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## Independent auditor's reports (FY2017 & FY2018)

PREPARED BY: IPHC SECRETARIAT (M. LARSEN & D. WILSON; 21 DECEMBER 2018)

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### PURPOSE

To provide the Commission with the Auditors Report for FY2017, and process for FY2018, as per Regulation 14 of the IPHC Financial Regulations (2018). In addition, the report provides information on past audit costs and recommendation for appointment of the auditor for FY2019.

### FY2017 AUDIT REPORT

The 2017 Audit was completed 20 December 2018. The Audit Report is provided at **Appendix I**. Two additional communications to Commissioners (i.e. board members) from the auditor are also part of standard procedures. The first letter is regarding governance and audit findings (**Appendix II**). There were no significant findings during the 2017 audit. The second letter details a review of internal financial controls at the Secretariat (**Appendix III**). Two deficiencies were noted.

The first item relates to the submission and completion of the audit in a timely fashion. It should be noted this was a transitional issue with the change in accounting systems, and will be corrected moving forward. Specifically, for FY2018 (ending 30 September 2018) files for auditing were due to be submitted to the auditors no later than 29 November 2018. These documents were submitted on 21 December 2018, following completion of the FY2017 audit.

The second item noted is a need for additional separation of duties, more granular controls in the payroll process. This issue will be partially addressed by 1 March 2019, by incorporating Executive review of items such as payroll, and the separation of finances and contracts, prior to each pay period. It should be noted that complete separation of duties is a common issue with organizations with a small administrative staff, but must still be addressed.

### FY2018 AUDIT REPORT

The 2017 audit is scheduled for late December 2018 and throughout January 2019 and the report will be available for distribution and approval at the Annual Meeting (AM095).

### APPROVAL OF AUDITOR FOR FY2018 AUDIT AND REPORT

The auditing firm of MKD CPAs PPLC will be closing at the end of the 2018 with the current principals retiring. Our current auditor and team will be continuing under the new firm name of Sabey CPA PPLC (**Appendix IV**).

The IPHC Financial Regulations (Section 14.1) requires the IPHC Finance and Administration Committee (FAC) to annually recommend an auditor to the Commission for approval, for the subsequent audit and on a three-year term.

In 2015 at the IPHC Annual Meeting the Commission approved MKD CPAs PPLC (Seattle, WA) as the auditor on a three-year basis beginning with the audit of the FY2015 IPHC financial

statements. The cost in FY2017 for the audit and submission of IRS 990 annual return was \$6,950 USD.

The IPHC Secretariat has conducted an RFP process the past two terms with no significant interest or expertise from other local Seattle firms. Other submissions were at twice the cost of the current auditor or declined to submit due to the status of the IPHC as an International Governmental Organization. Recommend that the IPHC engage with Sabey CPA, PLLC as a the successor to MKD CPAs PLLC. This will not result in a change in auditor personnel or process.

#### **AUDIT EXPENSE HISTORY**

| <u>Audit Year</u> | <u>Expense</u> |
|-------------------|----------------|
| FY2015            | \$7,975        |
| FY2016            | \$6,950        |
| FY2017            | PENDING        |

#### **RECOMMENDATIONS**

That the Commission:

- 1) **NOTE** paper IPHC-2019-AM095-17 which provided the Independent Auditors Reports per Regulation 14 of the IPHC Financial Regulations (2018). In addition, the report provides information on past audit costs and recommendation for appointment of the auditor for FY2019.
- 2) **APPROVE** Appendix I, which provides the Commission with the FY2017 audit report.
- 3) **ENDORSE** the re-appointment of MKD CPAs PLLC (Seattle, WA) as the IPHC auditor for the FY2019 audit of the IPHC financial statements.

#### **Appendices**

[Appendix I](#): FY2017 Audit Report

Appendix II: Governance Letter to Management (au-c 260 letter)

Appendix III: Letter of identified Significant Deficiencies in Internal Controls (au-c 265 letter)

Appendix IV: MKD CPAs PLLC transition to Sabey CPA PLLC letter

APPENDIX I

**INTERNATIONAL PACIFIC HALIBUT COMMISSION**

**FINANCIAL STATEMENTS  
(AUDITED)**

**SEPTEMBER 30, 2017 AND 2016**



## INDEPENDENT AUDITOR'S REPORT

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To the Commissioners  
International Pacific Halibut Commission  
Seattle, Washington

We have audited the accompanying special purpose Statement of Revenues and Expenses (Compared to Budget) & Fund Balances – Regulatory Basis, of the International Pacific Halibut Commission (a nonprofit organization), which comprise the statements of revenues and expenses (compared to budget) & fund balances – regulatory basis as of September 30, 2017 and 2016, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting practices prescribed or permitted by the governments of the United States of America and Canada. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of revenues and expenses (compared to budget) & fund balances – regulatory basis of International Pacific Halibut Commission as of September 30, 2017 and 2016, for the years then ended, in accordance with the financial reporting practices prescribed or permitted by the governments of the United States of America and Canada as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1, these financial statements were prepared in conformity with the financial reporting practices prescribed or permitted by the governments of the United States of America and Canada, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the governments of the United States of America and Canada. Our opinion is not modified with respect to this matter.

**Restriction of Use**

Our report is intended solely for the information and use of the commissioners and management of International Pacific Halibut Commission and is not intended to be and should not be used by anyone other than these specified parties.



MKD CPAs, PLLC  
Seattle, Washington  
December 20, 2018

**INTERNATIONAL PACIFIC HALIBUT COMMISSION**  
**STATEMENT OF REVENUES AND EXPENSES (COMPARED TO BUDGET) & FUND BALANCES – REGULATORY BASIS**  
**YEAR ENDED SEPTEMBER 30, 2017**

| INCOME                                   | APPROP. BUDGET        | SUPPLEM. FUND<br>BUDGET | TOTAL BUDGET        | APPROP. INCOME &<br>EXPENSE | SUPPLEM. FUNDS<br>INCOME & EXPENSE | TOTAL INCOME /<br>EXPENSE | PERCENT OF<br>BUDGET | OVER (UNDER)<br>BUDGET |
|--|-----------------------|-------------------------|---------------------|-----------------------------|------------------------------------|---------------------------|----------------------|------------------------|
| CONTRIBUTION FROM CANADA                 | \$ 944,228            | \$ -                    | \$ 944,228          | \$ 1,507,704                | \$ -                               | \$ 1,507,704              | 160%                 | \$ 563,476             |
| CONTRIBUTION FROM THE USA                | 4,150,000             | -                       | 4,150,000           | 4,160,000                   | -                                  | 4,160,000                 | 100%                 | 10,000                 |
| INTEREST                                 | 5,000                 | 1,125                   | 6,125               | 3,054                       | 15,656                             | 18,710                    | 305%                 | 12,585                 |
| INTEREST - RESTRICTED ACCOUNTS           | -                     | 19,417                  | 19,417              | -                           | 16,517                             | 16,517                    | 85%                  | (2,900)                |
| OTHER INCOME                             | -                     | 682,984                 | 682,984             | 275                         | 627,198                            | 627,473                   | 92%                  | (55,511)               |
| FISH SALES REVENUE                       | -                     | 3,978,654               | 3,978,654           | -                           | 3,775,013                          | 3,775,013                 | 95%                  | (203,641)              |
| <b>TOTAL INCOME</b>                      | <b>5,099,228</b>      | <b>4,682,180</b>        | <b>9,781,408</b>    | <b>5,671,033</b>            | <b>4,434,384</b>                   | <b>10,105,417</b>         | <b>103%</b>          | <b>324,009</b>         |
| CARRYOVER APPROPRIATIONS                 | 249,936               | -                       | 249,936             | 249,936                     | -                                  | 249,936                   | 100%                 | -                      |
| CARRYOVER SUPPLEMENTAL FUNDS             | -                     | 4,813,335               | 4,813,335           | -                           | 4,813,335                          | 4,813,335                 | 100%                 | -                      |
| TRANSFER BETWEEN FUNDS                   | -                     | -                       | -                   | -                           | 230,410                            | 230,410                   | -                    | 230,410                |
| <b>TOTAL FUNDS AVAILABLE</b>             | <b>5,349,164</b>      | <b>9,495,515</b>        | <b>14,844,679</b>   | <b>5,920,969</b>            | <b>9,478,129</b>                   | <b>15,399,098</b>         | <b>104%</b>          | <b>554,419</b>         |
| <b>GENERAL EXPENSES</b>                  |                       |                         |                     |                             |                                    |                           |                      |                        |
| SALARIES                                 | 3,531,691             | -                       | 3,531,691           | 3,568,602                   | -                                  | 3,568,602                 | 101%                 | 36,911                 |
| BENEFITS                                 | 1,074,645             | -                       | 1,074,645           | 1,571,588                   | -                                  | 1,571,588                 | 146%                 | 496,943                |
| PAYROLL TAXES                            | 256,723               | -                       | 256,723             | 245,789                     | -                                  | 245,789                   | 96%                  | (10,934)               |
| RELOCATION EXPENSES                      | 41,000                | -                       | 41,000              | 3,098                       | -                                  | 3,098                     | 8%                   | (37,902)               |
| EMPLOYEE RELATED EXPENSES                | 36,625                | -                       | 36,625              | 16,265                      | -                                  | 16,265                    | 44%                  | (20,360)               |
| RESTRICTED ACCT: MEDICAL ANNUITANTS      | -                     | 92,500                  | 92,500              | -                           | 234,250                            | 234,250                   | -                    | 141,750                |
| RESTRICTED ACCT: SCHOLARSHIP             | -                     | 8,150                   | 8,150               | -                           | 6,175                              | 6,175                     | 76%                  | (1,975)                |
| OCCUPATION INSURANCE                     | 58,350                | -                       | 58,350              | 6,194                       | -                                  | 6,194                     | 11%                  | (52,156)               |
| <b>TOTAL GENERAL EXPENSES</b>            | <b>4,999,034</b>      | <b>100,650</b>          | <b>5,099,684</b>    | <b>5,411,536</b>            | <b>240,425</b>                     | <b>5,651,961</b>          | <b>111%</b>          | <b>552,277</b>         |
| <b>PROGRAM EXPENSES</b>                  |                       |                         |                     |                             |                                    |                           |                      |                        |
| MEETINGS/CONFERENCES                     | 200,250               | -                       | 200,250             | 194,256                     | -                                  | 194,256                   | 97%                  | (5,994)                |
| TRAVEL                                   | 210,797               | -                       | 210,797             | 208,804                     | -                                  | 208,804                   | 99%                  | (1,993)                |
| COMMUNICATIONS                           | 163,054               | -                       | 163,054             | 152,875                     | -                                  | 152,875                   | 94%                  | (10,179)               |
| PRINTING & BINDING                       | 61,000                | -                       | 61,000              | 43,095                      | -                                  | 43,095                    | 71%                  | (17,905)               |
| ADMINISTRATION                           | 4,911,125             | 250                     | 4,911,375           | 4,347,271                   | 186                                | 4,347,457                 | 89%                  | (563,918)              |
| BUILDING MAINTENANCE                     | 95,566                | -                       | 95,566              | 101,725                     | -                                  | 101,725                   | 106%                 | 6,159                  |
| PRIOR YEAR                               | -                     | -                       | -                   | 27,747                      | -                                  | 27,747                    | -                    | 27,747                 |
| SUPPLIES                                 | 981,720               | -                       | 981,720             | 1,003,057                   | -                                  | 1,003,057                 | 102%                 | 21,337                 |
| CAPITAL ACQUISITIONS                     | 116,020               | -                       | 116,020             | 73,355                      | -                                  | 73,355                    | 63%                  | (42,665)               |
| <b>TOTAL PROGRAM EXPENSES</b>            | <b>6,739,532</b>      | <b>250</b>              | <b>6,739,782</b>    | <b>6,152,185</b>            | <b>186</b>                         | <b>6,152,371</b>          | <b>91%</b>           | <b>(587,411)</b>       |
| <b>TRANSFERS</b>                         | <b>-</b>              | <b>-</b>                | <b>-</b>            | <b>(5,891,688)</b>          | <b>5,891,688</b>                   | <b>-</b>                  | <b>-</b>             | <b>-</b>               |
| <b>TOTAL EXPENDITURES</b>                | <b>11,738,566</b>     | <b>100,900</b>          | <b>11,839,466</b>   | <b>5,672,033</b>            | <b>6,132,299</b>                   | <b>11,804,332</b>         | <b>100%</b>          | <b>(35,134)</b>        |
| <b>EXCESS REVENUES OVER EXPENDITURES</b> | <b>\$ (6,389,402)</b> | <b>\$ 9,394,615</b>     | <b>\$ 3,005,213</b> | <b>\$ 248,936</b>           | <b>\$ 3,345,830</b>                | <b>\$ 3,594,766</b>       |                      |                        |

See accompanying notes.

**INTERNATIONAL PACIFIC HALIBUT COMMISSION**  
**STATEMENT OF REVENUES AND EXPENSES (COMPARED TO BUDGET) & FUND BALANCES – REGULATORY BASIS**  
**YEAR ENDED SEPTEMBER 30, 2016**

| INCOME                                   | APPROP. BUDGET        | SUPPLEM. FUND<br>BUDGET | TOTAL BUDGET        | APPROP. INCOME &<br>EXPENSE | SUPPLEM. FUNDS<br>INCOME & EXPENSE | TOTAL INCOME /<br>EXPENSE | PERCENT OF<br>BUDGET | OVER (UNDER)<br>BUDGET |
|--|-----------------------|-------------------------|---------------------|-----------------------------|------------------------------------|---------------------------|----------------------|------------------------|
| CONTRIBUTION FROM CANADA                 | \$ 944,228            | \$ -                    | \$ 944,228          | \$ 974,228                  | \$ -                               | \$ 974,228                | 103%                 | \$ 30,000              |
| CONTRIBUTION FROM THE USA                | 4,200,000             | -                       | 4,200,000           | 4,150,000                   | -                                  | 4,150,000                 | 99%                  | (50,000)               |
| INTEREST                                 | 5,000                 | 1,125                   | 6,125               | 2,045                       | 1,585                              | 3,630                     | 59%                  | (2,495)                |
| INTEREST - RESTRICTED ACCOUNTS           | -                     | 2,727                   | 2,727               | -                           | 7,756                              | 7,756                     | 284%                 | 5,029                  |
| OTHER INCOME                             | -                     | 664,549                 | 664,549             | 44                          | 658,615                            | 658,659                   | 99%                  | (5,890)                |
| FISH SALES REVENUE                       | -                     | 3,988,171               | 3,988,171           | -                           | 4,695,017                          | 4,695,017                 | 118%                 | 706,846                |
| <b>TOTAL INCOME</b>                      | <b>5,149,228</b>      | <b>4,656,572</b>        | <b>9,805,800</b>    | <b>5,126,317</b>            | <b>5,362,973</b>                   | <b>10,489,290</b>         | <b>107%</b>          | <b>683,490</b>         |
| CARRYOVER APPROPRIATIONS                 | 259,936               | -                       | 259,936             | 249,936                     | -                                  | 249,936                   | 96%                  | (10,000)               |
| CARRYOVER SUPPLEMENTAL FUNDS             | -                     | 4,435,212               | 4,435,212           | -                           | 4,435,212                          | 4,435,212                 | 100%                 | -                      |
| TRANSFER BETWEEN FUNDS                   | -                     | (625,000)               | (625,000)           | -                           | 5,949                              | 5,949                     | -                    | 630,949                |
| <b>TOTAL FUNDS AVAILABLE</b>             | <b>5,409,164</b>      | <b>8,466,784</b>        | <b>13,875,948</b>   | <b>5,376,253</b>            | <b>9,804,134</b>                   | <b>15,180,387</b>         | <b>109%</b>          | <b>1,304,439</b>       |
| <b>GENERAL EXPENSES</b>                  |                       |                         |                     |                             |                                    |                           |                      |                        |
| SALARIES                                 | 3,370,932             | -                       | 3,370,932           | 3,226,440                   | -                                  | 3,226,440                 | 96%                  | (144,492)              |
| BENEFITS                                 | 1,092,762             | -                       | 1,092,762           | 1,060,020                   | -                                  | 1,060,020                 | 97%                  | (32,742)               |
| PAYROLL TAXES                            | 246,627               | -                       | 246,627             | 228,170                     | -                                  | 228,170                   | 93%                  | (18,457)               |
| RELOCATION EXPENSES                      | 86,400                | -                       | 86,400              | 47,018                      | -                                  | 47,018                    | 54%                  | (39,382)               |
| EMPLOYEE RELATED EXPENSES                | 87,291                | -                       | 87,291              | 139,719                     | -                                  | 139,719                   | 160%                 | 52,428                 |
| RESTRICTED ACCT: MEDICAL ANNUITANTS      | -                     | 77,701                  | 77,701              | -                           | -                                  | -                         | 0%                   | (77,701)               |
| RESTRICTED ACCT: SCHOLARSHIP             | -                     | 8,150                   | 8,150               | -                           | 12,150                             | 12,150                    | 149%                 | 4,000                  |
| OCCUPATION INSURANCE                     | 17,500                | -                       | 17,500              | 11,618                      | -                                  | 11,618                    | 66%                  | (5,882)                |
| <b>TOTAL GENERAL EXPENSES</b>            | <b>4,901,512</b>      | <b>85,851</b>           | <b>4,987,363</b>    | <b>4,712,985</b>            | <b>12,150</b>                      | <b>4,725,135</b>          | <b>95%</b>           | <b>(262,228)</b>       |
| <b>PROGRAM EXPENSES</b>                  |                       |                         |                     |                             |                                    |                           |                      |                        |
| MEETINGS/CONFERENCES                     | 218,870               | -                       | 218,870             | 144,662                     | -                                  | 144,662                   | 66%                  | (74,208)               |
| TRAVEL                                   | 196,950               | -                       | 196,950             | 158,272                     | -                                  | 158,272                   | 80%                  | (38,678)               |
| COMMUNICATIONS                           | 161,768               | -                       | 161,768             | 143,878                     | -                                  | 143,878                   | 89%                  | (17,890)               |
| PRINTING & BINDING                       | 65,000                | -                       | 65,000              | 31,784                      | -                                  | 31,784                    | 49%                  | (33,216)               |
| ADMINISTRATION                           | 4,416,966             | 250                     | 4,417,216           | 4,041,387                   | 212                                | 4,041,599                 | 91%                  | (375,617)              |
| BUILDING MAINTENANCE                     | 93,452                | -                       | 93,452              | 101,596                     | -                                  | 101,596                   | 109%                 | 8,144                  |
| PRIOR YEAR AND VESSEL EXPENSES           | -                     | -                       | -                   | 23,280                      | -                                  | 23,280                    | 0%                   | 23,280                 |
| SUPPLIES                                 | 848,827               | -                       | 848,827             | 700,390                     | -                                  | 700,390                   | 83%                  | (148,437)              |
| CAPITAL ACQUISITIONS                     | 92,840                | -                       | 92,840              | 46,520                      | -                                  | 46,520                    | 50%                  | (46,320)               |
| <b>TOTAL PROGRAM EXPENSES</b>            | <b>6,094,673</b>      | <b>250</b>              | <b>6,094,923</b>    | <b>5,391,769</b>            | <b>212</b>                         | <b>5,391,981</b>          | <b>88%</b>           | <b>(702,942)</b>       |
| <b>TRANSFERS</b>                         | <b>-</b>              | <b>-</b>                | <b>-</b>            | <b>(4,978,437)</b>          | <b>4,978,437</b>                   | <b>-</b>                  | <b>-</b>             | <b>-</b>               |
| <b>TOTAL EXPENDITURES</b>                | <b>10,996,185</b>     | <b>86,101</b>           | <b>11,082,286</b>   | <b>5,126,317</b>            | <b>4,990,799</b>                   | <b>10,117,116</b>         | <b>91%</b>           | <b>(965,170)</b>       |
| <b>EXCESS REVENUES OVER EXPENDITURES</b> | <b>\$ (5,587,021)</b> | <b>\$ 8,380,683</b>     | <b>\$ 2,793,662</b> | <b>\$ 249,936</b>           | <b>\$ 4,813,335</b>                | <b>\$ 5,063,271</b>       |                      |                        |

See accompanying notes.

**INTERNATIONAL PACIFIC HALIBUT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of the Organization*

The International Pacific Halibut Commission (the Commission) is an International Governmental Organization (IGO) created in 1923 by a convention between the United States and Canada to manage the Pacific halibut fishery. Each country appoints three Commissioners who in turn appoint an Executive Director to supervise the administrative and scientific staff.

The Commission conducts scientific studies on halibut and, after consultation with the industry, proposes annual regulations to the governments of the United States and Canada for the halibut fishery. Fishermen of both countries must comply with the adopted regulations under the supervision of the Federal enforcement agencies of their respective governments. All financial records are denominated in U.S. dollars.

The Commission has adopted a fiscal year ending September 30.

*Basis of Presentation*

The Commission has adopted a basis of accounting agreed to by the governments of the United States and Canada. The basis of accounting differs in certain respects from generally accepted accounting principles and is known as "other comprehensive basis of accounting" OCBOA, which is a special purpose framework. The following are the most significant differences:

1. Revenues are recorded in the fiscal year when appropriated by the governments of Canada and the United States and expenditures are recorded in the fiscal year in which the funds are committed by the Commission.
2. Fixed assets are charged to expenditures in the current year and are not capitalized.
3. Vacations and severance pay are charged to expenses when paid.
4. Pension costs are charged to expense when funds necessary to fund the employer's normal pension costs are paid. Certain disclosures of pension costs required by generally accepted accounting principles are not included in the notes to the financial statements.
5. Post-retirement health care and life insurance costs are charged to expense when the related premiums are paid. Certain disclosures required by generally accepted accounting principles are not included in the notes to the financial statements.
6. Rent expense related to operating leases is expensed when paid and is not recognized on a straight-line basis over the life of the lease. Contributions of free rents are not recognized in the financial statements.

*Income Taxes*

The Commission is exempt from U. S. Federal income taxes under provisions of the International Organizations Immunities Act (Public Law 79-291). However, the Commission files Internal Revenue Service Form 990 in order to be able to have a US Internal Revenue Code section 403B retirement plan for its employees.

Management has not yet prepared and filed the September 30, 2017 Form 990 with the IRS, which was extended and due August 15, 2018. Any penalties and related interest as a result of this late filing are not included in these financial statements.



**INTERNATIONAL PACIFIC HALIBUT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Subsequent Events

The Commission has performed an evaluation of subsequent events through December 20, 2018, which is the date the financial statements were available to be issued and has determined that there are no subsequent events that require disclosure.

**NOTE 2 APPROPRIATED AND SUPPLEMENTAL FUNDS**

The Commission's operations are funded by the governments of the United States and Canada. The Commission receives advances from each government during its fiscal year unless otherwise recommended by the Commission.

Changes in each country's share of the Appropriated Funds at year ended September 30 are as follows:

|                                 | 2017                 |                        |                   |
|---------------------------------|----------------------|------------------------|-------------------|
|                                 | United States        | Canada                 | Total             |
| Fund Balance, Beginning of Year | \$ 16,719,319        | \$ (16,469,383)        | \$ 249,936        |
| Advances, Net                   | 4,160,000            | 1,507,704              | 5,667,704         |
| IPHC Headquarter Maintenance    | (366,375)            | -                      | (366,375)         |
| Interest                        | 1,527                | 1,527                  | 3,054             |
| Other income                    | 138                  | 137                    | 275               |
| Commission Expense              | (2,652,829)          | (2,652,829)            | (5,305,658)       |
| <br>                            |                      |                        |                   |
| Fund Balance, End of Year       | <u>\$ 17,861,780</u> | <u>\$ (17,612,844)</u> | <u>\$ 248,936</u> |
|                                 |                      |                        |                   |
|                                 | 2016                 |                        |                   |
|                                 | United States        | Canada                 | Total             |
| Fund Balance, Beginning of Year | \$ 15,311,849        | \$ (15,061,913)        | \$ 249,936        |
| Advances, Net                   | 4,150,000            | 974,227                | 5,124,227         |
| IPHC Headquarter Maintenance    | (360,833)            | -                      | (360,833)         |
| Interest                        | 1,022                | 1,022                  | 2,044             |
| Other Income                    | 23                   | 23                     | 46                |
| Commission Expense              | (2,382,742)          | (2,382,742)            | (4,765,484)       |
| <br>                            |                      |                        |                   |
| Fund Balance, End of Year       | <u>\$ 16,719,319</u> | <u>\$ (16,469,383)</u> | <u>\$ 249,936</u> |

The Commission also maintains a Supplemental Fund. Revenues for this fund arise from the sale of fish which are caught during research studies and from external contracts and grants. The Supplemental Fund is used for specific scientific programs.

**INTERNATIONAL PACIFIC HALIBUT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 2      APPROPRIATED AND SUPPLEMENTAL FUNDS (CONTINUED)**

At year end September 30, fund balances were comprised of:

|                                | 2017              |                   |              |
|--------------------------------|-------------------|-------------------|--------------|
|                                | Appropriated Fund | Supplemental Fund | Total        |
| Cash Checking                  | \$ (403,558)      | \$ 2,546,488      | \$ 2,142,930 |
| Cash on Hand                   | 160               | -                 | 160          |
| Investments - Undesignated     | 500,000           | 1,250,000         | 1,750,000    |
| Investments - Designated       | -                 | 2,050,081         | 2,050,081    |
| Accounts Receivable            | 484,216           | 838,606           | 1,322,822    |
| Deposits                       | 11,880            | -                 | 11,880       |
| Prepaid Expenses               | 53,902            | -                 | 53,902       |
| Advance (from)/to Supplemental | 1,039,264         | (1,039,264)       | -            |
| Advance (from)/to Canada       |                   |                   |              |
| Appropriations                 | (270,516)         | -                 | (270,516)    |
| Accounts Payable               | (1,166,412)       | (425,035)         | (1,591,447)  |
| Fund balance                   | \$ 248,936        | \$ 5,220,876      | \$ 5,469,812 |
| Fund Balance                   |                   |                   |              |
| Designated                     | -                 | 1,875,046         | 1,875,046    |
| Undesignated                   | 248,936           | 3,345,830         | 3,594,766    |
| Fund Balance                   | \$ 248,936        | \$ 5,220,876      | \$ 5,469,812 |
|                                |                   | 2016              |              |
|                                | Appropriated Fund | Supplemental Fund | Total        |
| Cash Checking                  | \$ 284,790        | \$ 2,233,605      | \$ 2,518,395 |
| Cash on Hand                   | 160               | -                 | 160          |
| Investments - Undesignated     | 375,000           | 2,000,000         | 2,375,000    |
| Investments - Designated       | -                 | 2,283,739         | 2,283,739    |
| Accounts Receivable            | 361,101           | 800,839           | 1,161,940    |
| Deposits                       | 13,138            | -                 | 13,138       |
| Prepaid Expenses               | 32,128            | -                 | 32,128       |
| Advance (from)/to Supplemental | 221,109           | (221,109)         | -            |
| Advance (from)/to Canada       |                   |                   |              |
| Appropriations                 | (270,516)         | -                 | (270,516)    |
| Accounts Payable               | (766,974)         | (178,283)         | (945,257)    |
| Fund Balance                   | \$ 249,936        | \$ 6,918,791      | \$ 7,168,727 |
| Fund Balance                   |                   |                   |              |
| Designated                     | -                 | 2,105,456         | 2,105,456    |
| Undesignated                   | 249,936           | 4,813,335         | 5,063,271    |
| Fund Balance                   | \$ 249,936        | \$ 6,918,791      | \$ 7,168,727 |

**INTERNATIONAL PACIFIC HALIBUT COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

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**NOTE 2      APPROPRIATED AND SUPPLEMENTAL FUNDS (CONTINUED)**

The Supplemental Fund Designated Fund Balance at September 30, 2017 and 2016, respectively, is \$1,865,296 and \$2,105,456, and is for the funding of the accumulated vested vacation liability, severance leave liability, medical annuitants fund, reserve fund and scholarship fund.

**NOTE 3      EMPLOYEE BENEFITS**

Most employees of the Commission participate in a multi-employer, participatory, defined benefit pension plan (the Plan). All employers participating in the Plan are required to remain fully funded. The contribution for the years ended September 30, 2017 and 2016 was \$53,838 and \$75,401, respectively. All new employees participate in an employee sponsored 403 (b) plan. The Commission contributes a base amount of 7% of salary, plus up to 4% additional matching funds. The total amount contributed for the years ended September 30, 2017 and 2016 was \$207,171 and \$180,795, respectively.

All employees of the Commission are eligible for post-retirement healthcare benefits, provided they have been continuously employed for the five years immediately preceding their retirement. Expenses related to these post-retirement healthcare benefits for the years ended September 30, 2017 and 2016 were approximately \$117,116 and \$117,134, respectively.

**NOTE 4      COMMITMENTS AND CONTINGENCIES**

Lease

On May 20, 2010, the Commission and the US State Department concluded negotiations with the University of Washington regarding the termination of the 1968 federal grant that provided the Commission with rent free office and storage space on campus. The 'Relocation and Separation Agreement' provides the Commission with moving and necessary tenant improvements for a new office space from the University and a commitment to pay up to ten years of lease payments in lieu of the Commission receiving specific US Federal funding to offset this commitment. For the years ended September 30, 2017 and 2016, the University of Washington was responsible for a total of \$264,650 and \$259,237, respectively, in lease payments for the Commission's offices and storage. The University is also committed to assisting in securing funding for the purchase or construction of a permanent Commission headquarters, from the US Government. In exchange for these commitments the US State Department terminated the 1968 grant renewal. During the year ended September 30, 2016, the US Government appropriated the necessary funds to fully pay for the office and storage lease. The University of Washington has been invoiced for funds due from the agreement (\$67,265) and are accounted for in Accounts Receivable of the Appropriations Fund.

The Commission also leases office space in Homer and Sitka, Alaska, on a month to month basis.

Litigation

The Commission is involved in litigation arising from the normal course of business. In the Commission's management opinion, this litigation is not expected to have a material effect on the Commission's financial statements.

**INTERNATIONAL PACIFIC HALIBUT COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

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**NOTE 5      CONCENTRATION OF CREDIT RISK**

The Commission places its cash and cash equivalents with financial institutions. At times, such balances may be in excess of the Federal Deposit Insurance Corporation insured limits. The Commission believes it is not exposed to any significant credit risk on its cash accounts.

## APPENDIX II

*Certified Public Accountants*

1809 7<sup>th</sup> Avenue Tel (206) 624-7434

Suite 1300 Fax (206) 623-5694

Seattle, WA 98101

**MKD**  
**CPAs, PLLC**

December 20, 2018

To the Board of Commissioners  
International Pacific Halibut Commission

We have audited the financial statements of INTERNATIONAL PACIFIC HALIBUT COMMISSION for the year ended September 30, 2017, and have issued our report thereon dated December 20, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 20, 2018, and we have summarized this information below. Professional standards also require that we communicate to you the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 20, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with governmental basis of accounting. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We will generally communicate our significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties are encountered during the audit where assistance is needed to overcome the difficulties or if the difficulties may lead to a modified opinion. We will also communicate any internal control related matters that are required to be communicated under professional standards.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by INTERNATIONAL PACIFIC HALIBUT COMMISSION are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

- Note 1 includes the disclosure that management has not yet prepared and filed the September 30, 2017, Form 990 with the IRS, which was extended and due August 15, 2018. Any penalties and related interest as a result of this late filing are not included in these financial statements.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 20, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the use of the commissioners and management within INTERNATIONAL PACIFIC HALIBUT COMMISSION, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



MKD CPAs, PLLC  
Seattle, Washington

## APPENDIX III

*Certified Public Accountants*

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Seattle, WA 98101

**MKD**  
**CPAs, PLLC**

December 20, 2018

To the Board of Commissioners and Management  
International Pacific Halibut Commission

In planning and performing our audit of the financial statements of INTERNATIONAL PACIFIC HALIBUT COMMISSION as of and for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered INTERNATIONAL PACIFIC HALIBUT COMMISSION's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in INTERNATIONAL PACIFIC HALIBUT COMMISSION's internal control to be significant deficiencies:

1. The Organization's documented Financial Regulations state that the annual accounts shall be submitted by the Executive Director to the Auditors appointed by the Commission not later than sixty days after the end of a fiscal year (Regulation 14). However, for the second year in a row, the Organization's processes did not allow for this deadline to be met. The year-end accounts as of September 30, 2017 were not submitted to the auditor until October 24, 2018. As a result, the required annual audit was not performed on a timely basis.
2. We noted that a department of employees have both the ability and responsibility to enter in new employees and pay-rates into the HR system and into Payroll, to process payroll, to submit and approve payroll to the bank for direct deposit, and to make adjustments and reconciliations in the GL system. Generally, assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of related assets such as cash and employee data provides for more effective internal controls and less opportunities for misappropriation of assets. Human Resources is often responsible for setting up new employees in the payroll system, processing payroll data and distributing paychecks. Entering payroll data and processing paychecks should be split between Human Resources and Accounting to ensure that one person or department cannot complete the payroll cycle without scrutiny. We recommend processes be reviewed, to provide for a segregation of duties related to the payroll process.

This communication is intended solely for the information and use of the commissioners and management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

MKD CPAs, PLLC

MKD CPAs, PLLC  
Seattle, Washington  
December 20, 2018



## APPENDIX IV

*Certified Public Accountants*

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Seattle, WA 98101

Tel (206) 624-7434  
Fax (206) 623-5694

**MKD**  
**CPAs, PLLC**

November 15, 2018

Our firm founder is long past retirement age and has finally decided to slow down. As part of this transition, MKD CPAs will be closing at the end of the year. As you may know, the name MKD is an amalgamation of the initials of some current and past partners. Due to the retirement of some of those partners, and the slowing down of others, we are transitioning to new practice units. Effective January 1, 2019, I will be practicing in the firm Sabey CPA, PLLC.

I look forward to many more years serving you.

My new contact info will be:

Email: [jesse@sabeycpa.com](mailto:jesse@sabeycpa.com)

Telephone: 206-503-9241

Office: 7900 SE 28<sup>th</sup> St., Ste 500, Mercer Island, WA 98040

Mail: PO Box #53, Mercer Island, WA 98040

Please call if you have any questions.

Thank you.



Jesse Sabey, CPA