
| PD 770/15 Rev.1 (I)/03'16      | I        | 196,224     | 70        | 21,024    | (175,130) | -         |
| PD 777/15 Rev.3 (F)/04'16      | F        | 515,590     | 19        | 55,242    | (460,329) | -         |
| PD 796/15 Rev.2 (M)/C53        | M        | 80,000      | -         | 8,573     | (71,427)  | -         |
| PD 815/16 Rev.2 (I)/C53        | I        | 90,000      | -         | 9,643     | (80,357)  | -         |
| PPD 189/17 Rev.1 (F)/C53       | F        | 50,000      | -         | 5,357     | (44,643)  | -         |

| <i>Project ID</i>                  | <i>Category</i> | <i>ITTO Budget</i> | <i>Expenses</i> | <i>Programme<br/>support</i> | <i>Advance<br/>receipts</i> | <i>Advance<br/>transfers</i> |
|------------------------------------|-----------------|--------------------|-----------------|------------------------------|-----------------------------|------------------------------|
| PP-A/47-266: ITTO/CBD-ACTO         | A               | 1,218,803          | 299,082         | 97,794                       | (821,927)                   | 178,594                      |
| PP-A/49-291 BWP25b IMM(EU)         | A               | 4,858,597          | 822,142         | 57,550                       | (3,978,905)                 | -                            |
| PP-A/50-304 BWP TAG&CSAG15-16      | A               | 110,402            | 43,423          | 20,870                       | (46,108)                    | -                            |
| PP-A/50-305 BWP27 CPF              | A               | 85,000             | 41,222          | 7,825                        | (35,953)                    | -                            |
| PP-A/50-308 BWP33 ITTO & WCO       | A               | 223,280            | 69,676          | 29,495                       | (124,109)                   | 91,867                       |
| PP-A/52-320: CITES BWP Activities  | A               | 748,268            | 30,125          | 32,629                       | (685,514)                   | -                            |
| PP-A/52-320A:CITES Trees Programme | A               | 25,670             | 9,474           | -                            | (16,196)                    | -                            |
| PP-A/53-321 Korea Officer          | A               | 1,055,247          | 76,889          | -                            | (978,358)                   | -                            |
| PP-A/53-322 BWP18-19/1             | A               | 50,000             | -               | 6,522                        | (43,478)                    | -                            |
| PP-A/53-323 BWP18-19/2             | A               | 100,391            | -               | 13,043                       | (87,348)                    | -                            |
| PP-A/53-324 BWP18-19/3             | A               | 75,000             | -               | 9,783                        | (65,217)                    | -                            |
| PP-A/53-325 BWP18-19/10(a)         | A               | 25,000             | -               | 3,261                        | (21,739)                    | -                            |
| PP-A/54-328 BWP18/6b C&I Mtgs      | A               | 36,117             | -               | -                            | (36,117)                    | -                            |
| PP-A/54-329 BWP18/10 Mangrove      | A               | 4,826              | -               | -                            | (4,826)                     | -                            |
| PP-A/54-330 BWP18/19b Outreach     | A               | 5,044              | -               | -                            | (5,044)                     | -                            |
| Thematic programme projects        |                 |                    |                 |                              |                             |                              |
| RED-PD 029/09 Rev.1 (F)/03'10      | F               | 1,080,187          | 964,483         | 83,317                       | (32,387)                    | 3,563                        |
| TFL-PD 032/13 Rev.2 (M)/03'14      | M               | 436,448            | 350,552         | 48,930                       | (36,966)                    | 22,031                       |
| TFL-PD 033/13 Rev.2 (M)/03'14      | M               | 482,148            | 425,016         | 53,130                       | (4,002)                     | 4,002                        |
| TFL-PD 037/13 Rev.2 (M)/03'14      | M               | 502,464            | 387,623         | 55,589                       | (59,252)                    | -                            |
| TFL-PD 044/13 Rev.2 (M)/03'14      | M               | 405,968            | 186,891         | 44,202                       | (174,875)                   | -                            |
| Recognized as net assets           |                 |                    |                 |                              | 307,482                     |                              |
| Fellowship programme               |                 |                    |                 |                              |                             |                              |
| PP-A/52-319 FFF/up to15A           | A               | 82,783             | 41,274          | -                            | (41,509)                    | -                            |
| PP-A/52-319 FFF/16A                | A               | 56,668             | 43,911          | -                            | (12,757)                    | -                            |
| PP-A/52-319 FFF/17A                | A               | 120,829            | -               | 10,018                       | (110,811)                   | -                            |
| Recognized as net assets           |                 |                    |                 |                              | 165,076                     |                              |
| <b>Total</b>                       |                 | 31,373,264         | 13,647,423      | 2,373,203                    | (14,880,080)                | 1,691,886                    |

Unearmarked funds and earmarked funds with no conditions attached, such as donor pledges to the Thematic Programme funds or the Fellowship fund, recognize revenue at the earlier of cash received or formal acknowledgement/agreement of the contribution to be provided. Therefore, advance receipts from Thematic programme projects and the Fellowship programmes are recorded in net assets and are excluded from the reconciliation of deferred revenue balances shown above.

### Note 13

#### Voluntary contributions advance receipts - unallocated

The amounts in Voluntary contributions advance receipts – unallocated correspond to funds that have been pledged by donors but have not been allocated to specific projects.

### Note 14

#### Assessed contributions advance receipts

Those amounts correspond to assessed contributions, related to 2018 budget, that were received before the end of 2017.

### Note 15

#### Net assets

(United States dollars)

| <i>Breakdown of net assets</i>          | <i>2017</i>                          |                                        |                  | <i>2016</i>                          |                                        |                  |
|-----------------------------------------|--------------------------------------|----------------------------------------|------------------|--------------------------------------|----------------------------------------|------------------|
|                                         | Restricted<br>accumulated<br>surplus | Unrestricted<br>accumulated<br>surplus | Reserves         | Restricted<br>accumulated<br>surplus | Unrestricted<br>accumulated<br>surplus | Reserves         |
| Funds provided by interest income       | 89,034                               | -                                      | -                | 163                                  | -                                      | -                |
| Thematic programme funds unallocated    | 307,482                              | -                                      | -                | 1,287,220                            | -                                      | -                |
| Funds allocated to Fellowship programme | 287,016                              | -                                      | -                | 276,305                              | -                                      | -                |
| Funds allocated to expost evaluation    | 46,439                               | -                                      | -                | -                                    | -                                      | -                |
| Working Capital reserve                 | 4,156,724                            | -                                      | -                | 4,157,286                            | -                                      | -                |
| Thematic programme funds unallocated    | -                                    | -                                      | -                | -                                    | -                                      | -                |
| Unearmarked funds unallocated           | -                                    | -                                      | -                | -                                    | -                                      | -                |
| Programme support funds                 | -                                    | 237,862                                | -                | -                                    | 90,079                                 | -                |
| Reserve provided by interest income     | -                                    | 205,075                                | -                | -                                    | 189,877                                | -                |
| Impairment loss                         | -                                    | -                                      | -                | -                                    | -                                      | -                |
| Special reserve                         |                                      |                                        | 2,500,000        | -                                    | -                                      | 1,850,000        |
| <b>Total</b>                            | <b>4,886,695</b>                     | <b>442,936</b>                         | <b>2,500,000</b> | <b>5,720,974</b>                     | <b>279,956</b>                         | <b>1,850,000</b> |

1. Net assets represent the value of ITTO assets, less its outstanding liabilities at the reporting date. ITTO net assets comprise accumulated surpluses and reserves.
2. Accumulated surplus represent the accumulated surpluses and deficits from ITTO operations over the years. Accumulated surplus is presented as restricted or unrestricted. Restricted accumulated surplus are linked to commitments or require a Council decision to be utilized.
3. Reserves represent the special reserve contained in the Administrative Account. In accordance with the Financial Rules and Procedures of ITTO, this reserve is set aside to meet obligations towards the staff members of the Organization, arising in the event that ITTO ceases to exist, such as termination indemnities, repatriation travel and removal costs, and repatriation grants.

#### **Note 16**

##### **Administrative account; Revenue from Assessed Contributions and the other contributions**

(United States dollars)

| <i>Breakdown of revenue</i>                       | <i>2017</i>      | <i>2016</i>      |
|---------------------------------------------------|------------------|------------------|
| <b>Contributions from members countries</b>       |                  |                  |
| Member countries                                  | 7,178,516        | 7,445,429        |
| <b>Total Assessed contributions</b>               | <b>7,178,516</b> | <b>7,445,429</b> |
| Reimbursement by Japan                            | 313,435          | 797,009          |
| Voluntary in-kind contributions from Japan        | 538,657          | 695,445          |
| <b>Total voluntary contributions</b>              | <b>852,092</b>   | <b>1,492,454</b> |
| <b>Total Assessed and Voluntary Contributions</b> | <b>8,030,608</b> | <b>8,937,883</b> |
| <b>Assessed Contribution receivable</b>           | <b>1,989,162</b> | <b>1,529,495</b> |
| <b>Voluntary Contribution receivable</b>          | <b>59,566</b>    | <b>306,966</b>   |

#### *In-kind contributions*

In-kind contributions comprise contributions received as goods or services. In-kind contributions mainly include rights to use assets such as land and buildings.

**Project account; Revenue from Voluntary Contributions**

(United States dollars)

| <i>Breakdown of revenue</i>                                                   | <i>2017</i>      | <i>2016</i>       |
|-------------------------------------------------------------------------------|------------------|-------------------|
| <b>Contributions</b>                                                          |                  |                   |
| Donors                                                                        | 3,377,631        | 5,223,502         |
| Non-recurring revenue from Donors' funds in accordance with Decision 9 (LIII) | 66,268           | -                 |
| Revenue from closed projects to the Pooled Fund for Ex-Post Evaluation        | 13,631           | -                 |
| Revenue from Decision 6 (LII)                                                 | -                | 5,331,013         |
| Programme Support Revenue                                                     | 198,265          | 524,727           |
| <b>Total voluntary contributions</b>                                          | <b>3,655,795</b> | <b>11,079,242</b> |
| Voluntary Contribution receivable                                             | 4,011,656        | 100,000           |
| Advance transfer - Project                                                    | 1,691,886        | 614,170           |
| Advance receipts                                                              | 14,880,080       | 12,345,749        |
| <i>Category</i>                                                               | <i>2017</i>      | <i>2016</i>       |
| Reforestation and Forest Management                                           | 2,128,398        | 2,999,488         |
| Economics, Statistics and Markets                                             | 339,210          | 610,658           |
| Forest Industry                                                               | 226,617          | 647,669           |
| Activities                                                                    | 683,406          | 965,687           |
| <b>Total donors' voluntary contribution by type</b>                           | <b>3,377,631</b> | <b>5,223,502</b>  |

*Revenue from Decision 6 (LII)*

Revenue from Decision 6 (LII) corresponds to the termination of project obligations. This decision, adopted by the Council in November 2016, brought ITTO's commitments to a level that matched its available resources (please also see Note 7).

The table below show the reorganization of ITTO's finances in order to regain sufficient levels of funds to fully meet its financial obligations.

(United States dollars)

|                                                 | <i>2017</i> | <i>2016</i>       |
|-------------------------------------------------|-------------|-------------------|
| Termination of ongoing obligations              | -           | 5,331,013         |
| Utilization of restricted accumulated surplus   | -           | 8,409,725         |
| Utilization of unrestricted accumulated surplus | -           | 4,241,248         |
| <b>Total financial loss compensated</b>         | <b>-</b>    | <b>17,981,986</b> |

## Reconciliation between pledges and revenue

(United States dollars)

|                                                            |                  |
|------------------------------------------------------------|------------------|
| <b>Pledges announced at the Council Session in 2016</b>    | <b>4,982,824</b> |
| Adjustments to pledges                                     | 451,070          |
|                                                            | 5,433,894        |
| Liabilities recognized for obligations attached to pledges | (4,637,669)      |
| Revenue recognized from ongoing projects                   | 4,845,518        |
| Other adjustments                                          | 106,486          |
|                                                            | 5,748,229        |
| Programme support revenue                                  | (524,727)        |
| <b>Member States voluntary contributions</b>               | <b>5,223,502</b> |
| <b>Pledges announced at the Council Session in 2017</b>    | <b>1,308,761</b> |
| Adjustments to pledges                                     | (172,968)        |
| Pledged in previous years but arrears booked in 2017       | 4,893,519        |
|                                                            | 6,029,313        |
| Liabilities recognized for obligations attached to pledges | (5,764,265)      |
| Revenue recognized from ongoing projects                   | 3,324,481        |
|                                                            | 3,589,528        |
| Programme support revenue                                  | (198,265)        |
| Ex-Post evaluation revenue                                 | (13,631)         |
| <b>Member States voluntary contributions</b>               | <b>3,377,631</b> |

Ex-Post evaluation revenue from Thematic Programme projects are recognized at the start of the project. An amount of \$32,808 was transferred in 2017 as Thematic Programme related Ex-post evaluation revenue. There were no transfers in 2016.

## Note 17

### Financial revenue

ITTO generates interest revenue from bank accounts. Interest revenue for 2017 is \$35,961 and 2016 is \$23,181.

## Note 18

### Administrative account; Employee benefits expenses

(United States dollars)

| <i>Breakdown of employee benefits expenses</i> | <i>2017</i>      | <i>2016</i>      |
|------------------------------------------------|------------------|------------------|
| Salaries and benefits                          | 3,401,105        | 3,615,220        |
| Social security                                | 746,076          | 683,477          |
| <b>Total employee benefits expenses</b>        | <b>4,147,181</b> | <b>4,298,697</b> |

The total amount of defined contribution plan expenses for pension schemes amount to \$533,942 for 2017 and \$466,326 for 2016.



## Note 19

### Other operating expenses

(United States dollars)

| <i>Breakdown of other operating expenses</i>                          | <i>2017</i>      | <i>2016</i>      |
|-----------------------------------------------------------------------|------------------|------------------|
| Installation costs                                                    | 55,895           | -                |
| Official travel                                                       | 119,784          | 130,585          |
| Special activities                                                    | 53,059           | 70,018           |
| Data processing                                                       | 94,457           | 101,027          |
| Other costs                                                           | 242,167          | 229,218          |
| Council meetings                                                      | 407,469          | 514,460          |
| Expert meetings                                                       | 104,683          | 47,029           |
| Communication and outreach                                            | 393,370          | 372,025          |
| Statistics, Studies and information                                   | 293,859          | 230,440          |
| Annual Report and Biennial review                                     | 28,188           | 56,120           |
| Exchange loss                                                         | 26,717           | 40,704           |
| Allowance expense for debt                                            | 559,409          | 268,961          |
| Services received through in-kind contributions                       | 538,657          | 695,445          |
| Working capital reserve expenses in accordance with Council decisions | 308,305          | 358,941          |
| <b>Total other expenses</b>                                           | <b>3,226,019</b> | <b>3,114,974</b> |

### Net foreign exchange gains or losses

(United States dollars)

| <i>Breakdown of foreign exchange gains or losses</i> | <i>Unrealized</i> | <i>Realized</i> | <i>2016</i>   |
|------------------------------------------------------|-------------------|-----------------|---------------|
| Gains                                                | 61,150            | 17,235          | 78,384        |
| Losses                                               | 70,315            | 51,706          | 122,022       |
| <b>Total net losses</b>                              | <b>9,165</b>      | <b>34,471</b>   | <b>43,637</b> |

  

| <i>Breakdown of foreign exchange gains or losses</i> | <i>Unrealized</i> | <i>Realized</i> | <i>2017</i>   |
|------------------------------------------------------|-------------------|-----------------|---------------|
| Gains                                                | 50,089            | 2,673           | 52,762        |
| Losses                                               | 30,323            | 47,315          | 77,639        |
| <b>Total net losses</b>                              | <b>(19,765)</b>   | <b>44,643</b>   | <b>24,877</b> |

**Note 20**  
**Project expenses**

(United States dollars)

| Category                            | 2017             | 2016             |
|-------------------------------------|------------------|------------------|
| Transfers to executing agencies     |                  |                  |
| Reforestation and Forest Management | 2,313,748        | 3,087,736        |
| Economics, Statistics and Markets   | 1,109,075        | 1,199,205        |
| Forest Industry                     | 226,617          | 647,669          |
| Activities                          | 672,695          | 784,075          |
| Programme support expenses          | 51,354           | 531,991          |
| Ex-post Expenses                    | -                | 74,793           |
| Exchange loss / (gain)              | (1,840)          | 2,933            |
| <b>Total by type</b>                | <b>4,371,650</b> | <b>6,328,401</b> |

Transfers to executing agencies correspond to the expenses incurred during the accounting period of 2017 and 2016 by those agencies.

Ex-post expenses are expenses incurred by ITTO for the evaluation of finished projects.

**Note 21**  
**Financial instruments**

1. ITTO has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. The present note contains information about the exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk and its management of capital. Further quantitative disclosures are included throughout the financial statements.

*Accounting classifications and fair values*

2. The following tables detail the value of financial assets and financial liabilities by class of instrument and by category, as defined in the accounting policies.

**Financial assets as at 31 December**

(United States dollars)

| Breakdown of financial assets                   | Loans and receivables | Fair value through surplus or deficit |                                             | Total carrying value | Total fair value |
|-------------------------------------------------|-----------------------|---------------------------------------|---------------------------------------------|----------------------|------------------|
|                                                 |                       | Available-for-sale                    | Designated as such upon initial recognition |                      | 2016             |
| Assessed and voluntary contributions receivable | 1,936,461             | -                                     | -                                           | 1,936,461            | 1,936,461        |
| Other accounts receivable                       | 66,741                | -                                     | -                                           | 66,741               | 66,741           |
| <b>Total financial assets</b>                   | <b>2,003,202</b>      |                                       |                                             | <b>2,003,202</b>     | <b>2,003,202</b> |

| Breakdown of financial assets                   | Loans and receivables | Fair value through surplus or deficit |                                             | Total carrying value | Total fair value |
|-------------------------------------------------|-----------------------|---------------------------------------|---------------------------------------------|----------------------|------------------|
|                                                 |                       | Available-for-sale                    | Designated as such upon initial recognition |                      | 2017             |
| Assessed and voluntary contributions receivable | 6,060,384             | -                                     | -                                           | 6,060,384            | 6,060,384        |
| Other accounts receivable                       | 60,686                | -                                     | -                                           | 60,686               | 60,686           |
| <b>Total financial assets</b>                   | <b>6,121,070</b>      |                                       |                                             | <b>6,121,070</b>     | <b>6,121,070</b> |

3. The carrying value of financial assets is considered to be a reasonable approximation of fair value.

### Financial liabilities as at 31 December

(United States dollars)

|                                           | <i>Other financial<br/>liabilities (amortized<br/>cost)</i> | <i>Total carrying value</i> | <i>Total carrying value</i> |
|-------------------------------------------|-------------------------------------------------------------|-----------------------------|-----------------------------|
| <i>Breakdown of financial liabilities</i> |                                                             |                             | <u>2016</u>                 |
| Accounts payable - Member States          | 41,038                                                      | 41,038                      | 41,038                      |
| Accounts payable - Others                 | 1,194,983                                                   | 1,194,983                   | 1,194,983                   |
| <b>Total financial liabilities</b>        | <b>1,236,021</b>                                            | <b>1,236,021</b>            | <b>1,236,021</b>            |

  

|                                           | <i>Other financial<br/>liabilities (amortized<br/>cost)</i> | <i>Total carrying value</i> | <i>Total carrying value</i> |
|-------------------------------------------|-------------------------------------------------------------|-----------------------------|-----------------------------|
| <i>Breakdown of financial liabilities</i> |                                                             |                             | <u>2017</u>                 |
| Accounts payable - Member States          | -                                                           | -                           | -                           |
| Accounts payable - Others                 | 1,649,837                                                   | 1,649,837                   | 1,649,837                   |
| <b>Total financial liabilities</b>        | <b>1,649,837</b>                                            | <b>1,649,837</b>            | <b>1,649,837</b>            |

4. Most liabilities are short-term and are expected to be settled within the next 12 months. Non-current liabilities are reported at amortized cost in the statement of financial position, and it is assumed that the carrying amounts don't materially deviate from the fair values of the financial instruments.

### Valuation method

5. The valuation method of the different levels of financial instruments carried at fair value has been defined as follows:

(a) Level 1. Average quoted prices from two separate sources (unadjusted) in active markets for identical assets or liabilities;

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

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

6. ITTO does not hold any financial liabilities that are recognized at fair value through surplus or deficit. All ITTO's financial assets and liabilities are of level 3.

## Note 22

### Financial risk management

#### Exposure to credit risk

1. Credit risk is the risk of financial loss to ITTO if a donor or other counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises

principally from cash and cash equivalents, investments, receivables from contributions and other receivables.

2. ITTO holds bank accounts only in Japan and United States.

3. In its new financial rules and procedures, ITTO has a detailed investment policy along with a charter for an investment oversight panel with quarterly reporting requirements to Council members.

4. The significant receivables of ITTO are all towards member countries. ITTO has established an allowance for impairment that represents its estimate of incurred losses in respect of receivables from contributions and other receivables, based on the following rules representing the management's best estimate of the risk.

For all assessed contributions receivables that are overdue 4 years and more, 100% allowance is recommended for financial reporting purposes. Write-off of receivables is not addressed by this IPSAS policy framework, as the Council is the final authority to determine the write-offs of balances of assessed receivables outstanding from Member States.

Fair values of unpaid assessed contributions that are outstanding for periods up to 4 years are to be computed using allowance of 80% for receivables overdue by more than 36 months, allowance of 60% for receivables overdue by more than 24 months, and 20% for receivables overdue by more than 12 months.

5. The carrying value of all financial instruments represents the maximum exposure to credit risk.

#### Ageing of assessed and voluntary contributions receivables

(United States dollars)

|                                     | <i>0 to 1 year</i> | <i>&gt;1 to 2 years</i> | <i>Over 2 years</i> | <i>2016</i>      |
|-------------------------------------|--------------------|-------------------------|---------------------|------------------|
| Assessed contributions receivables  | 817,656            | 627,250                 | 5,155,911           | 6,600,817        |
| Voluntary contributions receivables | 406,966            | -                       | -                   | 406,966          |
| Allowance                           | -                  | (125,450)               | (4,945,872)         | (5,071,322)      |
| <b>Net Total</b>                    | <b>1,224,622</b>   | <b>501,800</b>          | <b>210,039</b>      | <b>1,936,461</b> |
|                                     | <i>0 to 1 year</i> | <i>&gt;1 to 2 years</i> | <i>Over 2 years</i> | <i>2017</i>      |
| Assessed contributions receivables  | 1,032,211          | 804,521                 | 5,257,654           | 7,094,386        |
| Voluntary contributions receivables | 4,071,221          | -                       | -                   | 4,071,221        |
| Allowance                           | -                  | (160,904)               | (4,944,320)         | (5,105,224)      |
| <b>Net Total</b>                    | <b>5,103,432</b>   | <b>643,617</b>          | <b>313,334</b>      | <b>6,060,384</b> |

*Exposure to liquidity risk*

6. Liquidity risk is the risk that ITTO will encounter difficulty in meeting its obligations associated with its accounts payables, other liabilities and promised transfers of cash to programmes. ITTO holds sufficient financial assets to cover all its obligations and contingent liabilities. ITTO does not have any borrowings.

7. ITTO strictly monitors its budget to avoid engaging in commitments which sufficient budget is unavailable from contributions received and liquidated by the donors.

**Contractual maturities of financial liabilities**

(United States dollars)

|                  | Due           |               |               |                     | Overdue    |            |             |                     | 2016 total<br>carrying value |
|------------------|---------------|---------------|---------------|---------------------|------------|------------|-------------|---------------------|------------------------------|
|                  | 0-3 months    | 3-6 months    | 6-12 months   | More than 1<br>year | 0-3 months | 3-6 months | 6-12 months | More than 1<br>year |                              |
| Accrued expenses | 12,802        | 12,802        | 25,604        | 38,406              | –          | –          | –           | –                   | 89,614                       |
| <b>Total</b>     | <b>12,802</b> | <b>12,802</b> | <b>25,604</b> | <b>38,406</b>       | <b>–</b>   | <b>–</b>   | <b>–</b>    | <b>–</b>            | <b>89,614</b>                |

|                  | Due           |               |               |                     | Overdue    |            |             |                     | 2017 total<br>carrying value |
|------------------|---------------|---------------|---------------|---------------------|------------|------------|-------------|---------------------|------------------------------|
|                  | 0-3 months    | 3-6 months    | 6-12 months   | More than 1<br>year | 0-3 months | 3-6 months | 6-12 months | More than 1<br>year |                              |
| Accrued expenses | 11,876        | 11,876        | 18,136        | –                   | –          | –          | –           | –                   | 41,888                       |
| <b>Total</b>     | <b>11,876</b> | <b>11,876</b> | <b>18,136</b> | <b>–</b>            | <b>–</b>   | <b>–</b>   | <b>–</b>    | <b>–</b>            | <b>41,888</b>                |

8. No other financial liabilities have contractual maturities.

9. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

*Exposure to market risk*

10. ITTO financial instruments are only composed by loans and receivables, consequently ITTO exposure to market risk is considered as not significant.

*Currency risk*

11. Currency risk (or foreign exchange risk) arises with regard to financial instruments that are denominated in a foreign currency. ITTO is exposed to currency risk on expenses, assets and liabilities that are denominated in a currency other than the United States dollar. The currencies in which these transactions are primarily denominated are as follows:

(a) Regarding expenses for the year employee benefits are mainly made in Japanese yen;

(b) Regarding assets and liabilities as at 31 December are mainly balanced in the United States dollar.

### Summary of currency positions

(United States dollars)

|                                                 | <i>United States<br/>dollar</i> | <i>Yen<br/>(converted)</i> | <i>2016</i>       |
|-------------------------------------------------|---------------------------------|----------------------------|-------------------|
| Cash and cash equivalents                       | 19,369,555                      | 291,980                    | 19,661,535        |
| Assessed and voluntary contributions receivable | 1,936,461                       | -                          | 1,936,461         |
| Other accounts receivable                       | 5,034                           | 61,707                     | 66,741            |
| <b>Total financial assets</b>                   | <b>21,311,050</b>               | <b>353,687</b>             | <b>21,664,737</b> |
| Accounts payable - Member States                | 41,038                          | -                          | 41,038            |
| Accounts payable - Others                       | 1,105,370                       | 89,613                     | 1,194,983         |
| <b>Total financial liabilities</b>              | <b>1,146,408</b>                | <b>89,613</b>              | <b>1,236,021</b>  |
| <b>Net exposure</b>                             | <b>20,164,642</b>               | <b>264,074</b>             | <b>20,428,716</b> |

|                                                 | <i>United States<br/>dollar</i> | <i>Yen<br/>(converted)</i> | <i>Euro<br/>(converted)</i> | <i>2017</i>       |
|-------------------------------------------------|---------------------------------|----------------------------|-----------------------------|-------------------|
| Cash and cash equivalents                       | 16,756,065                      | 122,728                    |                             | 16,878,793        |
| Assessed and voluntary contributions receivable | 2,998,095                       | -                          | 3,062,289                   | 6,060,384         |
| Other accounts receivable                       | 9,322                           | 51,364                     | -                           | 60,686            |
| <b>Total financial assets</b>                   | <b>19,763,482</b>               | <b>174,091</b>             | <b>3,062,289</b>            | <b>22,999,863</b> |
| Accounts payable - Member States                | -                               | -                          | -                           | -                 |
| Accounts payable - Others                       | 1,283,101                       | 366,736                    | -                           | 1,649,837         |
| <b>Total financial liabilities</b>              | <b>1,560,224</b>                | <b>89,613</b>              | <b>-</b>                    | <b>1,649,837</b>  |
| <b>Net exposure</b>                             | <b>18,203,258</b>               | <b>84,478</b>              | <b>3,062,289</b>            | <b>21,350,026</b> |

*Sensitivity analysis: foreign currency*

12. The following table shows the sensitivity of net assets and surplus/deficits to the strengthening and weakening of key currencies used by ITTO. This analysis is based on foreign currency exchange rate variances that ITTO considered to be reasonably possible as at the reporting date. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted contributions and expenditures.

(United States dollars)

|                               | <i>Surplus/(deficit)</i>                                        |                                                             |
|-------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------|
|                               | <i>Strengthening of United States dollar<br/>by 10 per cent</i> | <i>Weakening of United States dollar by<br/>10 per cent</i> |
| <i>As at 31 December 2016</i> |                                                                 |                                                             |
| Japanese yen                  | (24,007)                                                        | 29,342                                                      |
| <b>Total</b>                  | <b>(24,007)</b>                                                 | <b>29,242</b>                                               |
|                               |                                                                 |                                                             |
|                               | <i>Surplus/(deficit)</i>                                        |                                                             |
|                               | <i>Strengthening of United States dollar<br/>by 10 per cent</i> | <i>Weakening of United States dollar by<br/>10 per cent</i> |
| <i>As at 31 December 2017</i> |                                                                 |                                                             |
| Japanese yen                  | (11,157)                                                        | 13,636                                                      |
| <b>Total</b>                  | <b>(11,157)</b>                                                 | <b>13,636</b>                                               |

13. The information presented above is calculated by reference to carrying amounts of assets and liabilities.

*Sensitivity analysis: interest rates*

14. The exposure of ITTO to interest rates is not material.

**Note 23****Capital management**

1. ITTO defines the capital as the aggregate of its net assets, which comprises accumulated surpluses and reserve balances. ITTO does not have any long-term borrowings and its Financial Rules and Procedures prohibit ITTO from borrowing funds for the Administrative Account.

2. Except for unrestricted accumulated surplus, the utilization by ITTO of net assets requires a Council decision or termination of commitments. Unrestricted accumulated surplus are composed by:

- (a) Interest earned on funds in the Administrative Account usable by the Executive Director to hire on a temporary and intermittent basis, consultants and contractors to support the Secretariat in carrying out its duties; and
- (b) Programme Support within the Project Account usable to defray the expenses of administration of projects, pre-projects, and other activities of the

Organization approved by the Council. Such administrative expenses shall comprise bank charges, project-related communication costs, the remuneration of project administration staff, and other expenses related to project administration.

3. The Executive Director shall notify the Council if the amount of the Working Capital Reserve falls below 15% or approximately two months of annual operating expenses of the Administrative Budget. Working Capital Reserve is part of the restricted accumulated surplus and amount to \$4,156,724 at the end of 2017 and \$4,148,130 at the end of 2016.

## **Note 24**

### **Commitments**

ITTO had no open purchase orders at the end of the reporting period.

#### *Long-term agreements*

ITTO is not part of any long term agreement.

#### *Ongoing projects and activities*

Restricted accumulated surplus are partially composed by funds allocated to ongoing projects. While no obligation is attached to the related assets recognized initially, ITTO has commitments for both Thematic Programme ongoing projects and the Fellowship Programme, as follows:

(United States dollars)

|                                                  | Thematic Programme | Fellowship Programme |
|--------------------------------------------------|--------------------|----------------------|
| Balance as of 31 December 2015                   | 3,037,160          | 441,914              |
| Reduction of commitments as per Decision 6 (LII) | (965,923)          | (347,956)            |
| Revenue from pledges                             | -                  | 266,234              |
| Expenses of 2016                                 | (784,017)          | (83,886)             |
| <b>Balance as of 31 December 2016</b>            | <b>1,287,220</b>   | <b>276,305</b>       |
| Amendment to commitments                         | 8,285              | -                    |
| Revenue from pledges                             | -                  | 66,781               |
| Transfer to the Ex-post pooled fund              | (32,808)           |                      |
| Expenses of 2017                                 | (955,215)          | (56,071)             |
| <b>Balance as of 31 December 2017</b>            | <b>307,482</b>     | <b>287,016</b>       |



**Note 25**  
**Contingencies***Contingent assets*

At the Fifty-third Council Session on 2 December 2017, the Government of Germany indicated that they are in the process of completing administrative procedures for the pledge of \$1,000,000 to finance Activity no.4 of the ITTO Biennial Work Programme 2018-2019: Enhancing Teak Management.

*Contingent liabilities*

ITTO has no pending litigation representing a financial risk for the organization.

**Note 26**  
**Related parties***Key management personnel*

1. The leadership structure of ITTO consists of the Executive Director and the Assistant Directors of each division, including those who substitute these positions as Officer-in-charge.

There are no close family members of key management personnel employed by ITTO nor have there been any transactions made with them by ITTO during the reporting period.

*Costs of Key management*

(United States dollars)

|                    | 2017             | 2016             |
|--------------------|------------------|------------------|
| Remuneration       | 690,320          | 753,662          |
| Other Entitlements | 204,465          | 114,763          |
| Long-term Benefits | 165,025          | 181,414          |
| <b>Total</b>       | <b>1,059,811</b> | <b>1,049,838</b> |

2. The remuneration paid to key management personnel includes salary, post adjustment, dependency allowances, medical and social insurance and other entitlements such as educations grants.

3. Key management personnel are also eligible for post-employment employee benefits such as pension defined contributions plan, repatriation and home leave benefits and payment of unused annual leave. The total amount of defined contribution plan expenses for pension schemes for key management personnel was \$144,692 for 2017 and \$116,171 for 2016.

4. There were no loans or advances granted to key management personnel during the reporting period.

**Note 27**  
**Events after the reporting date**

No significant adjusting or non-adjusting event occurred between the closing date of 31 December 2017 and the date of this report.