



**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 2016

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 2016 (FY2016). Due to the impairment of investments amounting to \$18 million, ITTO had a deficiency in funds available to meet its financial obligations at the beginning of FY2016. However, due to Council Decisions adopted in November 2016 to address the financial shortfall, ITTO was able to reorganize its finances in order to regain sufficient levels of funds to fully meet its financial obligations and resume its regular operations by the end of FY2016. Additional measures to strengthen internal control and accountability were implemented at the same time through revised Financial Rules and Procedures, and the adoption of International Public Sector Accounting Standards (IPSAS).

For ITTO's Project accounts in FY2016, new voluntary contribution pledges of \$5.4 million were reported while total project cost expenses during this period were \$6.3 million from projects mostly funded prior to FY2016. Total Administrative Account assessed contribution revenues were \$7.4 million, of which \$0.8 million were not received in cash during FY2016 and accounted for as assessed contributions receivable (arrears).

In accordance with the revised Financial Rules and Procedures, ITTO has adopted IPSAS as its standard for preparing its financial statements. As a result, the following changes, among others, in reporting have been made compared to prior years:

1. Reclassification of liability and net asset items were made in accordance with their obligations. A total of \$3.2 million were moved from liability to net asset, and an amount of \$16.9 million from net asset to liability. Project funds received in advance from donors are now shown as a liability to reflect ITTO's obligation to donors.
2. \$4.8 million of assessed contributions receivable (arrears) were written-off based on ageing. It should be noted that this is only an accounting treatment to re-evaluate the value of the receivables as an asset and does not free members from their legal obligations to pay arrears.
3. Employee benefits, such as, annual leave, home leave and repatriation benefits, which ITTO has an obligation to provide to its staff, are now recognized as a liability. The amount of the allowance for FY2016 was \$0.8 million.
4. A budget comparison table has been added to the financial statements comparing the Administrative budget with actual amounts, which are explained in detail in its corresponding notes.

In November 2016, Council adopted Decision 6(LII) in order to address ITTO's financial shortfall, which amounted to \$18 million at the time due to impairments in investment made by former management. The Decision allowed the write-off of \$5.3 million in project-related obligations and the reclassification of \$12.7 million of funds from various sources, which combined allowed ITTO to bridge the gap created from the impairment. As a result, there are no more negative net asset items in the financial statements and ITTO is now able to fully meet its financial obligations.

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 Council members.

ITTO's Financial Statements
for the year ended 31 December 2016

audited by the Independent Auditors

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Chapter I

Report of Independent Auditors

To the Executive Director of International Tropical Timber Organization

Pursuant to Article 23 of the International Tropical Timber Agreement of 2006, We have audited the accompanying financial statements of the International Tropical Timber Organization (“ITTO”), which comprise the statement of financial position as at 31 December 2016, the statement of financial performance, the statement of changes in net assets, the statement of cash flows, the statement of comparison of budget to actual amounts for the year ended 31 December 2016, and the notes comprising a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control as is deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the International Tropical Timber Organization (“ITTO”) as at 31 December 2016, and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

29th June, 2017



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Chapter II

Financial statements for the year ended 31 December 2016

International Tropical Timber Organization

I. Statement of financial position as at 31 December

(United States dollars)

	<i>Reference</i>	<i>31 December 2016</i>	<i>31 December 2015 (restated)</i>
Assets			
Current assets			
Cash and cash equivalents	Note 6	19,661,535	20,018,577
Investments	Note 7	-	-
Assessed and voluntary contributions receivable	Note 8	1,936,461	1,412,681
Other accounts receivable	Note 8	66,741	205,594
Advance transfers - Projects	Note 9	614,170	2,202,483
Advance transfers - Others	Note 10	176,226	170,220
Total current assets		22,455,134	24,009,555
Total assets		22,455,134	24,009,555
Liabilities			
Current liabilities			
Accounts payable - Member States		41,038	122,423
Accounts payable - Others	Note 11	381,563	579,849
Voluntary contributions advance receipts - allocated	Note 12	7,884,439	10,466,258
Voluntary contributions advance receipts - unallocated	Note 13	522,392	2,501,023
Assessed contributions advance receipts	Note 14	500,040	46,705
Total current liabilities		9,329,472	13,716,258
Non-current liabilities			
Accounts payable - Others	Note 11	813,420	847,837
Voluntary contributions advance receipts - allocated	Note 12	4,461,310	7,894,400
Total non-current liabilities		5,274,730	8,742,237
Total liabilities		14,604,203	22,458,495
Net of total assets and total liabilities		7,850,931	1,551,060
Net assets			
Accumulated surplus - Restricted	Note 15	5,720,974	13,476,609
Accumulated surplus - Unrestricted	Note 15	279,957	(13,425,549)
Reserves	Note 15	1,850,000	1,500,000
Total net assets		7,850,931	1,551,060

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>2016</i>
Revenue		
Administrative Account		
Assessed contributions	Note 16	7,445,429
Other voluntary contributions	Note 16	1,492,454
Financial revenue	Note 17	15,470
Other income		1,637
Project Account		
Member States voluntary contributions	Note 16	5,223,502
Other voluntary contributions	Note 16	5,331,013
Programme support Revenue	Note 16	524,727
Financial revenue	Note 17	7,711
Total revenue		20,041,944
Expenses		
Administrative Account		
Employee benefits	Note 18	4,298,697
Other operating expenses	Note 19	3,114,974
Project Account		
Project expenses	Note 20	6,328,401
Total expenses		13,742,073
Surplus/(deficit) for the year		6,299,871

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>Net assets</i>
Restated net assets as at 31 December 2015 (Note 15)	1,551,060
Changes in net assets	
Surplus for the year	6,299,871
Net assets as at 31 December 2016 (Note 15)	7,850,931

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)

	<i>Reference</i>	<i>2016</i>
Cash flows from operating activities		
Surplus for the year		6,299,871
<i>Non-cash movements</i>		
Increase in allowance for doubtful receivables	Notes 8 and 19	268,961
Changes in assets		
(Increase) in Assessed contributions receivable	Note 8	(385,775)
(Increase) in Voluntary contributions receivable	Note 8	(406,966)
Decrease in Other accounts receivable	Note 8	138,853
Decrease in Advance transfers - Projects	Note 9	1,588,313
(Increase) in Advance transfers - Others	Note 10	(6,006)
Changes in liabilities		
(Decrease) in Accounts payable - Member States		(81,385)
(Decrease) in Accounts payable - Others	Note 11	(232,703)
(Decrease) in Voluntary contributions advance receipts - allocated	Note 12	(6,014,909)
(Decrease) in Voluntary contributions advance receipts - unallocated	Note 13	(1,978,631)
Increase in Assessed contributions advance receipts	Note 14	453,335
Net cash flows from operating activities		(357,042)
Net (Decrease) in cash and cash equivalents		(357,042)
Cash and cash equivalents — beginning of year	Note 6	20,018,577
Cash and cash equivalents — end of year	Note 6	19,661,535

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 2016

(United States dollars)

Budget Heading	Note	Original budget	Final budget	Actual on comparable basics	Difference between final and actual
Basic administrative costs					
Salaries and benefits	Note 5	4,264,775	4,264,775	3,358,263	906,512
Installation costs	Note 5	292,387	292,387	-	292,387
Official travel		134,029	134,029	134,029	-
Social security	Note 5	1,033,990	1,033,990	683,477	350,513
Special activities	Note 5	108,378	108,378	34,169	74,209
Data processing		106,202	106,202	101,027	5,175
Other costs	Note 5	343,940	343,940	229,218	114,722
Council meetings		207,921	207,921	207,494	427
Total		6,491,622	6,491,622	4,747,677	1,743,945
Core operational costs					
Communication and outreach	Note 5	428,675	428,675	372,025	56,650
Expert meetings by Council	Note 5	140,000	140,000	47,029	92,971
Policy work		-	-	-	-
Statistics, studies & information	Note 5	302,000	302,000	230,440	71,560
Annual report & biennial review	Note 5	70,000	70,000	56,120	13,880
Total		940,675	940,675	705,614	235,061
Grand Total		7,432,297	7,432,297	5,453,292	1,979,006

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

International Tropical Timber Organization

Notes to the 2016 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). These are the Organization's first financial statements prepared in accordance with IPSAS and certain transitional provisions, as detailed in note 3, have been applied.

The financial statements were authorised for issue by the Executive Director on 30 June 2017.

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.

As permitted by IPSAS 1, comparative information is not provided, with the exception of opening balances for the statement of financial position.

3. These financial statements are expressed in United States dollars unless otherwise indicated.

4. In November 2016, the proposals by the management to execute termination and/or downsizing of some of the ongoing projects were duly adopted through Decision 6 (LII) (please also refer to note 16) and as a result, the uncertainty that might cease ITTO's ability to continue at the same level of operations was eliminated.

Initial adoption of International Public Sector Accounting Standards (IPSAS)

5. Prior to 1 January 2016, ITTO prepared its financial statements based on its previous accounting principles that were modified cash basis. The conversion to IPSAS (full accrual basis) from 2016 has resulted in significant changes in the type and measurement of assets, liabilities, revenue and expenses recognized.

6. The following table shows the adjustments made to audited ITTO member's funds under ITTO accounting principles as at 31 December 2015 to its IPSAS opening net assets as at 1 January 2016. IPSAS requires that initial financial statements under the new standards reflect its financial position as if IPSAS had always been applied, with any differences upon transition eliminated through net assets.

Reconciliation of previously published net assets under previous accounting principles (modified cash basis) with IPSAS nets assets as at 31 December 2015.

(United States dollars)

Member's funds under former accounting principles (published)	12,624,261
IPSAS reclassifications	
Arrears in assessed contributions reclassification to assets	6,190,322
Programme support funds reclassification from liabilities	1,337,230
Accumulated surplus reclassification from liabilities	1,900,974
Unallocated contributions advances reclassification to liabilities	(1,965,759)
IPSAS adjustments	
Voluntary contributions with obligations attached deferred	(14,941,026)
Expenses related to ongoing projects deferred	2,202,483
Allowances for arrears	(4,777,641)
Accrued employee benefits	(843,115)
Accrued other operating expenses	(37,793)
Provision for onerous contracts	(138,876)
Opening net assets under IPSAS as at 1 January 2016	1,551,060

B. Foreign currency translation

Functional and presentation currency

7. 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

8. 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

9. 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.

10. 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.

11. 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 2016, 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.

12. 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

13. No recent IPSAS development has been identified which would have a significant impact on the financial statements of ITTO in the future, considering its current and foreseen operations.

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>
Cash and cash equivalents (with original maturities of 3 months or less)	Loans and receivables
Contributions and other accounts receivable	Loans and receivables
Prepaid expenses and accrued revenue	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. Prepaid expenses are issued where agreements with ITTO and the supplier or service provider requires payment up front. Prepaid expenses are recorded as a current asset until goods and/or services associated with the prepaid expenses are delivered, at which point the expense is recognized and the prepaid expense is reduced by a corresponding amount.

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, it is not required to recognize and/or measure assets for reporting periods beginning on a date within three years.

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 as to be liquidated within one year. 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. Termination benefits, if settled within 12 months, are reported at the amount expected to be paid; otherwise, they are reported at present value of the estimated future cash outflows. 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 2016, 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, inventory 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, inventory 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:

(a) Returns of unused funds to donors, transfer of unused funds to regular resources, transfer of unused funds to other resources and write-downs of receivables that are no longer enforceable by ITTO following the expiry or termination of contribution agreements;

(b) 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 2016, 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.

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.

Segment reporting

50. ITTO has no requirement for segment reporting as it does not have multiple operating 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) Senior-level positions including the Executive Director, Assistant Director of division of operations, financial and administrative officer and projects manager were left unfilled during the majority the reporting period.

(b) No personnel were recruited during the reporting period.

(c) Certain activities such as the Expert Panel, statistical services, dissemination of publications and workshops were scaled down due to the uncertainty surrounding ITTO's financial situation arising from the financial impairment.

(d) Assessed contributions amounting to approximately \$800,000 were not received during the reporting period, which had an influence on management's decision regarding budget spending.

The table below presents the reconciliation of actual budget amounts on a comparable basis in the statement of comparison of budget and actual amounts and the actual amounts in the statement of cash flows.

(United States dollars)

<i>Budget actual for year 2016</i>	5,453,292
2017 expenses budgeted for Council held outside of host country	(200,000)
Working capital reserve expenses in accordance with Council decisions	358,941
Expenses not part of the budget reimbursed by host country	797,009
Donated right to use premises	695,445
Revenue from non-exchange transactions	(20,041,944)
Project expenses	6,328,401
Other differences in statement of financial performance	40,024
Changes in assets (from cash flow statement)	(928,417)
Changes in liabilities (from cash flow statement)	7,854,292
Net cash flows from operating activities	357,042

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>2016</i>	<i>2015</i>
Non-current investments		
Securities	12,014,000	12,014,000
Total non-current investments	12,014,000	12,014,000
Provision for Impairment on security	(12,014,000)	(12,014,000)
Net investments	-	-

\$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)	1,412,681
Assessed Contribution for 2016	7,445,429	-	7,445,429
Receipt	(7,012,949)	-	(7,012,949)
Advance Receipt Reclassification	(46,705)	-	(46,705)
Increase of Allowance for doubtful assessed contributions receivable	-	(268,961)	(268,961)
Balance as of 31 December 2016	6,600,817	(5,071,322)	1,529,495

Voluntary contributions: receivables from non-exchange transactions

(United States dollars)

<i>Special accounts</i>			
	Member States	Allowance for doubtful voluntary contributions receivable	Total voluntary contributions receivable
Balance as of 31 December 2015	-	-	-
Pledged in 2016	5,433,894		5,433,894
Cash-in	(3,005,077)		(3,005,077)
Reclassification from Donor's pool funds	(2,328,817)		(2,328,817)
Balance as of 31 December 2016	100,000	-	100,000
<i>Administrative account</i>			
	Member States	Allowance for doubtful voluntary contributions receivable	Total voluntary contributions receivable
Balance as of 31 December 2015	-	-	-
Claims	506,966		506,966
Cash-in	(200,000)		(200,000)
Balance as of 31 December 2016	306,966	-	306,966

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.

Note 9
Advance transfers - Projects

Prepaid expenses

(United States dollars)

<i>Category</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Reforestation and Forest Management	501,081	1,434,318
Economics, Statistics and Market	94,160	649,219
Forest Industry	18,929	118,946
Activities	-	-
Total prepaid expenses by type	614,170	2,202,483

Reconciliation of prepaid expenses balances
(United States dollars)

Prepaid expenses 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)
Prepaid expenses as at 31 December 2016	614,170

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.

Note 10
Advance transfers – Others

(United States dollars)

<i>Breakdown of Advance transfers – Others</i>	<i>2016</i>	<i>2015</i>
Prepaid expenses - staff	129,902	134,562
Prepaid expenses - others	46,324	35,658
Total	176,226	170,220

Note 11
Accounts payable - Others

(United States dollars)

<i>Breakdown of Accounts payable - Others</i>	<i>2016</i>	<i>2015</i>
Other accounts payable	4,250	10,089
Employee benefits accrued liabilities	971,536	952,722
Other accrued liabilities	219,197	464,875
Total	1,194,983	1,427,686

Employee benefits liabilities breakdown

(United States dollars)

	2016	2015
Current employee benefits liabilities		
Home leave	35,015	84,891
Accrued salaries and allowances	80,025	27,423
Accrued social securities	81,482	82,184
Total current employee benefits liabilities	196,522	194,498
Non-current employee benefits liabilities		
Home leave	38,379	13,781
Repatriation benefits	299,932	333,459
Annual Leave	436,703	410,984
Total non-current employee benefits liabilities	775,014	758,223
Total employee benefits liabilities	971,536	952,722

Note 12**Voluntary contributions advance receipts – allocated
Deferred revenue**

(United States dollars)

<i>Category</i>	2016	2015
Reforestation and Forest Management (F)	8,391,381	10,902,032
Economics, Statistics and Markets (M)	992,250	1,403,863
Forest Industry (I)	892,201	1,365,672
Activities (A)	2,069,917	4,689,091
Total deferred revenue by category	12,345,749	18,360,658

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

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 2016

(United States dollars)

<i>Project ID</i>	<i>Category</i>	<i>ITTO Budget</i>	<i>Expenses</i>	<i>Programme support</i>	<i>Advance receipts</i>	<i>Advance transfers</i>
PD 419/06 Rev.3 (F)EXT.TICAD	F	1,800,000	802,946	192,857	(804,197)	307,338
PD 452/07 Rev.5 (F)	F	556,963	0	70,353	(486,610)	0
PD 454/07 Rev.3 (F)	F	484,422	243,396	38,039	(202,987)	0
PD 456/07 Rev.4 (F)-JICA E/N	F	3,297,355	1,948,383	288,199	(1,060,773)	28,800
PD 456/07 Rev.4 (F) Non-JICA	F	545,962	244,509	0	(301,453)	0
PD 470/07 Rev.1 (F)	F	206,577	13,161	15,524	(177,892)	65,000
PD 477/07 Rev.4 (F)	F	332,477	84,124	25,056	(223,297)	5,614
PD 495/08 Rev.4 (F)	F	477,602	367,949	36,488	(73,165)	0
PD 507/08 Rev.1 (F)	F	385,800	305,130	29,356	(51,314)	0
PD 552/09 Rev.1 (F)	F	615,676	370,611	41,844	(203,221)	0
PD 563/09 Rev.5 (F)	F	334,000	308,151	24,643	(1,206)	0
PD 577/10 Rev.1 (F)	F	2,051,039	1,884,074	151,929	(15,036)	0
PD 599/11 Rev.1 (M)	M	490,624	95,912	36,884	(357,828)	82,577
PD 600/11 Rev.1 (I)	I	532,525	302,401	39,786	(190,338)	18,929
PD 601/11 Rev.3 (F)	F	467,839	232,647	36,762	(198,430)	0
PD 602/11 Rev.3 (F)	F	333,067	222,473	25,956	(84,638)	0
PD 617/11 Rev.1 (F)	F	899,411	504,571	100,881	(293,959)	0
PD 620/11 Rev.1 (M)	M	2,046,092	1,873,597	153,561	(18,934)	0
PD 635/12 Rev.2 (F)	F	496,247	354,393	38,330	(103,524)	0
PD 646/12 Rev.3 (F)	F	427,210	35,135	46,627	(345,448)	44,902
PD 668/12 Rev.1 (F)	F	603,383	289,359	47,529	(266,495)	0
PD 682/13 Rev.1 (F)	F	145,715	110,000	16,044	(19,671)	0
PD 692/13 Rev.1 (M)	M	264,704	109,179	24,427	(131,098)	4,952
PD 696/13 Rev.2 (F)	F	290,346	69,214	33,276	(187,857)	46,768
PD 710/13 Rev.1 (F)	F	439,796	108,145	51,426	(280,225)	0
PD 721/13 Rev.3 (F)	F	440,873	0	47,236	(393,637)	0
PD 723/13 Rev.2(F) Ph.I St.1	F	140,000	0	15,000	(125,000)	0
PD 725/13 Rev.2 (F)	F	139,361	53,280	16,008	(70,073)	0
PD 732/14 Rev.2 (M)	M	321,138	0	34,408	(286,730)	0
PD 737/14 Rev.2 (I)	I	589,863	0	63,200	(526,663)	0
PD 740/14 Rev.2 (F)	F	441,842	91,000	51,942	(298,900)	2,661
PD 741/14 Rev.3 (F)	F	437,478	0	46,872	(390,606)	0
PD 751/14 Rev.2 (M)	M	130,000	0	13,929	(116,071)	0
PD 754/14 Rev.3 (F)	F	541,031	0	57,968	(483,063)	0
PD 756/14 Rev.1 (M)	M	137,643	40,053	16,001	(81,589)	0
PD 764/14 Rev.3 (F)	F	606,313	0	51,886	(554,427)	0
PD 765/14 Rev.2 (F) Ph.I	F	250,000	0	16,070	(233,930)	0
PD 770/15 Rev.1 (I)	I	196,224	0	21,024	(175,200)	0
PD 777/15 Rev.3 (F)	F	515,590	0	55,242	(460,348)	0
PP-A/47-266: ITTO/CBD-ACTO	A	1,193,040	208,217	97,794	(887,029)	0
PP-A/48-274 Int'l C&I Meetings	A	99,420	35,724	15,002	(48,694)	0
PP-A/49-291 BWP25b IMM(EU)	A	856,680	560,501	0	(296,179)	0
PP-A/50-297 BWP2 Gender Equity	A	30,000	10,000	2,609	(17,391)	0
PP-A/50-304 BWP TAG&CSAG'15-16	A	70,402	160	15,652	(54,589)	0
PP-A/50-305 BWP27 CPF	A	60,000	29,191	4,565	(26,244)	0
PP-A/50-308 BWP33 ITTO & WCO	A	223,280	80,000	29,495	(113,785)	0
PP-A/52-315 BWP15-16/4 SFM Guideline	A	59,032	0	7,699	(51,333)	0
PP-A/52-316 BWP15-16/10 Mangrove	A	200,000	0	26,086	(173,914)	0
PP-A/52-317 JFIWA Consultancy	A	20,438	9,037	3,463	(7,938)	0

<i>Project ID</i>	<i>Category</i>	<i>ITTO Budget</i>	<i>Expenses</i>	<i>Programme support</i>	<i>Advance receipts</i>	<i>Advance transfers</i>
PP-A/52-318 BWP15-16 19b Outreach	A	15,000	8,000	1,956	(5,044)	0
PP-A/52-320 : CITES (non-EU)	A	440,373	52,596	0	(387,777)	0
Thematic programme projects						
RED-PD 029/09 Rev.1 (F)	F	1,080,187	779,133	83,317	(217,738)	0
TMT-SPD 010/12 Rev.1 (M)	M	138,033	70,000	10,225	(57,808)	0
TMT-SPD 014/13 Rev.1 (M)	M	136,640	103,089	14,640	(18,911)	0
TFL-PD 032/13 Rev.2 (M)	M	431,513	206,224	48,930	(176,359)	703
TFL-PD 033/13 Rev.2 (M)	M	478,798	306,369	53,130	(119,299)	0
TFL-PD 037/13 Rev.2 (M)	M	502,464	150,037	55,589	(296,838)	0
TFL-PD 044/13 Rev.2 (M)	M	405,968	113,447	44,202	(248,319)	0
TMT-SPD 017/15 Rev.2 (M)	M	149,997	80,000	16,071	(53,926)	0
TMT-SPD 020/15 (M)	M	113,400	72,421	0	(40,979)	979
TMT-SPD 023/15 R.1(M)	M	150,000	76,886	16,071	(57,043)	4,950
Recognized as net assets					1,287,220	
Fellowship programme						
PP-A/52-319 FFF/up to15A	A	85,000	25,289	0	(59,711)	0
PP-A/52-319 FFF/16A	A	60,000	3,825	0	(56,175)	0
PP-A/52-319 FFF/17S	A	206,234	0	45,814	(160,420)	0
Recognized as net assets					276,305	
Total		30,618,085	14,043,938	2,664,873	(12,345,749)	614,170

Note 13

Voluntary contributions advance receipts - unallocated

The amounts in Voluntary contributions advance receipts – unallocated correspond to funds pending reimbursement to donors and significantly decreased in 2016 due to the Decision 6 (LII).

Note 14

Assessed contributions advance receipts

Those amounts correspond to assessed contributions, related to 2017 budget, that were received before the end of 2016.

Note 15
Net assets

Reconciliation of net assets balances

(United States dollars)

	<i>Reserves</i>	<i>Restricted accumulated surplus</i>	<i>Unrestricted accumulated surplus</i>
31 December 2015	1,500,000	13,476,609	(13,425,549)
Reclassification following Decision 6(LII)	350,000	(8,759,725)	8,409,725
Result of the accounting period	0	1,004,091	5,295,781
31 December 2016	1,850,000	5,720,974	279,957

<i>Breakdown of net assets</i>	<i>2016</i>			<i>2015</i>		
	<i>Reserves</i>	<i>Restricted accumulated surplus</i>	<i>Unrestricted accumulated surplus</i>	<i>Reserves</i>	<i>Restricted accumulated surplus</i>	<i>Unrestricted accumulated surplus</i>
Funds provided by interest income		163			2,306,874	
Thematic programme funds allocated to projects		1,287,220			3,037,160	
Funds allocated to Fellowship programme		276,305			441,914	
Funds allocated to expost evaluation					854,228	
Working Capital reserve		4,157,286			6,836,432	
Thematic programme funds unallocated						892,443
Unearmarked funds unallocated						513,242
Programme support funds			90,079			1,280,056
Reserve provided by interest income			189,877			1,870,256
Impairment loss						(17,981,546)
Special reserve	1,850,000			1,500,000		
Total	1,850,000	5,720,974	279,956	1,500,000	13,476,609	(13,425,549)

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>2016</i>
Contributions from members countries	
Member countries	7,445,429
Total Assessed contributions	7,445,429
Reimbursement by Japan	797,009
Voluntary in-kind contributions	
Japan	695,445
Total voluntary contributions	1,492,454
Total Assessed and Voluntary Contributions	8,937,883
Assessed Contribution receivable	1,529,495
Voluntary Contribution receivable	306,966

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 valued at \$695,445.

Special account; Revenue from Voluntary Contributions

(United States dollars)

<i>Breakdown of revenue</i>	<i>2016</i>
Contributions from members countries	
Member countries	5,223,502
Total Voluntary Contributions	5,223,502
Voluntary in-kind contributions	
Total voluntary in-kind contributions	-
Revenue from Decision 6 (LII)	5,331,013
Programme Support Revenue	524,727
Total voluntary contributions	11,079,242
Voluntary Contribution receivable	100,000
Prepaid expenses - Project	614,170
Advance receipts	12,345,749

(United States dollars)	
<i>Category</i>	<i>2016</i>
Reforestation and Forest Management	2,999,488
Economics, Statistics and Markets	610,658
Forest Industry	647,669
Activities	965,687
Total voluntary contribution by type	5,223,502

Decision 6 (LII) revenue

Revenue from Decision 6 (LII) corresponds to the termination of project obligations and amount to \$5,332,337. 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)	
Termination of ongoing obligations	5,331,013
Utilization of restricted accumulated surplus	8,409,725
Utilization of unrestricted accumulated surplus	4,241,248
Total financial loss compensated	17,981,986

Reconciliation between pledges and revenue

(United States dollars)	
Pledges announced at the Council Session in 2016	4,982,824
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	106,487
	5,748,229
Programme support revenue	524,727
Member States voluntary contributions	5,223,502

Note 17
Financial revenue

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

Note 18

Administrative account; Employee benefits expenses

(United States dollars)

<i>Breakdown of employee benefits expenses</i>		<i>2016</i>
Salaries and benefits		3,615,220
Social security		683,477
Total employee benefits expenses		4,298,697

The total amount of defined contribution plan expenses for pension schemes amount to \$466,326 for the reporting period.

Note 19

Other operating expenses

(United States dollars)

<i>Breakdown of other operating expenses</i>		<i>2016</i>
Official travel		130,585
Special activities		70,018
Data processing		101,027
Other costs		229,218
Council meetings		514,460
Expert meetings		47,029
Communication and outreach		372,025
Statistics, Studies and information		230,440
Annual Report and Biennial review		56,120
Exchange loss		40,704
Allowance expense for debt		268,961
Services received through in-kind contributions		695,445
Working capital reserve expenses in accordance with Council decisions		358,941
Total other expenses		3,114,974

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
Total net losses	9,165	34,471	43,637

Note 20
Project expenses

(United States dollars)

Category	2016
Transfers to executing agencies	
Reforestation and Forest Management	3,087,736
Economics, Statistics and Markets	1,199,205
Forest Industry	647,669
Activities	784,075
Programme support expenses	531,991
Ex-post Expenses	74,793
Exchange loss	2,933
Total by type	6,328,401

Transfers to executing agencies correspond to the expenses incurred during the accounting period of 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	Fair value through surplus or deficit			Total carrying value	Total fair value	
	Loans and receivables	Available- for-sale	Designated as such upon initial recognition		2016	2015
Assessed and voluntary contributions receivable	1,936,461	–	–	1,936,461	1,936,461	1,412,681
Other accounts receivable	66,741	–	–	66,741	66,741	205,594
Total financial assets	2,003,202			2,003,202	2,003,202	1,618,275

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>Breakdown of financial liabilities</i>	<i>Other financial liabilities (amortized cost)</i>	<i>Total carrying value</i>	<i>Total fair value</i>	
			<i>2016</i>	<i>2015</i>
Accounts payable - Member States	41,038	41,038	41,038	122,423
Accounts payable - Others	1,194,983	1,194,983	1,194,983	1,427,686
Voluntary contributions advance receipts - allocated	12,345,749	12,345,749	12,345,749	18,360,658
Voluntary contributions advance receipts - unallocated	522,392	522,392	522,392	2,501,023
Assessed contributions advance receipts	500,040	500,040	500,040	46,705
Total financial liabilities	14,604,203	14,604,203	14,604,203	22,458,495

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, customer 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>>1 to 2 years</i>	<i>Over 2 years</i>	<i>2016</i>	<i>2015</i>
Assessed contributions receivables	817,656	627,250	5,155,911	6,600,817	6,215,042
Voluntary contributions receivables	406,966	-	-	406,966	-
Allowance	-	(125,450)	(4,945,872)	(5,071,322)	(4,802,361)
Net Total	1,224,622	501,800	210,039	1,936,461	1,412,681

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)

	<i>Due</i>				<i>Overdue</i>				<i>2016 total carrying value</i>	<i>2015 total carrying value</i>
	<i>0-3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>More than 1 year</i>	<i>0-3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>More than 1 year</i>		
Accrued expenses	12,802	12,802	25,604	38,406	–	–	–	–	89,613	138,876
Total	12,802	12,802	25,604	38,406	–	–	–	–	89,613	138,876

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: employee benefits are mainly made in Japanese yen;

(b) Regarding assets and liabilities: as at 31 December 2016 assets liabilities in currencies other than United States are as follows.

Summary of currency positions

(United States dollars)

	<i>United States dollar</i>	<i>Yen (converted)</i>	<i>2016</i>	<i>2015</i>
Cash and cash equivalents	19,369,555	291,980	19,661,535	20,018,577
Assessed and voluntary contributions receivable	1,936,461	-	1,936,461	1,412,681
Other accounts receivable	5,034	61,707	66,741	205,594
Advance transfers - Projects	614,170	-	614,170	2,202,483
Advance transfers - Others	176,226	-	176,226	170,220
Total financial assets	22,101,447	353,687	22,455,134	24,009,555
Accounts payable - Member States	41,038	-	41,038	122,423
Accounts payable - Others	1,105,370	89,613	1,194,983	1,427,686
Voluntary contributions advance receipts - allocated	12,345,749	-	12,345,749	18,360,658
Assessed contributions advance receipts	500,040	-	500,040	46,705
Voluntary contributions advance receipts - unallocated	522,392	-	522,392	2,501,023
Total financial liabilities	14,514,589	89,613	14,604,202	22,458,495
Net exposure	7,586,858	264,074	7,850,932	1,551,060

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>As at 31 December 2016</i>	<i>Surplus/(deficit)</i>	
	<i>Strengthening of United States dollar by 10 per cent</i>	<i>Weakening of United States dollar by 10 per cent</i>
Japanese yen	(24,007)	29,342
Total	(24,007)	29,242

13. The information presented above is calculated by reference to carrying amounts of assets and liabilities as at 31 December 2016.

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 Special 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 \$4,148,130 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 net assets 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)
Balance as of 31 December 2016	1,287,220	276,305

Note 25
Contingencies

Contingent assets

ITTO has not received pledges prior to concluding contribution agreements, or pledges subject to approval. ITTO has consequently no contingent assets, corresponding to probable inflow of resources, to disclose.

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. During the year 2016, key management was 3.2 full time equivalents.

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 for the year of 2016 (3.2 full time equivalents)

(United States dollars)

Remuneration	753,662
Other Entitlements	114,763
Long-term Benefits	181,414
Total	1,049,838

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.

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 2016 and the date of this report.

Note 28
Detailed ITTO accounts

Information on assets and liabilities by fund type
(United States dollars)

	<i>Administrative Account</i>	<i>Special Account</i>			<i>Bali Partnership Fund Account</i>	<i>Executing Agencies</i>	<i>Eliminations/ inter-account transactions</i>	<i>2016 Total</i>
		<i>Project Sub-Account</i>	<i>Thematic Programmes Subaccount</i>	<i>Sub Total</i>				
Assets								
Cash and time deposits	5,908,689	13,634,544	-	13,634,544	118,302	-	-	19,661,535
Investments in securities	-	-	-	-	-	-	-	-
Arrears in voluntary contributions	6,600,817	100,000	-	100,000	(0)	-	-	6,700,817
Accounts receivable from Japan	306,966	-	-	-	-	-	-	306,966
Allowance for arrears	(5,071,322)	-	-	-	-	-	-	(5,071,322)
Prepaid expenses	46,324	-	-	-	-	-	-	46,324
Prepaid expenses - Project	-	607,539	6,631	614,170	-	-	-	614,170
Advances to and receivable from staff members and others	129,902	60,432	2,960	63,392	(3,406)	-	-	189,889
Advances to Special Account	(8,312)	-	-	-	-	-	8,312	-
Accounts receivable from Bali Partnership Fund Account	-	114,297	-	114,297	-	-	(114,297)	-
Inter-account balance	-	(1,281,839)	1,281,840	0	-	-	-	0
Accrued revenue	6,755	-	-	-	-	-	-	6,755
Total assets, 2016	7,919,819	13,234,973	1,291,431	14,526,404	114,896	-	(105,985)	22,455,134
Total assets, 2015	11,716,854	34,608,080	2,403,664	37,011,745	31,292,702	32,691,774	(88,703,520)	24,009,555

	<i>Administrative Account</i>	<i>Special Account</i>			<i>Bali Partnership Fund Account</i>	<i>Executing Agencies</i>	<i>Eliminations/ inter-account transactions</i>	<i>2016 Total</i>
		<i>Project Sub-Account</i>	<i>Thematic Programmes Subaccount</i>	<i>Sub Total</i>				
Liabilities								
Accounts payable to Special Account	-	-	-	-	114,297	-	(114,297)	-
Accounts payable to Administrative Account	-	(8,312)	-	(8,312)	-	-	8,312	-
Accounts payable to staff members and others	-	-	4,250	4,250	-	-	-	4,250
Advances payable to Japan	41,038	-	-	-	-	-	-	41,038
Accrued liabilities	1,190,733	-	-	-	-	-	-	1,190,733
Advance receipts	-	12,345,749	-	12,345,749	-	-	-	12,345,749
Membership contributions received in advance	500,040	-	-	-	-	-	-	500,040
Reserve for programme support	-	-	-	-	-	-	-	-
Unappropriated fund	-	522,392	-	522,392	-	-	-	522,392
Total liabilities, 2016	1,731,811	12,859,829	4,250	12,864,079	114,297	-	(105,985)	14,604,203
Total liabilities, 2015	1,510,166	42,974,883	707,847	43,682,730	31,582,260	34,386,858	(88,703,520)	22,458,495
Net assets, 1 January 2016	10,206,688	(8,366,802)	1,695,817	(6,670,986)	(289,559)	(1,695,084)	-	1,551,060
Accumulated surplus	4,338,007	375,144	1,287,181	1,662,325	599	-	-	6,000,931
Reserves	1,850,000	-	-	-	-	-	-	1,850,000
Net assets, 31 December 2016	6,188,007	375,144	1,287,181	1,662,325	599	-	-	7,850,931
Net assets, 31 December 2015	10,206,688	(8,366,802)	1,695,817	(6,670,986)	(289,559)	(1,695,084)	-	1,551,060

	Administrative Account	Special Account			Bali Partnership Fund Account	Executing Agencies	Eliminations/ inter-account transactions	2016 Total
		Project Sub-Account	Thematic Programmes Subaccount	Sub Total				
Revenue								
Contributions from members countries	7,445,429	-	-	-	-	-	-	7,445,429
Reimbursement by Japan	797,009	-	-	-	-	-	-	797,009
Voluntary contributions	-	5,132,723	(5,263)	5,127,460	96,042	-	-	5,223,502
Revenue From Budget cut	-	4,567,804	(32,494)	4,535,311	795,703	-	-	5,331,013
Programme support Revenue	-	487,322	37,405	524,727	-	-	-	524,727
Interest income	15,470	3,854	-	3,854	3,857	-	-	23,181
Other income	697,082	-	-	-	-	-	-	697,082
Total revenue, 2016	8,954,990	10,191,703	(352)	10,191,352	895,602	-	-	20,041,944
Expenses								
Salaries and benefits	3,615,220	-	-	-	-	-	-	3,615,220
Official travel	130,585	-	-	-	-	-	-	130,585
Social security	683,477	-	-	-	-	-	-	683,477
Special activities	428,959	-	-	-	-	-	-	428,959
Data processing	101,027	-	-	-	-	-	-	101,027
Other costs	924,663	-	-	-	-	-	-	924,663
Council meetings	514,460	-	-	-	-	-	-	514,460
Expert meetings	47,029	-	-	-	-	-	-	47,029
Communication and outreach	372,025	-	-	-	-	-	-	372,025
Statistics, Studies and information	230,440	-	-	-	-	-	-	230,440
Annual Report and Biennial review	56,120	-	-	-	-	-	-	56,120
Exchange loss	40,704	2,959	(26)	2,933	0	-	-	43,637
Ex-post Expense	-	74,793	-	74,793	-	-	-	74,793
Programme support Expense	-	517,823	78	517,901	14,091	-	-	531,991
Allowance expense for debt	268,961	-	-	-	-	-	-	268,961
Project cost	-	4,866,999	774,018	5,641,017	77,667	-	-	5,718,684
Total expenses, 2016	7,413,671	5,462,573	774,070	6,236,644	91,758	-	-	13,742,073
Gains and (losses), net 2016	1,541,319	4,729,130	(774,422)	3,954,708	803,844	-	-	6,299,871
Net surplus/(deficit), 2016	1,541,319	4,729,130	(774,422)	3,954,708	803,844	-	-	6,299,871