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## INDEPENDENT AUDITOR'S REPORT

To the Members of International Seabed Authority – General Administration Fund

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of International Seabed Authority – General Administration Fund (the "Authority") which comprise the statement of financial position as at 31 December 2017, the statements of financial performance, changes in equity, cash flows and comparison of budget to actual amounts for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

#### Basis for Qualified Opinion

As at 31 December 2017, the Authority recorded a liability of \$1.5 million for its post-employment benefit obligation for after service health insurance at \$1.5 million, using the present value method. We were unable to obtain sufficient appropriate audit evidence concerning the carrying amount and hence were not able to conclude that the liability was complete and appropriately valued in the statement of financial position.

Additionally, the Authority has recorded \$450,909 in relation to outstanding contributions which have been outstanding for a number of years. Management believes these amounts are recoverable and no provision is necessary. These adjustments had no impact on the Authority's surplus for the year ended 31 December 2017.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

#### Responsibilities of those charged with governance for the Financial Statements

Those charged with governance are responsible for the preparation of the financial statements that give a true and fair view in accordance with IPSAS, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.



## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Members of International Seabed Authority – General Administration Fund (Continued)

Report on the Audit of the Financial Statements (Continued)

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that presents a true and fair view.

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

To the Members of International Seabed Authority – General Administration Fund (Continued)

Report on the Audit of the Financial Statements (Continued)

Other Matter

The financial statements of the Authority for the year ended 31 December 2016 were audited by another auditor who issued on 27 July 2017 an unmodified opinion on those financial statements on 31 December 2016.

*Ernst & Young*  
Chartered Accountants  
Kingston, Jamaica

5 July 2018



**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

Statement of Financial Position  
**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

	Notes	2017 US\$	2016 US\$
<b>CURRENTS ASSETS</b>			
Cash and cash equivalents	4	5,475,913	7,778,020
Members assessed contributions receivable	5	1,017,560	-
Other receivables	6	1,322,468	1,431,395
Advances to staff	7	133,857	4,373
<b>Total current assets</b>		<b>7,949,798</b>	<b>9,213,788</b>
<b>NON-CURRENTS ASSETS</b>			
Property and equipment	8	396,364	264,090
Intangible assets	9	11,146	-
<b>Total non-current assets</b>		<b>407,510</b>	<b>264,090</b>
<b>Total Assets</b>		<b>8,357,308</b>	<b>9,477,878</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENTS LIABILITIES</b>			
Payable and accruals	10	463,808	418,127
Other provisions	11	149,971	2,592,473
Advance contributions	12	711,736	1,351,615
Repatriation benefits	13	51,690	61,899
<b>Total current liabilities</b>		<b>1,377,205</b>	<b>4,424,114</b>
<b>NON-CURRENTS LIABILITIES</b>			
Repatriation benefits	13	513,461	306,302
Other non-current liabilities	14	1,500,000	-
<b>Total non-current liabilities</b>		<b>2,013,461</b>	<b>306,302</b>
<b>Total liabilities</b>		<b>3,390,666</b>	<b>4,730,416</b>
<b>EQUITY</b>			
Accumulated surplus		6,466,642	4,747,462
Other reserve	14	(1,500,000)	-
<b>Total equity</b>		<b>4,966,642</b>	<b>4,747,462</b>
<b>Total Liabilities and Equity</b>		<b>8,357,308</b>	<b>9,477,878</b>

The accompanying notes form an integral part of these financial statements.

Approved for issue by the International Seabed Authority on 5 July 2018 and signed on its behalf by:

  
 Secretary General - Michael W. Lodge

**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

Statement of Financial Performance  
**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

	Notes	2017 US\$	2016 US\$
<b>REVENUE</b>			
Contributions:			
Assessed contributions	15	6,618,594	5,879,716
Overhead charges	16	1,128,000	705,000
Transfer from reserve for contributions adjustment		-	1,450,650
Total contributions and other budgeted income		<u>7,746,594</u>	<u>8,035,366</u>
Other income			
Interest income	17	11,605	10,955
Miscellaneous income	18	173,816	185,346
Total other income		<u>185,421</u>	<u>196,301</u>
<b>Total Revenue</b>		<u>7,932,015</u>	<u>8,231,667</u>
<b>EXPENSES</b>			
Administrative expenditure of the secretariat (Section 1.1)	19	6,036,214	6,295,406
Cost of conference services (Section 1.2)	20	886,698	1,465,906
Cost of programmes	21	419,749	-
Depreciation and amortization	8,9	127,075	99,068
Provision for uncollected contribution	5	79,925	381,925
Total expenses		<u>7,549,661</u>	<u>8,242,305</u>
<b>Surplus/(Loss)</b>		<u>382,354</u>	<u>(10,638)</u>

**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

Statement of Changes in Equity  
**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

	Notes	Accumulated Surplus US\$	Other Reserve US\$	Total US\$
<b>Balance at 31 December 2015</b>		5,648,280	-	5,648,280
Prior years' contribution received by 31 December 2016	22	535,845	-	535,845
Adjustment for 2016 assessed contribution transferred to income in the Statement of Financial Performance		(1,450,650)	-	(1,450,650)
Loss for the current year		(10,638)	-	(10,638)
Savings from prior periods' obligations	23	24,625	-	24,625
<b>Balance at 31 December 2016</b>		4,747,462	-	4,747,462
Adjustment for ASHI	3(a)	-	(1,500,000)	(1,500,000)
Adjustment for prior year's contribution receivables	3(a)	501,010	-	501,010
Adjustment for capitalized assets and others	3(a)	228,051	-	228,051
Prior years' contributions received in 2017	22	138,061	-	138,061
Surplus for the year		382,354	-	382,354
Savings from prior periods' obligations	23	469,704	-	469,704
<b>Balance at 31 December 2017</b>		6,466,642	(1,500,000)	4,966,642

**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

**Statement of Cash Flows**  
**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

	Notes	2017 US\$	2016 US\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Surplus/(Loss) for the year		382,354	(10,638)
Adjustments to reconcile surplus to net cash flows from operating activities:			
Adjustment for ASHI	14	(1,500,000)	-
Adjustments in prior period receivables	3(a)	501,010	-
Adjustments for capitalized assets	3(a)	228,051	-
Prior periods contributions received	22	138,061	535,845
Depreciation and amortization	8, 9	127,075	99,068
Operating cash flows before movements in working capital		<u>(123,449)</u>	<u>624,275</u>
Movements in working capital			
(Increase)/decrease in contributions receivable		(1,017,560)	-
(Increase)/decrease in other receivables		108,927	563,688
(Increase)/decrease in advances to staff		(129,484)	(1,693)
Increase/(decrease) in other provisions		(2,442,502)	538,540
Increase/(decrease) in advance contributions		(639,879)	600,265
Increase/(decrease) in repatriation benefits		196,950	(27,823)
Increase/(decrease) in non-current liabilities		1,500,000	-
Increase/(decrease) in payables and accruals		45,681	(66,633)
Savings on prior periods obligations	26	469,704	24,625
Application of previous years' accumulated surplus		<u>-</u>	<u>(1,450,650)</u>
Net cash (used in)/provided from operating activities		<u>(2,031,612)</u>	<u>804,594</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment and intangibles	8, 9	<u>(270,495)</u>	<u>(168,724)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,302,107)</b>	<b>635,870</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<u>7,778,020</u>	<u>7,142,150</u>
<b>Cash and cash equivalents at the end of the year</b>	4	<u>5,475,913</u>	<u>7,778,020</u>



**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

**Statement of Comparison of Budget to Actual Amounts**  
**31 December 2017**  
**(expressed in United States dollars unless otherwise indicated)**

Object of expenditure	Original Budget	Accounted as per IPSAS standards			Balance	Adjustments due to IPSAS		Actual Balance	
		Differences Between Budget	Revised Budget	Actuals		Amounts	Comments		
<b>Section 1</b>									
<b>Administration and conference services expenditures</b>									
<b>Sub-section 1</b>	<b>Administrative expenditures of the Secretariat</b>	<b>5,919,400</b>		<b>5,919,400</b>	<b>6,243,214</b>	<b>-323,814</b>	<b>366,090</b>	<b>42,276</b>	
	Established Posts	3,100,000		3,100,000	2,895,816	204,184		204,184	
	Gen. Temporary assistance	15,500		15,500	33,726	-18,226		-18,226	
	Overtime	35,000		35,000	31,966	3,034		3,034	
	Consultants (non-programme)	10,300		10,300		10,300		10,300	
	Common staff costs	1,505,000		1,505,000	1,938,780	-433,780	159,090	Benefit accrual	-274,689
	Training	31,500		31,500	13,848	17,652		17,652	
	Official travel (non-programme)	91,200		91,200	117,020	-25,820		-25,820	
	Communications	100,300		100,300	74,599	25,701		25,701	
	Library, books and supplies	68,000		68,000	59,102	8,898		8,898	
	External printing (20% non-programme)	11,000		11,000	30,834	-19,834		-19,834	
	Supplies and materials	40,100		40,100	55,665	-15,565		-15,565	
	Official hospitality	11,500		11,500	14,392	-2,892		-2,892	
	Information technology	98,000		98,000	58,757	39,243		39,243	
	Acquisition of furniture & equipment	81,000		81,000	30,180	50,820		50,820	
	Rental & maintenance of furniture & equipment	12,000		12,000	16,578	-4,578		-4,578	
	UN common system	83,000		83,000	60,301	22,699		22,699	
	Miscellaneous services	56,000		56,000	72,178	-16,178		-16,178	
	Audit fees	20,000		20,000	16,000	4,000		4,000	
	Building Management	410,000		410,000	433,826	-23,826		-23,826	
	Article 154 review and related costs	80,000		80,000	82,645	-2,645		-2,645	
	IPSAS	60,000		60,000		60,000		60,000	
	Depreciation of physical assets				127,075	-127,075	127,075	Depreciation & Amortisation	0
	Uncollected contributions				79,925	-79,925	79,925	Provisions	0
<b>Sub-section 2</b>	<b>Cost of conference services</b>	<b>1,965,000</b>	<b>-385,000</b>	<b>1,580,000</b>	<b>886,697</b>	<b>693,303</b>	<b>-473,203</b>	<b>220,100</b>	
	Salaries UN staff				8,907	-8,907		-8,907	
	Printing & supplies				289	-289		-289	
	Misc. conference service costs				44,632	-44,632		-44,632	
	Travel - Staff				277,291	-277,291		-277,291	
	Rental of Conference Center				50,843	-50,843		-50,843	
	Temporary assistance (Meetings)				50,186	-50,186		-50,186	
	Rental of Equipment				388	-388		-388	
	Local transportation				2,652	-2,652		-2,652	
	Meeting Services				432,446	-432,446	-91,560	July session	-524,006
	Documentation				8,363	-8,363	-381,643	July session	-390,006
	Reception				10,700	-10,700		-10,700	
<b>Total Section 1</b>	<b>Administration and conference services expendi</b>	<b>7,884,400</b>	<b>-385,000</b>	<b>7,499,400</b>	<b>7,129,911</b>	<b>369,489</b>	<b>-107,113</b>	<b>262,376</b>	

**INTERNATIONAL SEABED AUTHORITY  
General Administration Fund**

**Statement of Comparison of Budget to Actual Amounts  
31 December 2017  
(expressed in United States dollars unless otherwise indicated)**

Object of expenditure	Original Budget	Accounted as per IPSAS standards			Adjustments due to IPSAS			
		Differences between lines	Revised Budget	Actuals	Balance	Amounts	Comments	Actual Balance
<b>Section 2</b>								
<b>Programme 2.1</b>								
Development of the regulatory framework for activities in the Area								
Consultants	45,200		45,200	21,381	23,819			23,819
External printing								
Travel	45,600		45,600	72,029	-26,429			-26,429
Workshops								
<b>Total Programme 2.1</b>	<b>90,800</b>		<b>90,800</b>	<b>93,410</b>	<b>-2,610</b>			<b>-2,610</b>
<b>Programme 2.2</b>								
Protection of the marine environment								
Consultants	19,400		19,400	3,836	15,565			15,565
External printing	600		600					
Travel	7,600		7,600	48,318	-40,718			-40,718
Workshops	120,800	125,000	245,800	60,722	185,078			185,078
<b>Total Programme 2.2</b>	<b>148,400</b>	<b>125,000</b>	<b>273,400</b>	<b>112,875</b>	<b>160,525</b>			<b>159,925</b>
<b>Programme 2.3</b>								
Management of contracts								
Consultants								
External printing								
Travel	15,200		15,200	12,165	3,035			3,035
Workshops	2,900	30,000	32,900	2,118	30,782			30,782
<b>Total Programme 2.3</b>	<b>18,100</b>	<b>30,000</b>	<b>48,100</b>	<b>14,284</b>	<b>33,816</b>			<b>33,816</b>
<b>Programme 2.4</b>								
Data management (hardware and environment)								
Consultants	296,000		296,000	32,847	263,153	-5,500	CDR design	257,653
External printing	9,600		9,600		9,600			9,600
Travel	24,000		24,000	7,997	16,003			16,003
Workshops								
Information Technology	206,900		206,900	76,143	130,757	-37,079	CDR equipment	93,678
Central data repository								
Maintenance and support								
<b>Total Programme 2.4</b>	<b>536,500</b>	<b>0</b>	<b>536,500</b>	<b>116,987</b>	<b>419,513</b>	<b>-42,579</b>		<b>376,934</b>
<b>Programme 2.5</b>								
Promotion and encouragement of marine scientific research in the Area								
Consultants	9,700		9,700		9,700			9,700
External printing								
Travel	7,600		7,600	1,890	5,710			5,710
Workshops		120,000	120,000	0	120,000			120,000
<b>Total Programme 2.5</b>	<b>17,300</b>	<b>120,000</b>	<b>137,300</b>	<b>1,890</b>	<b>135,410</b>			<b>135,410</b>
<b>Programme 2.6</b>								
Outreach activities								
Consultants	11,300		11,300	9,705	1,595			1,595
External printing	600		600		600			600
Travel	15,200		15,200	54,943	-39,743			-39,743
Workshops		110,000	110,000	15,656	94,344			94,344
<b>Total Programme 2.6</b>	<b>27,100</b>	<b>110,000</b>	<b>137,100</b>	<b>80,303</b>	<b>56,797</b>			<b>56,797</b>
<b>Total Section 2</b>	<b>838,200</b>	<b>385,000</b>	<b>1,223,200</b>	<b>419,749</b>	<b>803,451</b>	<b>-42,579</b>		<b>760,872</b>
Total administrative, conference services and programmes expenditures	<b>8,722,640</b>	<b>0</b>	<b>8,722,640</b>	<b>7,549,660</b>	<b>1,172,980</b>	<b>-149,692</b>		<b>1,022,648</b>

**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

Notes to the Financial Statements

**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

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**1. The International Seabed Authority**

- (a) The International Seabed Authority (the "Authority") is an intergovernmental organization. It is established by the 1982 United Nations Convention on the Law of the Sea and the 1994 Agreement relating to the implementation of Part XI of the Convention and came into existence on 16 November 1994. The Authority has 168 members as at 31 December 2017 (2016: 167 members).
- (b) The Authority has its headquarters in Kingston, Jamaica. The governing bodies of the Authority are the Assembly, which comprises all members of the Authority, and the Council, which consists of 36 members elected for a term of four years on a rotational basis. The Finance Committee is a subsidiary body of the Assembly. It has 15 elected members, which must include representatives of the five largest contributors to the administrative budget. A Legal and Technical Commission, currently consisting of 30 elected members, acts as a subsidiary body to the Council. The secretariat, which is based in Kingston, consists of a Secretary-General, elected for a period of four years, and administrative and technical staff. The current approved establishment of the secretariat is 41 Posts (2016: 37 Posts).
- (c) The Assembly and Council meet once per year in Kingston. The Legal and Technical Commission meets twice per year. The organs of the Authority operate in the six official languages of the United Nations (Arabic, Chinese, English, French, Russian and Spanish). Translation of official documentation and interpretation services are provided, on a cost reimbursement basis, by the United Nations under a relationship agreement between the Authority and the United Nations signed in 1997. The working languages of the Secretariat are English and French.
- (d) The primary function of the Authority is to manage deep seabed mining in the international seabed Area (the subsoil beyond the limits of national jurisdiction). It does this through issuing contracts to qualified entities allowing them to explore for or exploit seabed mineral resources. The regulatory framework for these activities is laid down in the 1982 Convention, the 1994 Agreement and in regulations of the International Seabed Authority. The Authority had approved 29 contracts for exploration as of 31 December 2017. The contracts are issued following approval by the Council of the International Seabed Authority, based on the recommendations of the Legal and Technical Commission. Exploration contracts last for 15 years, with the possibility of extensions for periods of five years each. Seabed mineral exploitation has not yet commenced, primarily owing to technical and financial challenges, as well as the lack of a regulatory framework. The Council has determined that the development of a regulatory framework for exploitation, including financial terms and standards for the protection of the marine environment, should be a priority for the Authority in the forthcoming financial period.
- (e) Until such time as deep seabed mining commences, the income of the Authority shall be from assessed contributions by member States. The scale of contributions is based on the scale of contributions of the United Nations, adjusted for difference in membership. Limited cost recovery takes place through the imposition of application fees for new contracts and an annual overhead charge for existing contracts. Once deep seabed mining begins, the Authority will collect revenue from contractors in the form of royalties or other payments. Such income will be allocated to meet the administrative expenses of the Authority, with the surplus to be distributed to member States on the basis of equitable sharing criteria, with priority going to the least developed and landlocked States. The financial terms of contracts and criteria for sharing financial and economic benefits from deep seabed mining are yet to be developed.

**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

Notes to the Financial Statements

**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

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**1. The International Seabed Authority (continued)**

- (f) In support of its primary function, the Authority is also required to promote and encourage the conduct of marine scientific research in the international seabed area. This is achieved through conducting technical studies and workshops, collaboration in international scientific research programmes and administration of an Endowment Fund for Marine Scientific Research through which grants may be awarded to scientists from developing countries for scientific research and training.
- (g) In addition to the above, the Authority is currently concentrating on the following activities:
  - 1) Providing secretariat support to the organs of the Authority;
  - 2) Preparing draft regulations for seabed mineral exploitation for consideration by the Legal and Technical Commission and the Council, including preparing studies on key issues, convening workshops and technical meetings and legal drafting;
  - 3) Processing new applications for exploration contracts;
  - 4) Administering existing contracts for exploration, including reviewing annual reports of contractors, analyzing data submitted by contractors and managing training programmes;
  - 5) Building and maintaining a database on deep seabed minerals and related environmental characteristics, and managing access to data;
  - 6) Developing regional environmental management plans to ensure the protection of the marine environment from the harmful effects of deep seabed mining;
  - 7) Publishing technical reports, studies and briefings on issues of interest to member States.

**2. Summary of significant accounting policies**

The financial statements reflect the application of the following significant accounting policies.

**2.1. Basis of preparation**

- (a) Accounting convention

The financial statements have been prepared on the accrual basis of accounting in accordance with the Financial Regulations (ISBA/6/A/3) and Financial Rules (ST/SGB/2008/02) of the Authority, and the International Public Sector Accounting Standards (IPSAS) developed and published by the international Public Sector Account Standards Board (IPSASB).

This year, the financial statements have been prepared in compliance with IPSAS. Areas which were exempted in the prior year's financial statements (employee benefits, intangible assets, financial instruments) as a transitioning approach for the first year of adoption have been adopted.

**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

Notes to the Financial Statements  
**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

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**2. Summary of significant accounting policies (continued)**

**2.1. Basis of preparation (continued)**

(a) Accounting convention (continued)

The financial statements have been prepared using the historical cost measurement basis and on a going concern basis.

The financial statements reflect the assets, liabilities, and transactions relating to the General Administrative Fund. The Authority also administers the following funds:

- Working Capital Fund
- Endowment Fund
- Voluntary Trust Fund
- Polymetallic Nodules Exploration Application Fees
- Sulphides Exploration Application Fees
- Cobalt-Rich Ferromanganese Crusts Exploration Application Fees

The status of these funds is set out in Note 26.

(b) Use of estimates and assumptions

The financial statements necessarily include amounts based on judgements, estimates and assumptions by management. Estimates include but are not limited to: recoverability of accounts receivable; accrued charges; contingent assets and liabilities; and degree of impairment on property and equipment. Material changes in estimates are reflected in the period in which they become known.

As disclosed in Note 2.11 (b) the Authority has an after service health insurance liability which is shown as a post-employment benefit obligation in the statement of financial position as a liability of \$1.5 million (2016: Nil) and the present value of the pension obligation is determined using an actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, mortality rate and other factors. Due to the complexities involved in the valuation and its long term nature, the post-employment benefit obligation recognised is highly sensitive to changes in these assumptions.

(c) Financial period

The period covered by the financial statements is the year ended 31 December 2017.

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**2. Summary of significant accounting policies (continued)**

**2.2 Presentation of Budget Information**

The Authority prepares its annual financial statements on a full accrual basis, while its budget is prepared annually on a modified accrual basis.

Due to the different bases of budgets and financial statements, Statement 5 - Comparison of budget and actual amounts, as required under IPSAS 24 -Presentation of Budget Information in Financial Statements, is presented with explanations and clarifications of material variances between budget and actual data.

**2.3 Functional and presentation currency**

Items included in the financial statements are measured using the functional currency, the United States dollar, which is the currency of the primary economic environment in which the Authority operates. The financial statements are also presented in United States dollar, the presentation currency of the Authority.

Transactions and balances: foreign currency transactions are translated into the functional currency using the United Nations Operational Rate of Exchange (UNORE) prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into US Dollars on the basis of the exchange rates applicable on 31 December 2017.

**2.4 Financial Instruments**

**Financial assets**

*Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement (IPSAS 29) are classified as financial assets at fair value through surplus or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Authority determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Authority commits to purchase or sell the asset.

The Authority's financial assets include: cash and short-term deposits; members assessed contribution receivables and other receivables.

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**2. Summary of significant accounting policies (continued)**

**2.4 Financial Instruments (continued)**

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or loss. Receivables are disclosed in Note 6.

*Derecognition*

The Authority derecognizes a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when:

- The rights to receive cash flows from the asset have expired or is waived
- The Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:
  - (a) the Authority has transferred substantially all the risks and rewards of the asset;
  - or (b) the Authority has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

*Impairment of financial assets*

The Authority assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or loss or loans and borrowings, as appropriate. The Authority determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The Authority's financial liabilities includes payables and accruals.

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**2. Summary of significant accounting policies (continued)**

**2.5 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, money market and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

**2.6 Revenue**

**(a) Revenue from non-exchange transactions**

The Authority's revenue from non-exchange transactions such as assessed contributions from Member States is recognized to the extent that the transaction creates an asset without a corresponding deferred revenue liability. When the transaction has stipulations that amount to conditions attached, revenue is recognized only to the extent that any corresponding asset exceeds the liability.

Receivables relating to non-exchange revenue are reviewed and analyzed, and an allowance is made where collection is considered doubtful. All contributions receivables are presented in statement of financial position net of these allowances.

The allowance is set at 5% for receivables of current year and 10% for previous years.

**(b) Revenue from exchange transactions**

The Authority recognizes revenue under exchange transactions when it is probable that future economic benefits or service potential will flow to the Authority and those benefits can be measured reliably. No revenue is recognized unless these two primary conditions are met. Interest income is accrued on a time-apportionment basis by reference to the principal sum outstanding and the effective interest rate applicable.

**(c) Goods-in-kind contribution**

Goods-in-kind contributions are recognized at their fair value, and goods and corresponding revenue are recognized immediately if no conditions are attached. If conditions are attached, a liability is recognized until such conditions are met and the present obligation is satisfied. Revenue is recognized at fair value, measured as at the date the donated assets are acquired.

**(d) Services-in-kind contributions**

Services-in-kind contributions are not recognized in the financial statements as revenue. The nature and type of service are disclosed in the notes to the financial statements.

The Authority receives service-in-kind contribution from the Government of Jamaica in the form of free rental space for its Headquarters premises in Jamaica Conference Center, Kingston. The approximate value of this in-kind contribution amounts to US\$265,037 (or JMS\$33,000,000) for the space of 32,781 square feet, currently used by the Authority.



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**2. Summary of significant accounting policies (continued)**

**2.7 Property and Equipment**

Property and Equipment (PE) are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition or construction of the PE items.

Subsequent costs, for which asset recognition criteria are met, are included in the asset's carrying amount only when they improve the condition of the fixed asset and extend the asset's useful life.

Property and Equipment are recognized from the time they first become available for use by the Authority. A capitalization threshold of US\$3,000 has been set for PE items.

Depreciation is calculated using the straight-line method in order to spread the expenses over the estimated useful life. The basis for depreciation is the acquisition cost less the estimated residual value. The estimated useful lives for each class of PE are as follows:

<b>PE Asset Class</b>	<b>Useful Life (in years)</b>
Computer equipment	2 - 4 (2 years for laptops, 4 years for others)
Office equipment	5
Motor vehicles	5
Furniture and Fixtures	5

Depreciation is charged on a monthly basis. Residual values of items of PE are reviewed at each annual reporting date. In practice the residual value is set at nil. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are disclosed under other revenue or expenses in the statement of financial performance.

**2.8 Intangible assets**

Intangible assets (software, licenses, trademark) are reported for the first time in the financial statements for the year ended 31 December 2017. They are recorded on a prospective basis only, i.e. items qualified as intangible assets but acquired before 1 January 2017 were all expensed.

Intangible assets are capitalized if their costs meet the threshold of US\$5,000, except for internally developed software, for which the capitalization threshold is US\$100,000.

Intangible assets are recorded from the time they first become available for use by the Authority. Intangible assets are stated at historical cost less accumulated amortization and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition or development of the intangible assets.

Useful life for intangible assets are set at five (5) years. Amortization is calculated using the straight-line method in order to spread the expenses over the estimated useful life.

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**2. Summary of significant accounting policies (continued)**

**2.9 Impairment of non-cash-generating assets**

The Authority assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset. The asset's recoverable service amount is the higher of the asset's fair value less costs to sell and its value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. Impairment losses are recognised immediately in the statement of financial performance.

**2.10 Provision and Contingent Liabilities**

Provisions for liabilities and charges are recognized when the Authority has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount of the provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date. The estimate is discounted when the effect of the time value of money is material.

Contingent liabilities for which the possible obligation is uncertain, or for which it is yet to be confirmed whether ISA has a present obligation that could lead to an outflow of resources, or obligations that do not meet the recognition criteria here above (as per IPSAS 19), are disclosed.

**2.11 Employee Benefits**

Employees are defined as staff members, within the meaning of Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment, subject to the regulations promulgated by the United Nations' General Assembly pursuant to Article 101, paragraph 1, of the Charter. In practice, this means those persons with a temporary, fixed-term or permanent contract.

Obligations for new employees are recognized from the date they report to their duty station.

The Authority's employee benefits are classified into short-term and post-employment benefits.

**(a) Short-term employee benefits**

Short-term employee benefits are employee entitlements that are due to be settled within 12 months after the end of the reporting period in which the employee renders the related service. These benefits include annual and home leave.

Annual leave is an accumulating compensated absence. Employees are entitled to monetary settlement of the accrued annual leave balance upon separation from service, up to a maximum of 60 days. The organization therefore recognizes liability for the value of the total accumulated leave days of all staff members as of the reporting date.

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**2. Summary of significant accounting policies (continued)**

**2.11 Employee Benefits (continued)**

(a) Short-term employee benefits (continued)

Home leave travel is available to eligible staff and dependents. The liability represents the expected travel cost of the next home leave entitlement for qualifying staff, as adjusted for the proportion of service yet to be performed until the benefit is vested.

Owing to the short-term nature of these entitlements, the liability is not discounted for the time value of money.

(b) Post-employment employee benefits

Post-employment benefits provided by the Authority are:

- i. After-service health insurance, which provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependents. The after-service health insurance liability represents the present value of the share of the Authority's medical insurance costs for retirees and the post-retirement benefit accrued to date by active staff;
- ii. End-of-service entitlements, which comprise the repatriation grant, shipping costs and travel expenses. A liability is recognized from when the staff member joins the Authority.

(c) United Nations Joint Staff Pension Fund (UNJSPF or the "Pension Fund")

The Authority is a member organizations participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in Article 3 (b) of its Regulations, membership in the Pension Fund shall be open to the specialized agencies and to any other international, intergovernmental organization that participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

The Pension Fund exposes participating organization to actuarial risks associated with the current and former employees of other participating organizations, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. The Authority and the Pension Fund, in line with the other participating organizations, are not in a position to identify the Authority's proportionate share of the defined benefit obligations, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Therefore, the Authority has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The Authority's contributions to the Pension Fund during the financial period are recognized as expenses in the statement of financial performance.

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**2. Summary of significant accounting policies (continued)**

**2.11 Employee Benefits (continued)**

The pension and health benefits are categorized as defined benefit plans. Defined benefit plans are those where the obligation of the Authority is to provide agreed benefits and therefore the Authority bears the actuarial risk, that is, that the benefits will cost more or less than expected.

The liability for defined benefit plans is measured at the present value of the defined benefit obligation net of the fair value of the plan assets. Movements in the liability from the actuarial gains and losses are recognized in statement of financial position. All other changes in the liability are recognized in the statement of financial performance in the period in which they occur.

**2.12 Related parties**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Authority. Members of key management are regarded as related parties which comprise of the Secretary General.

**3. Changes in accounting policies and estimates**

**(a) Standards adopted during the year**

The Authority recognizes the effect of changes in the accounting policy retrospectively. The effect of changes in accounting policy are applied prospectively if retrospective application is impractical.

During the year, the Authority has adopted the following standards with the transitional exemptions and provisions of IPSAS 33:

- *IPSAS 20 Related party disclosures*  
The Authority has adopted this standard and has disclosed in Note 24 all related parties relationships, related transactions and information about key management personnel in these transitional financial statements.
- *IPSAS 25 Employee benefits*  
The Authority has adopted this standard and has accounted for its defined contribution plan in the statement of financial performance and post-employment obligation in related to after service health insurance using the present value of the obligation.
- *IPSAS 28 Financial instruments presentation and IPSAS 29 Financial instruments recognition and measurement and IPSAS 30 Financial instruments*  
The Authority has adopted the standards for all financial instruments to be recognized and presented in accordance with these standards.
- *IPSAS 31 Intangible assets*  
The Authority has recognized all intangible asset and the costs are currently capitalized.

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**3. Changes in accounting policies and estimates (continued)**

(a) Standards adopted during the year (continued)

• *IPSAS 18 Segment reporting*

The Authority has adopted this standard but it has no impact on its financial position or performance.

Transitional exemptions and provisions

As the Authority benefits from paragraph 142 of IPSAS 33, it opts to provide a reconciliation between equity reporting accordance with the financial statements per 31 December 2016 and the net assets/ equity in the opening statement of financial position at the date of adoption 1 January 2017:

	<b>2017 US\$</b>
Beginning equity	4,747,462
IPSAS 33 transitional adjustments (not recorded in 2016)	
First time recording of accrued liabilities for ASHI (Note 14)	(1,500,000)
Adjustment in prior period receivables	501,010
Adjustment for capitalized assets and other	228,051
Prior years' contributions received	138,061
Saving from prior periods obligation	469,704
Total transitional adjustments	<u>(163,174)</u>
Surplus for the year	382,354
Ending equity	<u>4,966,642</u>

(b) New standards which are not yet effective

• *IPSAS 39 – Employee Benefits*

The standard replaces IPSAS 25 and become effective as of 1 January 2018. The Authority will assess any relevant changes and consider for implementation in 2018.

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**4. Cash and cash equivalents**

(a) These reflect cash and cash equivalents belonging to the General Administrative Fund:

	2017 US\$	2016 US\$
Cash and bank balances	4,335,355	6,637,687
Short-term deposits	1,140,558	1,140,333
Cash and cash equivalents	<u>5,475,913</u>	<u>7,778,020</u>

(b) Other funds:

Funds amounting to US\$7,082,853 (2016: US\$7,721,199) are being held in bank accounts in the name of the Authority but are not included in the General Administrative Fund. These funds are in respect of other funds administered by the Authority and comprise:

	Notes	2017 US\$	2016 US\$
Working capital fund	26.a	579,226	559,016
Endowment fund	26.b	3,532,897	3,506,850
Voluntary Trust Funds (i)	26.c	55,419	272,810
Polymetallic Nodules Exploration Application fees	26.d	1,379,798	1,868,723
Polymetallic Sulphides Exploration Application fees	26.e	905,089	884,714
Cobalt-Rich Ferromanganese Crust Exploration Application fees	26.f	630,424	629,086
		<u>7,082,853</u>	<u>7,721,199</u>

(i) Reconciliation of bank balance to Voluntary Trust Fund balance

	2017 US\$	2016 US\$
Balance per bank statement	119,598	272,810
Less Voluntary Trust Fund expenses paid by International Seabed Authority	(64,179)	(143,395)
Available fund	<u>55,419</u>	<u>129,415</u>

Reconciliations of the bank balances above to the available funds for the Funds described in Notes 26.d, 26.e and 26.f are not included in these financial statements.

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**5. Members assessed contributions receivable**

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
<b>Receivables from member states:</b>		
Current year's assessment	596,475	381,925
Prior year's assessment	501,010	257,146
Less Provision for uncollected receivables for the current year(See (a))	(29,824)	(381,925)
Less Provisions for uncollected receivables for the previous years (See (b))	(50,101)	(257,146)
	<u>1,017,560</u>	<u>-</u>

Movement in allowance for doubtful contribution

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
At 1 January 2017	639,071	257,146
Adjustment for prior year's contribution receivables	(501,010)	-
Prior years' contributions received in 2017	(138,061)	-
Provision for current year's uncollected receivables	79,925	381,925
Closing balance	<u>79,925</u>	<u>639,071</u>

As at 31 December 2017, the ageing analysis of the members associated contribution receivables is as follows:

<b>As at 31 December 2017</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>			<b>Gross receivables before provision Total (US\$)</b>
		<b>&lt; 2 years</b>	<b>Between 2 and 5 years</b>	<b>More than 5 years</b>	
<i>Members associated contribution receivables</i>	596,475	290,144	129,311	81,555	1,097,485

a) Ninety-two member states had not fully paid their 2017 assessed contribution amounts as of 31 December 2017 (Eighty-nine members in 2016 with regard to 2016 assessed contribution amounts). Provision for uncollected receivables from member states' contributions is set at 5% of the current year's receivables.

b) Fifty-eight member states have not fully paid their 1998-2016 assessed contribution amounts as of 31 December 2017 (fifty members in 2016 with regard to 1998-2015 assessed contribution amounts). Provision for uncollected receivables from member states' contributions is set at 10% of the prior year's receivables.

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**6. Other receivables**

The analysis of other receivables is as follows:

	<b>Notes</b>	<b>2017 US\$</b>	<b>2016 US\$</b>
Polymetallic Nodules Exploration Application fees	26.d	255,872	631,321
Polymetallic Sulphides Exploration Application fees	26.e	225,435	1,417
Cobalt-Rich Ferromanganese Crust Exploration Application fees	26.f	408,636	407,410
Others		432,525	391,247
		<u>1,322,468</u>	<u>1,431,395</u>

**7. Advances to staff**

	<b>2017 US\$</b>	<b>2016 US\$</b>
J\$ payments due from staff	6,220	399
U\$ payments due from staff	15,376	3,974
Other advances	112,261	-
	<u>133,857</u>	<u>4,373</u>

Advances to staff include both normal advance payments to staff, and advance payments for employee benefits such as home leave, education grants. Based on IPSAS delivery principle, these payments remain as advances for the proportion of service yet to be performed by the concerned staff member until the benefit is vested.



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**8. Property and equipment**

	Motor Vehicles	Computer Equipment	Furniture and Fixtures	Office Equipment	Total
	US\$	US\$	US\$	US\$	US\$
<b>Cost:</b>					
1 January 2016	84,823	47,695	77,426	93,921	303,865
Addition	-	26,779	113,902	28,043	168,724
31 December 2016	84,823	74,474	191,328	121,964	472,589
Addition	34,312	142,600	44,544	37,079	258,535
31 December 2017	119,135	217,074	235,872	159,043	731,124
<b>Depreciation:</b>					
1 January 2016	50,894	17,823	21,377	19,337	109,431
Depreciation charges	16,964	19,445	38,266	24,393	99,068
31 December 2016	67,858	37,268	59,643	43,730	208,499
Depreciation charges	18,108	35,896	44,155	28,102	126,261
31 December 2017	85,966	73,164	103,798	71,832	334,760
<b>Net Book Values:</b>					
31 December 2017	33,169	143,910	132,074	87,211	396,364
31 December 2016	16,965	37,206	131,685	78,234	264,090

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**9. Intangible assets**

	<b>2017 US\$</b>
<b>Cost:</b>	
1 January 2017	-
Addition	11,960
31 December 2017	<u>11,960</u>
<b>Amortization:</b>	
1 January 2016	-
Amortization for the year	814
31 December 2017	<u>814</u>
<b>Net Book Value:</b>	
31 December 2017	<u>11,146</u>

**10. Payables and accruals**

	<b>2017 US\$</b>	<b>2016 US\$</b>
ISA Exercise Club Payable	196	196
United Nations Joint Staff Pension fund contributions amount payable	9,878	1,581
Annual leave liability	364,532	231,991
Health insurance payable	17,610	126,869
Accrued home leave	18,351	-
Other accounts payable and accruals	53,240	57,372
Working Capital Fund amount in transit	-	118
	<u>463,808</u>	<u>418,127</u>

**11. Other provisions**

	<b>2017 US\$</b>	<b>2016 US\$</b>
These are services rendered and provided for by 31 December for which the related invoices had not been received as of that date	<u>149,971</u>	<u>2,592,473</u>

**12. Advance contributions**

	<b>2017 US\$</b>	<b>2016 US\$</b>
These amounts represent the following year's assessed contributions amount received during the year	<u>711,736</u>	<u>1,351,615</u>

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**13. Repatriation benefits**

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
Current portion	51,690	61,899
Non-current portion	513,461	306,302
	<u>565,151</u>	<u>368,201</u>

Repatriation benefits include repatriation grant, travel and removal costs on staff member's separation from service. The long term portion represents amounts are provisions made annually to be paid upon separation of staff members

**14. Other non-current liabilities**

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
Other non-current liabilities include the After-Service Health Insurance – ASHI (Note 2.11.b) which is a post-employment benefit for eligible staff members upon separation from service	1,500,000	-

**15. Assessed contribution income**

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
The amounts represent the net assessed contributions from member states	6,618,594	5,879,716

**16. Overhead charges**

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
These amounts represent the annual charge of US\$47,000 per contractor	1,128,000	705,000

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**17. Interest income**

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Interest income from:		
Other General Administrative Fund bank accounts	4,385	7,425
Contractor's annual overhead bank accounts	2,149	1,133
Contractors' application for extension fees bank accounts	812	593
Contractor's application for approval of Plan of Work fees bank accounts	4,259	1,803
	<u>11,605</u>	<u>10,955</u>

**18. Miscellaneous income**

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Contract Extension Application fees	-	67,000
Contractors' Application processing fees		
Polymetallic nodules	-	13,168
Polymetallic sulphides	143,342	3,196
Cobalt-Rich ferromanganese crusts		
Annual overhead fee by contractors yet to agree to the overhead charges	-	94,000
Exchange gain	(37)	(24)
Tax refund	-	2,237
Others	30,511	5,769
	<u>173,816</u>	<u>185,346</u>

**19. Administrative Expenditure of the Secretariat (Section 1.1)**

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
These amounts include all costs related staff as well as the costs relating to the substantive areas of the Authority's work	<u>6,036,214</u>	<u>6,295,406</u>

**20. Conference servicing costs (Section 1.2)**

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
These costs relate to expenses on conference servicing under Section 1.2	<u>886,698</u>	<u>1,465,906</u>

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**21. Costs of programmes (Section 2)**

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
Development of the regulatory framework for activities in the Area (Programme 2.1)	93,410	-
Protection of the marine environment (Programme 2.2)	112,875	-
Management of contracts (Programme 2.3)	14,284	-
Data management (resource and environment) (Programme 2.4)	116,987	-
Promotion and encouragement of marine scientific research in the Area (Programme 2.5)	1,890	-
Outreach activities (Programme 2.6)	80,303	-
	<u>419,749</u>	<u>-</u>

**22. Prior year's contributions received by 31 December**

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
These amounts relate to prior year's assessed contributions received by 31 December	<u>138,061</u>	<u>535,845</u>

**23. Savings from prior periods' obligations**

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
These amounts represent provisions made in previous periods that were no longer required	<u>469,704</u>	<u>24,625</u>

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(expressed in United States dollars unless otherwise indicated)

**24. Related party transactions**

Related parties to the Authority with the ability to exercise significant influence over the Authority's financial and operating decisions. For the Authority, these include: key management personnel and close members of the family of key management personnel, identified as the Secretary General and members of the ISA Senior Management Group, namely Deputy to the Secretary-General/ Legal Counsel; Director of Office of Environmental Management and Mineral Resources; and Director of Office of Administrative Services. The total remuneration, the number of individuals and any loans are as follows:

Key management:

	2017 US\$
Compensation and post adjustments	651,636
Other entitlements	88,570
Pension plan and health benefits	159,398
Total remuneration	<u>899,604</u>
Number of individuals	<u>4</u>

**25. Financial risk management**

The Authority's principal financial instruments comprise contributions receivable, cash and short term deposits and other payables. The main risks arising from the Authority's financial instruments are credit risk, liquidity risk, foreign currency risk and interest rate risk. Those charged with governance are responsible for managing the risks summarized below:

**Credit risk**

Credit risk is the risk of financial loss to the Authority if customers or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from the Authority's members assessed contribution receivables, other receivables and cash and cash equivalents. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 31 December was:

	2017 US\$	2016 US\$
Members assessed contributions receivable	1,017,560	-
Other receivables	1,322,468	1,431,395
Cash and cash equivalents	5,475,913	7,778,020
	<u>7,815,941</u>	<u>9,209,415</u>

**INTERNATIONAL SEABED AUTHORITY**  
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**25. Financial risk management (continued)**

**Credit risk (continued)**

The Authority does not have credit risk associated with exchange transactions. Receivables represent the unpaid contributions or unpaid part of contributions from the member states which is governed by the membership rules. Whilst there is a risk of memberships not paying contributions, the Authority believes that as these are sovereign debt, the amounts are collectible. Provisions for these receivables are indicated in Note 5.

**Liquidity risk**

Liquidity risk is the risk that the entity will encounter difficulty in raising funds to meet its commitments. The Authority's activities are funded by the contributions received by its member states. The compliance rate is usually adequate to meet the funding needs of the Authority and as a result liquidity risk is considered low.

**Foreign currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Authority had no significant foreign currency exposure and an insignificant portion of its expenses are in Jamaican dollars. Contributions and other relevant activities are incurred in US Dollars. Jamaican Dollars (JMD) for payment of local staff salaries and other local purchases. The US Dollars held are converted to JMD on an as-needed basis, therefore exchange rate risk is minimal.

**Interest rate risk**

Interest rate risk is risk that the value of a financial instrument will fluctuate due to changes in market interest rates. At the statement of financial position date, the Authority had no significant exposure to interest rate risk as the cash and cash equivalents held bear minimal interest rates and the Authority has no borrowings.

**Fair value**

The following methods and assumptions have been used in determining the fair values of financial assets and financial liabilities:

- The carrying amounts included in the financial statements for cash and bank balances, members assessed contribution receivables and other receivables and other payables are assumed to approximate their fair values due to the short-term maturity of these instruments.

Fair value measurements recognized in the Statement of Financial Position:

There were no financial instruments that were measured subsequent to initial recognition at fair value or for which fair value disclosures are required that would be significant to the financial instruments held by the Authority.

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**General Administration Fund**

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(expressed in United States dollars unless otherwise indicated)

**26. Other funds**

**(a) Working Capital Fund**

Contributions to the Authority's Working Capital Fund as at 31 December 2017 totaled US\$579,226 (2016: US\$559,016). The authorized ceiling of this fund was increased from US\$560,000 to US\$660,000 in 2016 (ISBA/22/A/13). Outstanding contributions totaled the amount of US\$80,774 (2016: US\$983 against the former ceiling of US\$560,000). No funds were drawn from the Working Capital Fund for operational purposes in 2017. Interest earned on the fund balance was transferred to the General Administrative Fund as miscellaneous income, in accordance with the Authority's Financial Regulations 5.4.

**(b) Endowment Fund**

The Assembly at the 12th Session of the Authority requested the Secretary-General to establish a general account to be known as the Endowment Fund for Marine Scientific Research in the Area. It was also decided that the initial capital of the fund should consist of the balance remaining as at 18 August 2006 from the application fees paid by the registered Pioneer Investors together with interest accrued thereon. On 25 September 2009, the FDR Germany approved the transfer of the fees paid on 20 December 2005 plus interest accrued thereon to the Endowment Fund.

**Endowment Fund**

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Opening balance	3,506,850	3,482,279
Contributions	-	7,500
Interest income	48,072	27,571
Short-term loan from ISA	-	12,000
Less: Expenses	<u>(22,025)</u>	<u>(22,500)</u>
Ending Balance	<u>3,532,897</u>	<u>3,506,850</u>



**INTERNATIONAL SEABED AUTHORITY**  
**General Administration Fund**

Notes to the Financial Statements  
**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

**26. Other funds (continued)**

**(c) Voluntary Trust Fund**

The Voluntary Trust Fund (VTF) consists of two funds. The first fund was established in 2002 for the purposes of defraying the cost of participation of members of the Legal and Technical Commission (LTC) and the Finance Committee from developing countries in meetings of the Commission and the Committee.

The movement of the first Voluntary Fund during the year:

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Opening balance	129,415	209,666
Contributions	27,017	25,000
Interest income	806	1,766
Less: Expenses	(121,819)	(107,017)
	<u>35,419</u>	<u>129,415</u>
Ending Balance	<u>35,419</u>	<u>129,415</u>

The second Voluntary Trust Fund was established in 2017 for the purposes of defraying the cost of participation of members of the Council in their meetings. As at the year end the balance of the Voluntary Fund was made of voluntary contribution of \$20,000. No expenditure incurred in 2017 under this fund.

The movement of the second Voluntary Trust Fund during the year:

	<b>2017</b>
	<b>US\$</b>
Opening balance	-
Contribution	20,000
Less: Expenses	-
Ending Balance	<u>20,000</u>

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Notes to the Financial Statements

**31 December 2017**

(expressed in United States dollars unless otherwise indicated)

**26. Other funds (continued)**

**(d) Polymetallic Nodules Exploration Application Fees**

The additional expenditures attributable to the processing of the application for exploration of Polymetallic Nodules from China Minmetals Corporation in 2017 amounted to US\$38,111 (2016 – US\$124,581), which was credited to the Authority and recognized as miscellaneous income payable to the General Administrative Funds (GAF).

The full amount (2016: \$124,581) that was recognized as miscellaneous income was used to meet the over expenditure incurred in the financial year 2017 (2016: \$111,413) as a result of processing the plans of work for exploration in line with the recommendations of ISBA/18/FC/5 Paragraph 10.

	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
Polymetallic Nodules exploration application fees		
Principal	500,000	750,000
Interest	866	2,816
	<u>500,866</u>	<u>752,816</u>
Total principal and interest	500,866	752,816
Net amount recognized as miscellaneous income to the Authority brought forward	(631,321)	(1,373,950)
Miscellaneous income transferred to the General Administrative Fund bank account in the current year	413,560	867,210
Net amount recognized as miscellaneous income to the Authority (note 18)	-	13,168
Miscellaneous income applied to expenses incurred to process applications	(38,111)	(111,413)
Total amount miscellaneous income receivable at year end (note 6)	<u>(255,872)</u>	<u>(631,321)</u>
	<u>244,994</u>	<u>121,495</u>

**(e) Polymetallic Sulphides Exploration Application Fees**

The additional expenditures attributable to the processing of the applications for exploration Polymetallic Sulphides from the Government of India for US\$7,189 (2016: \$77,371) and the Government of Poland for US\$219,514 (2016: Nil) were credited to the Authority and recognised as miscellaneous income payable to the General Administrative Funds (GAF).

Out of the total gross amount of US\$226,703 (2016: US\$77,371) that was recognized as miscellaneous income, the amount of US\$86,361 (2016: US\$74,174) was used to meet the over expenditure incurred in the financial year 2017 as a result of processing the plans of work for exploration in line with the recommendations of ISBA/18/FC/5 Paragraph 10, leaving a net miscellaneous income amount of US\$142,342 (2016 - \$3,196).

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(expressed in United States dollars unless otherwise indicated)

**26. Other funds (continued)**

**(e) Polymetallic Sulphides Exploration Application Fees (continued)**

	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Polymetallic Sulphides exploration application fees		
Principal	800,000	250,000
Interest	1,909	600
Total principal and interest	<u>801,909</u>	<u>250,600</u>
Net amount recognized as miscellaneous income to the Authority brought forward	(1,417)	(403,065)
Miscellaneous income transferred to the General Administrative Fund bank account in the current year	2,685	479,019
Net amount recognized as miscellaneous income to the Authority (note 18)	(143,342)	(3,196)
Miscellaneous income applied to expenses incurred to process applications	<u>(83,361)</u>	<u>(74,175)</u>
Total amount miscellaneous income receivable at year end (note 6)	<u>(225,435)</u>	<u>(1,417)</u>
	<u>576,474</u>	<u>249,183</u>

**(f) Cobalt-Rich Ferromanganese Crusts Exploration Application Fees**

The additional expenditures attributable to the processing of the applications for exploration of Cobalt-rich ferromanganese crusts from the Government of Korea in the amount of US\$1,226 (2016: \$407,410) were credited to the Authority as miscellaneous income payable to the General Administrative Funds (GAF). This full amount (2016: \$407,410) was used to meet the over expenditure incurred in the financial year 2017 as a result of processing the plans of work for exploration in line with the recommendations of ISBA/18/FC/5 Paragraph 10.

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Polymetallic Sulphides exploration application fees		
Principal	500,000	500,000
Interest	1,668	553
Total principal and interest	<u>501,668</u>	<u>500,553</u>
Net amount recognized as miscellaneous income to the Authority brought forward	(407,410)	-
Miscellaneous income transferred to the General Administrative Fund bank account in the current year	-	-
Net amount recognized as miscellaneous income to the Authority (note 18)	-	-
Miscellaneous income applied to expenses incurred to process applications	<u>(1,226)</u>	<u>(407,410)</u>
Total amount miscellaneous income receivable at year end (note 6)	<u>(408,636)</u>	<u>(407,410)</u>
	<u>93,032</u>	<u>93,143</u>



**INTERNATIONAL SEABED AUTHORITY**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

**(Expressed in United States Dollars)**



# International Seabed Authority

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