

SPREP
Secretariat of the Pacific Regional Environment Programme

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

SPREP
Financial Statements
For the year ended 31 December 2010
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SPREP
Executive Management's Report
For the year ended 31 December 2010

We are pleased to present the Secretariat's financial statements and the independent auditors report thereon for the financial year ended 31 December 2010.

During the year we expended US\$8.6 million dollars compared to budgeted expenditure of US\$10.4 million dollars while our total cash holdings at year end amounted to US\$4.5 million dollars. The Secretariat has generated a positive operating result as per the income statement relative to a balanced budget for the same period.

Changes to SPREP's Financial Reporting

The 2009 SPREP Members Meeting directed that the framework for our financial reporting would change from generally accepted accounting practice to International Financial Reporting Standards (IFRS). Therefore, the financial statements for the year ended 31 December 2010 have been prepared in accordance with IFRS.

As a result of adopting IFRS there have been a number of changes to the way in which we recognize some of the accounting transactions as well as their presentation in the financial statements. Furthermore, by adopting IFRS there have been a number of one-off retrospective adjustments resulting in restatements to the 2009 comparatives in the current year's financial statements. This was considered necessary to ensure that the financial information for 2010 could be presented in accordance with IFRS.

The most significant change has been to the way in which we account for Donor Funds which are applied to the Island Ecosystem and Pacific Futures programmes. In previous years, SPREP had been recognizing Donor Funds in the income statement on a receipts basis. However, *International Accounting Standard 20, Accounting for Government Grants* requires that we recognize income from Donor Funds to match them with the Programme expenditure towards which they are intended to compensate or fund. Therefore, the reduction in the liability for Donor Funds will only occur as a result of recognizing income to match them with the expenditures incurred for the reporting period. Donor Funds received during the reporting period will be recognized initially as part of the Donor Fund liability account. In addition, the programme management charge will only be deducted from the Donor Funds liability rather than the previous recognition policy which concurrently recognized programme management charges in the statement of income.

The resumption of our depreciation policy in 2009 has also resulted in one-off retrospective changes to the prior year comparatives as we ensure that the amortization of donated assets matches or agrees to the depreciation on those donated assets going forward.

Finally *International Accounting Standard 21, The Effects of Changes in Foreign Exchange Rates* requires that differences from the revaluation of monetary assets and liabilities at period end be recognized in the statement of income. Exchange differences were previously recognized in reserves.

As a regional body we are cognizant of the need to reflect IFRS in our external financial reporting practices. The IFRS revised 2010 financial statements places SPREP in an ideal position to continue to improve on our external financial reporting and to ensure that we comply with international standards in financial reporting. Challenges remain however, as there is a great deal of work to complete to ensure that our existing financial management information systems generate IFRS compliant financial statements reducing the need for additional financial reporting processes.

Responsibility for Financial Reporting

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to International Financial Reporting Standards and include amounts based on management's best estimates and judgments.

Management has established and maintains accounting and internal control systems that include written policies and procedures. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

SPREP
Executive Management's Report
For the year ended 31 December 2010

Cont'd

SPREP Members oversees management's responsibilities for financial reporting. The financial statements have been reviewed and approved by the SPREP Members on recommendation from management.

Our independent auditors (Betham & Co.), having been appointed by the SPREP Members, have audited our financial statements. The accompanying independent auditors' report outlines the scope of their examination and their opinion.

In our opinion:

- a. The accompanying statement of income is drawn up so as to give a true and fair view of the results of the Secretariat for the year ended 31 December 2010;
- b. The accompanying statement of financial position is drawn up so as to give a true and fair view of the state of the Secretariat's affairs as at 31 December 2010;
- c. The accompanying statement of movement in reserves is drawn up so as to give a true and fair view of the movement of funds and reserves of the Secretariat for the year ended 31 December 2010; and
- d. The accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows for the Secretariat for the year ended 31 December 2010.



David Sheppard
Director



Kosi Latu
Deputy Director



Alofa S Tuuau
Finance Manager

25th May 2011

Independent Audit Report To the Members of Secretariat of the Pacific Regional Environment Programme (SPREP)

We have audited the accompanying financial statements of the Secretariat of the Pacific Regional Environment Programme ("SPREP") which comprises the statement of income, statement of movement in reserves and statement of cash flows for the year ended 31 December, 2010, the statement of financial position as of that date, a summary of significant accounting policies and other explanatory notes. The financial statements for 31 December 2009 were audited by other auditors and accordingly we do not express an opinion on the prior year comparatives.

Managements' responsibility for the Financial Report

Management are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and with the requirements of the SPREP Financial Regulations. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion to the Members of SPREP, as a body, in accordance with SPREP Financial Regulation 32. Our audit work has been undertaken so that we might state to the Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than SPREP and the SPREP Members as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

We confirm that we have no other relationship with SPREP other than the audit of the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, 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 report 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 the SPREP's Directors and Management, as well as evaluating the overall presentation of the financial report.

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

Auditor's Opinion

In our opinion, proper books of account have been kept by SPREP, so far as it appears from our examination of those books and the financial statements which have been prepared in accordance with International Financial Reporting Standards:

- (i) are in agreement with the books of account;
- (ii) to the best of our information and according to the explanations given to us:
 - a. give a true and fair view of SPREP's state of affairs as at 31 December, 2010 and of its statements of financial performance, changes in reserves, and its cash flows for the year ended on that date;
 - b. give the information required by the SPREP Financial Regulations in the manner so required.

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

Audit Report Cont'd

Specific Reporting Requirements

In accordance with SPREP's Financial Regulation 32 we report on the specific matters per the financial regulation as follows:

- a) The extent and character of our examination has been explained in the section on *Auditor's Responsibility* above and is based on the International Standards on Auditing. The financial statements for the 31 December 2010 have been prepared in accordance with International Financial Reporting Standards. The changes in accounting policy as a result of adopting International Financial Reporting Standards are explained in detail in the financial statements in Note 2.
- b) Matters affecting the completeness and accuracy of the accounts are primarily related to the change to International Financial Reporting Standards and these are explained in Note 2 to the financial statements.
- c) We confirm the accuracy of the equipment records as determined by physical inspection of additions to assets and verification of disposals during the reporting period.
- d) The financial procedures of SPREP are adequate based on our examination of the financial procedures necessary for the purposes of formulating the auditor's opinion expressed above.
- e) Based on our examination of the insurance documentation the insurance cover for SPREP's assets is adequate.
- f) Others matters which do not affect our audit opinion have been brought to the attention of management in our report to management.


BETHAM & CO.
Certified Public Accountants
Apia, Samoa
25th May, 2011

SPREP
Statement of Income
For the year ended 31 December 2010

		2010 \$	Restated 2009 \$
	Note		
Income			
Member contributions	6	939,739	1,143,826
Programme management charges		646,112	641,249
Programme/donor fund income		6,268,886	6,103,887
Other Donor fund income	7	296,126	82,250
Amortisation of deferred income		112,986	180,003
Other income	8	161,768	81,142
Total income		8,425,617	8,232,357
Expenses			
Executive Management and Corporate Support		2,361,473	2,166,351
Island Ecosystem Programme	20	2,158,750	2,108,766
Pacific Futures Programme	20	4,110,136	3,995,121
Depreciation expense	12	174,114	181,104
Total expenses		8,804,473	8,451,342
Net finance cost/(income)	10	(137,223)	(266,604)
Loss/(gain) on sale of property and equipment		2,039	
Foreign exchange loss/(gain)		(265,912)	(760,836)
Additional depreciation on resumption of depreciation policy	2		217,009
Decrease in accumulated amortisation of prior year	2		45,051
Net surplus		22,240	546,395

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Financial Position
As at 31 Dec 2010

		2010	Restated
		\$	2009
	Note		\$
ASSETS			
Non current assets			
Property and equipment	12	3,519,322	3,689,861
Total non current assets		<u>3,519,322</u>	<u>3,689,861</u>
Current assets			
Cash at bank and on hand	13	663,656	307,901
Term deposits	14	3,850,729	4,692,059
Receivables and prepayments	15	112,816	206,891
Total current assets		<u>4,627,201</u>	<u>5,206,851</u>
TOTAL ASSETS		<u>8,146,523</u>	<u>8,896,712</u>
RESERVES AND LIABILITIES			
Reserves			
Core Fund		754,267	732,027
General		501,425	501,425
Specific Fund	16	443,698	443,698
Total reserves		<u>1,699,390</u>	<u>1,677,150</u>
Non current liabilities			
Deferred income	9	3,290,088	3,379,880
Total non current liabilities		<u>3,290,088</u>	<u>3,379,880</u>
Current liabilities			
Programme/Donor funds	19	1,834,473	2,272,673
Payables and accruals	18	596,046	927,513
Provisions for employee entitlements	17	613,540	459,493
Current portion of deferred income	9	112,986	180,003
Total current liabilities		<u>3,157,045</u>	<u>3,839,682</u>
TOTAL RESERVES AND LIABILITIES		<u>8,146,523</u>	<u>8,896,712</u>

Signed on behalf of the SPREP Members


Director

25th May 2011


Deputy Director

25th May 2011

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Movements in Reserves
For the year ended 31 December 2010

	Note	Core Fund \$	General Reserve \$	Specific Reserve \$	Total \$
Balance at 1st January 2009		185,632	501,425	443,698	1,130,755
Net surplus for the year		170,161			170,161
Exchange gain for the year				638,294	638,294
Balance at 31 December 2009 as previously reported		355,793	501,425	1,081,992	1,939,210
Policy change to reflect adoption of <i>IAS 12 "Effects of Foreign Exchange Rates"</i>	2	638,294		(638,294)	-
Change in accumulated amortisation for prior year	2	(45,051)			(45,051)
Additional depreciation from resumption of depreciation policy	2	(217,009)			(217,009)
Balance at 31st December 2009 as Restated		732,027	501,425	443,698	1,677,150
Net surplus for the year		22,240			22,240
Balance at 31st December 2010		754,267	501,425	443,698	1,699,390

The accompanying notes form an integral part of the above financial statement

SPREP
Statement of Cash Flows
For the year ended 31 December 2010

	2010 \$	2009 \$
Note		
Cash flows from operating activities		
Members contributions	939,739	1,143,826
Interest received	233,402	230,684
Programme/Donor funds	7,122,908	8,421,023
Non Programme Donor Funds received	296,126	82,250
Other receipts	197,918	182,318
Personnel costs	(3,903,539)	(3,166,927)
Corporate services costs	(960,367)	(807,449)
Programme costs	(4,593,410)	(4,431,795)
Net cash flows from operating activities	<u>(667,223)</u>	<u>1,653,930</u>
Cash flows from investing activities		
Proceeds from sale of property and equipment	12,617	-
Purchase of property and equipment	(65,918)	(31,111)
Net cash flows for investing activities	<u>(53,301)</u>	<u>(31,111)</u>
Net increase/(decrease) in cash balances	(720,524)	1,622,819
Beginning cash balance	4,999,960	2,738,847
Effects of foreign exchange	234,949	638,294
Ending cash balance	13 <u><u>4,514,385</u></u>	<u><u>4,999,960</u></u>

The accompanying notes form an integral part of the above financial statement

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

1. General information

The Secretariat of the Pacific Regional Environment Programme (SPREP) is an inter-governmental organization of the Pacific Region and is domiciled in Samoa.

The principal activity of SPREP is to promote co-operation in the Pacific Region and to provide assistance in order to protect and improve its environment and to ensure sustainable development for future generations.

These financial statements were authorized for issue by the Director of SPREP on 25th May, 2011.

2. Changes in accounting policies

SPREP's recently revised Financial Regulations adopt International Financial Reporting Standards rather than the previously required GAAP or generally accepted accounting practice. Certain international accounting standards have been adopted in 2010 and are discussed further below. The changes in accounting policy are classified as a voluntary change in accounting policy that requires retrospective application.

a. IAS 21 *The Effects of Changes in Foreign Exchange Rates*

The Secretariat previously recognized differences from the revaluation of monetary assets and liabilities at period end in the exchange variation reserve which is a component of the Specific Funds Reserve. IAS 21 requires that any differences arising from the revaluation of monetary assets and liabilities are to be recognized in the statement of income.

The effect of the application of IAS 21 is to restate the balance of the Specific Funds Reserve by reducing it by \$638,294 dollars and increasing the net surplus for 2009 by \$638,294 dollars by crediting the income statement. The amount of \$638,294 represents the exchange gain for the year ended 31 December 2009. The increase in the net surplus for 2009 results in a restated or an increase in the Core Fund reserves for 31 December 2009 by \$638,294 dollars. The overall net effect is an increase in the net surplus for 2009 and a nil effect on total reserves for 2009.

Table 1 below summarizes the overall effect of the retrospective adjustments.

b. *Re-alignment of accumulated balances for depreciation on donated assets (i.e.: buildings) and amortization of deferred income*

With the re-introduction of the depreciation policy in 2009 the accounting policy for the recognition of donated assets is based on the deferred income approach per *IAS 20 Accounting for Government Grants*. IAS 20 requires that the depreciation expense on the donated assets should equal the amortization to income of the deferred liability from the donated assets for each reporting period. Similarly the accumulated balances for depreciation and amortization at the end of each reporting period should also agree.

By re-aligning the balances for accumulated depreciation and accumulated amortization an adjustment to increase accumulated depreciation by \$217,009 and to decrease accumulated amortization by \$45,051 is made to the prior year balances. The effect of the retrospective adjustment to 2009 is a one-off increase to depreciation expense from \$181,104 to \$398,113. The accumulated depreciation on buildings has also increased from \$480,615 to \$697,624 resulting in a decrease in the net book value for buildings from \$3,692,219 to \$3,475,210. Therefore the net book value for total assets has also decreased from \$3,906,870 to \$3,689,861.

The effect of the retrospective adjustment to 2009 to accumulated amortization is to decrease amortization income from \$180,003 to \$134,952. The accumulated amortization has also decreased from \$1,076,481 to \$1,031,430 resulting in an increase in the unamortized balance from \$3,514,832 to \$3,559,883.

Table 1 below summarizes the overall effect of the retrospective adjustments.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Changes in accounting policies (cont'd)

Table 1 - Extracts of Financial Statement line items affected – IAS 21 and Realignment of accumulated balances for depreciation and amortization of donated buildings:

	Reported 2009 \$	Retrospective Adjustment \$	Restated 2009 \$
Extract of Statement of Income			
Amortization income	180,003	(45,051)	134,952
Depreciation expense	(181,104)	(217,009)	(398,113)
Exchange gain	122,542	638,294	760,836
Net surplus	170,161	376,234	546,395
Extract of Statement of Financial Position			
Net book value for total property and equipment	3,906,870	(217,009)	3,689,861
Unamortized balance of deferred income liability	(3,514,832)	(45,051)	(3,559,883)
Extract of Statement of Movements in Reserves			
Core Fund Reserve – exchange gain	355,793	638,294	732,027
Core Fund Reserve – amortization income		(45,051)	
Core Fund Reserve – depreciation expense		(217,009)	
Specific Reserve	1,081,992	(638,294)	443,698
Total Reserves	1,939,210	(262,060)	1,677,150

c. IAS 20 Accounting for Government Grants

Donor Funds which fund the activities performed by SPREP as part of its work programmes were previously recognized in the statement of income on a receipts basis. At the end of the reporting period the net effect of donor receipts and programme activity expenditure is recognized as a net surplus or net deficit in the statement of income. The net deficit or net surplus was then transferred to the Donor/Programme Fund liability account in the balance sheet.

Under IAS 20 Donor/Programme funds are required to be recognized was the statement of income to match them with the expenditure towards which they are intended to compensate. Furthermore, IAS 20 notes that the recognition of Donor/Programme funds in the statement of income on a receipts basis is not in accordance with the accrual accounting assumption.

Table 2 below summarizes the overall effect of the retrospective adjustments.

d. Programme Management Charge accounting change

SPREP also earns income by charging the Programme or Donor for the support services that it provides for supporting the administration of the various programme activities. The income from the programme management charge was previously recognized in the statement of income (Core Funds) by debiting the programme management support expense (Programme Funds). This particular accounting practice has now been changed to debit only the Donor/Programme fund liability account in the balance sheet (or statement of financial position) and not the programme management support expense in the income statement.

Effect of IAS 20 and change in programme management charge accounting

The effect of the application of IAS 20 is to recognize Donor/Programme funds in the statement of income equivalent to the programme activity expenditure that has been incurred during the period. The 2009 reported Donor Funds received of \$7,779,774 dollars has now been restated to \$6,103,887 dollars. The previously reported total expenditure on Donor Funds of \$6,745,136 has also been restated to \$6,103,887 dollars.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Changes in accounting policies (cont'd)

The effect of the change in the accounting for the programme management charge is to reduce the 2009 reported total programme expenditure of \$6,745,136 dollars by \$641,249 dollars which is the amount of the programme management support expense.

The overall effect is a reduction in Donor fund income by \$1,657,887 dollars and a reduction in total programme expenditure by \$641,249 dollars. The net effect is a reduction of \$1,034,638 dollars which resulted in a restated net surplus of \$nil.

Table 2 below summarizes the overall effect of the retrospective adjustments.

Table 2 - Extracts of Financial Statement line items affected – IAS 20 and Programme Management Charge accounting

	Reported 2009 \$	Retrospective Adjustment \$	Restated 2009 \$
Extract of Statement of Income			
Donor funds	7,779,774	(1,657,887)	6,103,887
Total programme funds expenditure	6,745,136	(641,249)	6,103,887
Net surplus	1,034,638	(1,034,638)	nil

3. Statement of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

a. Statement of compliance

These financial statements have been prepared in accordance with the requirements of the SPREP Financial Regulations which requires the adoption of International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) in preparing its financial statements.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis unless otherwise stated. The principal accounting policies are stated to assist in a general understanding of these financial statements.

c. Functional and presentation currency

Items included in the financial statements of the Secretariat are measured using the currency as mandated by the SPREP Financial Regulations ('the functional currency'). The functional currency is the United States dollar (\$US).

d. Foreign currency transactions

Transactions in foreign currencies are translated to functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in the statement of income in the period in which they arise.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

3. Statement of significant accounting policies (cont'd)

e. Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, and equipment. Land is not depreciated. The periods at which depreciation is charged are as follows:

• Buildings	50 years
• Equipment	3 to 5 years
• Furniture & fittings	5 to 10 years
• Motor vehicles	5 years

The residual value is reassessed annually. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the income statement.

f. Financial assets

The Secretariat classifies its financial assets in the loans and receivables category. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are classified as other receivables, cash at bank and on hand and term deposits in the current assets section of the balance sheet. The Secretariat assesses at each reporting date whether there is objective evidence that a financial asset or group of assets is impaired.

g. Receivables

Receivables and prepayments are recognized initially at fair value and subsequently measured at cost, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Secretariat will not be able to collect all amounts due according to the original terms of the receivables.

h. Payables

Payables are recognised when the Secretariat becomes obliged to make future payments resulting from the purchase of goods and services (including consultancy services for SPREP Programmes). Payables are recognised at cost which is the fair value of the consideration to be paid in the future for goods and services received. Given the short term nature of most payables, the carrying amounts approximate fair value.

i. Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and term deposits which are subject to an insignificant change on drawdown net of bank overdrafts for the purposes of the statement of cash flows. Bank overdrafts are shown in current liabilities on the balance sheet.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

3. Statement of significant accounting policies (cont'd)

j. Reserves

The following categories of Reserves are held in accordance with SPREP's Financial Regulations:

General Reserve – represents the sum total of the accumulated results arising from core activities and are assigned for unforeseen circumstances or emergencies.

Specific Funds – comprises funds earmarked for specific purposes and generally not available for uses other than those specified.

k. Income

Income primarily comprises the fair value of the member's contributions and donor or programme funds received or receivable.

Member contributions

Member's contributions are recognized as a receivable only if there is objective evidence that the contribution for the current period will be received. Otherwise, Member's contributions are only recognized when they are received.

Donor or Programme Funds

Donor or Program funds received are initially recorded as part of Donor or Programme Fund liability in the statement of financial position. Donor or Programme funds are not recognized as income until there is reasonable assurance that the Secretariat will comply with the conditions attaching to them i.e.: the incurrence of expenditure towards the performance of agreed programme activities.

Donor or Programme funds are recognized as income over the periods necessary to match them with the Programme costs for which they are intended to compensate, on a systematic basis.

Donor or Programme funds that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Secretariat with no future related costs are recognized in the income statement in the period in which they become receivable.

Donor funded assets

Donor funds whose primary condition is that the Secretariat should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet (or statement of financial position) and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets.

Programme management charges

Programme management charges are levied at an agreed percentage on Programme funds expended during the year.

Interest revenue

Interest revenue is recognised in the income statement as it accrues, using the effective interest rate method.

l. Employee benefits

For local employees, the Secretariat contributes towards the Samoa National Provident Fund, a defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of contribution. Obligations for contributions to the defined contribution plan are recognised immediately in the income statement.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

3. Statement of significant accounting policies (cont'd)

l. Employee benefits (cont'd)

Liabilities for annual leave are accrued and recognised in the balance sheet. Annual leave are recorded at the undiscounted amount expected to be paid for the entitlement earned.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

On resignation or cessation of service other than by misconduct, an expatriate employee is entitled to repatriation costs and is measured on an undiscounted basis and expensed as they become due.

m. Net finance income

Net finance income comprises interest income on bank term deposits and bank charges and bank overdraft fees that are recognised in the statement of income.

n. Impairment

The carrying amounts of the Secretariat's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating amount exceeds its recoverable amount. Impairment losses are recognised immediately in the statement of income.

o. Comparatives

Where necessary previous periods comparatives have been changed to conform with the presentation of financial information for the current year in order to achieve consistency in disclosure.

4. Financial risk management

a. Financial risk factors

The Secretariat's principal financial instruments comprise cash and term deposits. The main purpose of these financial instruments is to provide finance for the Secretariat's operations. As a result of the Secretariat's operations and sources of finance, it is exposed to exchange rate and credit risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

Foreign currency risk

Foreign currency risk is the risk of loss from changes in the exchange rates against the \$US dollar which is the functional currency of the Secretariat. The Secretariat receives funding from various member countries and donors in foreign currency. In addition, the Secretariat sometimes transacts in currency other than the \$US dollar. This exposes the Secretariat to foreign currency risk. In order to reduce the exposure to foreign currency risks, the Secretariat operates various foreign currency bank accounts (such as Australia, New Zealand and Samoa dollar accounts) and transacts where required in these currencies.

SPREP
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2010

4. Financial risk management (cont'd)

The Secretariat's exposure to foreign currency risk was as follows based on notional amounts:

	Carrying Amounts	
	2010	2009
	\$	\$
AUD	825,989	761,678
NZD	498,498	483,721
WST	6,854,620	9,698,737

The following significant exchange rates applied at the reporting date:

	Reporting date rate	
	2010	2009
	\$	\$
AUD	1.0203	0.8927
NZD	0.7740	0.7288
WST	0.4287	0.4095

Sensitivity analysis

A 10 percent strengthening/weakening of the foreign currency against the \$US dollar at 31 December 2010 would have affected core fund reserves and income by the amounts shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

	Effect on Equity & Income	
	2010	2009
	\$	\$
AUD – Income and Core Fund reserve +10%	85,987	67,998
AUD – Income and Core Fund reserve -10%	(85,987)	(67,998)
NZD – Income and Core Fund reserve +10%	29,865	35,253
NZD – Income and Core Fund reserve -10%	(29,865)	(35,253)
WST – Income and Core Fund reserve +10%	125,947	397,163
WST – Income and Core Fund reserve -10%	(125,947)	(397,163)

The Secretariat does not manage foreign exchange risk by the use of foreign currency hedges or forward rate agreements due to the limited availability of these products in its primary economic environment.

Credit risk

Credit risk is the potential risk for loss arising from failure of Members to meet their agreed contributions or other counter-party to a financial instrument fails to meet its contractual obligations. The risk in relation to Members contributions is not considered significant because the Secretariat's policy is to only accrue Members contribution's where there is objective evidence that there is an insignificant risk of counterparty default. The Secretariat's receivable balances are monitored on an ongoing basis in order to reduce any exposure to bad debts.

Financial instruments that potentially subject the Secretariat to concentrations of credit risk consist principally of cash at bank and bank term bank deposits.

The Secretariat places its cash and bank term deposits with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution in accordance with its Executive approved cash management policy.

The carrying amount of financial assets recorded in the financial statements, which is net of any impairment losses, represents the Secretariat's maximum exposure to credit risk.

b. Fair value estimation

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values.

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5. Critical accounting estimates and judgments

Preparing financial statements to conform with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the Secretariat's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

The financial statements are affected by estimates and judgements in valuation of Property and Equipment (Note 3.e) and Receivables (Note 3.g).

6. Member contributions

Details of member contributions are specified as follows:

	2010 \$	2009 \$
American Samoa	10,184	12,766
Australia	185,106	227,049
Cook Islands	12,492	10,184
Federated States of Micronesia	10,184	23,497
Fiji	32,868	42,854
France	134,202	164,610
French Polynesia	20,360	24,974
Guam	-	-
Kiribati	10,184	12,492
Marshall Islands	10,184	20,368
Nauru	10,184	-
New Caledonia	33,007	24,468
New Zealand	134,202	164,610
Niue	15,719	25,014
Northern Marianas	-	-
Palau	-	24,933
Papua New Guinea	65,345	-
Samoa	24,974	20,360
Solomon Islands	20,360	65,794
Tokelau	10,184	12,492
Tonga	-	-
Tuvalu	-	13,557
United States of America	200,000	200,000
Vanuatu	-	40,683
Wallis & Futuna Islands	-	13,121
Total	939,739	1,143,826

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7. Other Donor fund income

Funds received from aid agencies under additional extra budgetary work programmes are usually for specified purposes and administered by the executive management and corporate support. For 2010 funds received were from AusAid to fund the Strategic Planning processes and Upgrading IT capacity.

8. Other income

Details of other income are specified as follows:

	2010	2009
	\$	\$
Income from rental of office space	43,928	38,454
Accounts payable accounts written back to income	116,278	16,886
Travel and other recoveries	1,562	25,802
	<u>161,768</u>	<u>81,142</u>

9. Deferred income liability

Deferred income relates to the following buildings and office equipment and furniture funded by donors for SPREP's activities – i) SPREP Complex funded by Donor Governments; ii) Training and Education Centre funded by Japan; and iii) Information Resource Centre funded by the European Union. The deferred income liability is amortised to income over 50 years for buildings and 10 years for office equipment and furniture which are the same rates at which the assets are depreciated.

	2010	2009
	\$	\$
Cost of donated assets		
SPREP Complex funded by donor Governments	1,870,480	1,870,480
Less adjustment to value of building based on claim from contractor extinguished	<u>(47,682)</u>	
Final value of SPREP Complex by Donor Governments	1,822,798	1,870,480
Training and education centre project by Japan	2,370,833	2,370,833
Add adjustment to agree the asset values between the deferred income schedule and fixed asset register	<u>3,859</u>	
Final value of TEC by Japan	2,374,692	2,370,833
Information and research centre by european union	<u>350,000</u>	350,000
Total cost of assets	<u>4,547,490</u>	<u>4,591,313</u>
Accumulated amortisation	1,031,430	896,478
Amortisation for current year	<u>112,986</u>	180,003
Closing amortisation as reported (for 2009)	-	1,076,481
Less retrospective adjustment to closing amortisation of prior year	<u>-</u>	<u>(45,051)</u>
Closing amortisation (nb:2009 Restated)	<u>1,144,416</u>	<u>1,031,430</u>
Unamortised amount	<u>3,403,074</u>	<u>3,559,883</u>
Current portion of amortisation	112,986	180,003
Non-Current portion of amortisation	<u>3,290,088</u>	<u>3,379,880</u>
Unamortised amount	<u>3,403,074</u>	<u>3,559,883</u>

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10. Net finance income

Net finance costs are specified as follows:

	2010	2009
	\$	\$
Interest income on bank term deposits	146,702	269,362
<i>Less finance costs relating to:</i>		
Bank charges	<u>(9,479)</u>	<u>(2,758)</u>
Net finance income	<u><u>137,223</u></u>	<u><u>266,604</u></u>

11. Executive management (key management personnel)

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

Mr David Sheppard - Director
Mr Kosi Latu – Deputy Director
Mr Stuart Chape – Island Ecosystems Programme Manager
Ms Netatua Pelesikoti – Pacific Futures Programme Manager

The remuneration of key members of management during the year was as follows:

	2010	2009
	\$	\$
Salaries and short-term employment benefits	603,180	501,211
<i>Employers contribution to:</i>		
National Provident Fund	<u>43,983</u>	<u>34,531</u>
	<u><u>647,163</u></u>	<u><u>535,742</u></u>

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12. Property and equipment

Property and equipment is specified as follows:

	Buildings	Computer equipment	Office equipment & furniture	Motor vehicles	Total
Gross carrying amount					
Cost at 1st January 2009	4,172,834	262,081	801,917	70,148	5,306,980
Additions	-	25,249	5,862		31,111
Disposals	-	(1,238)	(73,942)		(75,180)
Balance at 31st December 2009	4,172,834	286,092	733,837	70,148	5,262,911
 Additions	-	15,493	5,737	44,689	65,919
Disposals	(44,426)		-	(32,576)	(77,002)
Balance at 31st December 2010	4,128,408	301,585	739,574	82,261	5,251,828
 Accumulated depreciation					
Balance at 1st January 2009	(480,615)	(221,718)	(622,312)	(31,396)	(1,356,041)
Additional depreciation from resumption of depreciation policy	(217,009)				(217,009)
Balance at 1st January 2009 as restated	(697,624)	(221,718)	(622,312)	(31,396)	(1,573,050)
Depreciation charge for the year	(83,697)	(30,411)	(51,470)	(8,535)	(174,113)
Disposals				14,657	14,657
Balance at 31st December 2010	(781,321)	(252,129)	(673,782)	(25,274)	(1,732,506)
 Net book value					
As at 31st December 2009	3,692,219	64,374	111,525	38,752	3,906,870
As at 31st December 2009 as restated	3,475,210	64,374	111,525	38,752	3,689,861
As at 31st December 2010	3,347,087	49,456	65,792	56,987	3,519,322

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13. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

	2010	2009
	\$	\$
Cash on hand	200	200
Cash at bank	663,456	307,701
	<u>663,656</u>	<u>307,901</u>
Bank term deposits	3,850,729	4,692,059
Cash and cash equivalents for purpose of cash flow statement	<u>4,514,385</u>	<u>4,999,960</u>

Cash and Bank balances are allocated to the following currencies in \$US dollars at balance date:

	2010	2009
	\$	\$
SAT denominated cash balances in \$US currency	69,284	152,134
AUD denominated cash balances in \$US currency	56,137	48,048
NZD denominated cash balances in \$US currency	108,947	114,029
USD denominated cash balances in \$US currency	429,288	(6,310)
	<u>663,656</u>	<u>307,901</u>

14. Bank term deposits

Bank term deposits are specified as follows:

	2010	2009
	\$	\$
Total bank term deposits	<u>3,850,729</u>	<u>4,692,059</u>

The bank term deposits have an average maturity of 203 days and a weighted average interest rate of 1.84% per annum. The carrying value of the term deposits equals their fair value.

Bank term deposits are allocated to the following currencies in \$US dollars at balance date:

	2010	2009
	\$	\$
SAT denominated bank term deposits in \$US currency	2,848,349	3,821,630
AUD denominated bank term deposits in \$US currency	743,073	631,933
NZD denominated bank term deposits in \$US currency	259,307	238,496
	<u>3,850,729</u>	<u>4,692,059</u>

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15. Receivables and prepayments

Receivables and prepayments are specified as follows:

	2009	2008
	\$	\$
Receivables	27,976	33,060
Prepayments	19,485	21,776
Accrued interest on bank term deposits	65,355	152,055
	<u>112,816</u>	<u>206,891</u>

16. Specific Funds Reserve

The Specific Funds Reserve are funds earmarked for specific purposes and generally not available for uses other than that specified.

The composition of the Specific Funds Reserve is as follows:

	2010	Restated 2009
	\$	\$
Exchange variation reserve		
Opening balance as at 1st January	303,698	303,698
Plus: transfer of exchange differences arising from translation	-	638,294
Adjustment to recognise exchange differences in the income statement		(638,294)
Closing balance as at 31st December	<u>303,698</u>	<u>303,698</u>
Medical evacuation reserve	140,000	140,000
Total Specific Funds Reserve	<u>443,698</u>	<u>443,698</u>

17. Provisions for employee entitlements

Provisions for employee entitlements are specified as follows:

	2010	2009
	\$	\$
<i>Leave entitlement</i>		
Opening balance	243,758	178,893
Entitlements accrued during the year	77,587	96,591
Entitlements used during the year	(51,168)	(31,726)
Closing balance	<u>270,177</u>	<u>243,758</u>
<i>Repatriation entitlement</i>		
Opening balance	215,735	198,806
Additions during the year	193,482	66,406
Repatriation costs paid during the year	(65,854)	(49,477)
Closing balance	<u>343,363</u>	<u>215,735</u>
Total provision for employee entitlements	<u>613,540</u>	<u>459,493</u>

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18. Payables and accruals

Payables and accruals are specified as follows:

	2010	2009
	\$	\$
Payables	595,768	909,986
Accrued salaries	278	(546)
Other	-	18,073
	<u>596,046</u>	<u>927,513</u>

19. Donor and Programme Fund liability

a. Movement summary schedule

	2010	2009
	\$	\$
Opening balance	2,272,673	1,238,035
Funds received during the year	6,476,797	7,779,774
Total Funds Available	8,749,471	9,017,809
Less Programme Expenditure during the year	(6,268,886)	(6,103,887)
Less Programme Management charge	(646,112)	(641,249)
Closing balance	1,834,473	2,272,673

b. Detailed movement schedule

DONOR/PROGRAMME	Balance 1 st January 2010	Actual Funds Received	Total Funds Available	Program Support Charge	Programme Expenditure	Other	Balance 31 st December 2010
AusAID Extra Budget	97,944	1,143,788	1,241,732	(110,109)	(937,005)	48,844	243,462
AusAID Extra Extra Budget	704,820	192,767	897,587	(51,717)	(641,867)	12,739	216,742
British High Commission	22,860		22,860				22,860
Bishop Muesem	4,526		4,526	(735)	(4,025)		(234)
Commonwealth Secretariat	14,045		14,045				14,045
Conservation International	116,838	138,785	255,623	(22,901)	(120,966)		111,756
European Union	30,521		30,521		21,320		51,841
Finnish Institute of Meteorology	6,403	59,419	65,822	(6,052)	(60,517)		(747)
Food and Agriculture Organisation	1,060	35,250	36,310		(2)		36,308
Government of Canada	(5,027)	4,839	(188)		2,368		2,180
Government of France							

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DONOR/PROGRAMME	Balance 1st January 2010	Actual Funds Received	Total Funds Available	Program Support Charge	Programme Expenditure	Other	Balance 31st December 2010
	(2,616)	179,953	177,337	(26,366)	(263,973)		(113,002)
Government of Japan	8,877		8,877	(44)	(436)		8,397
Government of Switzerland	(18,794)	18,769	(25)				(25)
International Maritime Organisation	28,164	143,264	171,428	(14,345)	(140,635)		16,449
John D & Catherine T MacArthur Foundation	6,721		6,721	(418)	(0)		6,303
NZ Aid PIE	(11,584)		(11,584)		(343)	16,739	4,812
NZ Aid Extra Budget	28,990	880,949	909,939		(929,931)	(1,814)	(21,806)
NZAid Extra Extra Budget	56,180	70,000	126,180	(7,413)	(109,565)	14,787	23,989
Pacific Development & Conservation Trust	1,975		1,975	(96)	(960)		919
Parkard Foundation	(209)		(209)				(209)
People's Republic of China	120,000		120,000	(8,562)	(81,140)	(20,000)	10,298
Other Funds	374,874	492,168	867,042	(38,453)	(247,330)	(6,094)	575,165
Ramsar Secretariat	23,572	84,985	108,557	(8,777)	(87,766)		12,014
The Nature Conservancy	(13,948)	26,229	12,281	(3,987)	(39,833)		(31,539)
The Christensen Foundation	11,568		11,568				11,568
United Nations Development Program	135,430	1,886,958	2,022,388	(190,154)	(1,603,356)	(35,653)	193,226
United Nations Environment Program	378,840	874,209	1,253,049	(138,767)	(851,268)	(29,548)	233,466
United Nations Institute for Training & Research	107,979	102,880	210,859	(8,455)	(74,548)		127,856
UN Economics & Social Commission for Asia & the Pacific (UNESCAP)	8,786		8,786				8,786
UN Office of Project Services	7,055		7,055				7,055
US Dept of Energy/Los Alamos University	4,471		4,471				4,471
US Fish & Wildlife	14,625		14,625				14,625
US Dept. of Land & Natural Resources	2,843		2,843	(128)	(1,276)		1,439
US Dept. of State	71,274	60,000	131,274		(10,000)		121,274
US National Oceanic Atmospheric Administration	(80,424)		(80,424)	(154)	(1,014)		(81,592)
US Western Pacific Regional Fisheries Management Council	11,579	81,585	93,164	(8,482)	(84,816)		(134)
World Health Organisation	2,456		2,456				2,456
TOTALS	2,272,673	6,476,797	8,749,471	(646,112)	(6,268,886)	-	1,834,473

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19. Expenditure by function and comparison to budget

A comparison of actual expenditures versus budgeted expenditure is for 2010 is as follows:

	2010 \$		2009 \$	
	Actual	Budget	Restated Actual	Budget
Island Ecosystem Programme				
Personnel cost	1,141,020	1,347,059	853,671	1,088,479
Operating cost	1,014,131	1,480,972	1,249,857	1,096,610
Capital costs	3,598	30,566	5,238	22,700
	<u>2,158,749</u>	<u>2,858,597</u>	<u>2,108,766</u>	<u>2,207,789</u>
Pacific Futures Programme				
Personnel cost	1,505,816	1,332,527	1,031,821	1,206,252
Operating cost	2,593,650	3,865,203	2,949,233	1,984,562
Capital costs	10,670	8,700	14,067	22,000
	<u>4,110,136</u>	<u>5,206,430</u>	<u>3,995,121</u>	<u>3,212,814</u>
Executive Management & Corporate Support				
Personnel cost	1,410,750	1,440,849	1,361,659	1,444,089
Operating cost	950,723	861,783	804,692	754,383
Capital costs	65,918	49,000	31,111	28,000
	<u>2,427,391</u>	<u>2,351,632</u>	<u>2,197,462</u>	<u>2,226,472</u>
Total	<u>8,696,276</u>	<u>10,416,659</u>	<u>8,301,349</u>	<u>7,647,075</u>

20. Contingent liabilities and capital commitments

Contingent liabilities as at 31 December 2010 are nil (31 December 2009: nil).

The Secretariat is not aware of any capital commitments at balance date (2009: nil) except for capital expenditure budgeted for the next financial year per the details in note 19.