

Report of the Finance and Administration Committee

The Finance and Administration (hereafter F&A) Committee met from 09:00–13:30 hours on October 16, 2013, and from 09:00 to 11:30 on October 17, 2013, under the chairmanship of Dr. John Stein.

AGENDA ITEM 1

Opening remarks

The Chairman called the meeting to order, welcomed the participants and requested an introduction of members for each delegation. All Contracting Parties, except the United States, were present at the meeting (*F&A Endnote 1*). The US members could not attend because of the partial US federal government shutdown.

AGENDA ITEM 2

Adoption of agenda

The Committee reviewed and approved the provisional agenda without modification (*F&A Endnote 2*). Canada suggested having preliminary discussion on PICES Staff Rule 39, and it was added to the Agenda Item 14.

AGENDA ITEM 3

Audited accounts for FY 2011

Following Council's Decision 2012/A/1(ii), a 3-year contract was signed with Chartered Accountants *Hale & Hughesman* (formerly *Flader, Hale & Hughesman*) for performing the external audits for FYs 2012–2014.

The FY 2012 financial statements were submitted to the auditor on March 26, 2012. The report (*F&A Endnote 3*) was electronically circulated to all Contracting Parties on April 30, 2013. In the auditor's opinion, "*the financial statements present fairly, in all material respects, the financial position of the North Pacific Marine Science Organization as at December 31, 2012, and the results of its operations and changes in fund balances for the year then ended*". The Committee noted that the auditing process was in line with the PICES Financial Regulations (*Regulation 11(ii)* and *Regulation 13*) and recommended that the Auditor's Report be approved by Governing Council (hereafter Council).

AGENDA ITEM 4

Annual contributions

As stated in *Regulation 5(ii)* of the PICES Financial Regulations, all national contributions to PICES "*shall be considered due as of the first day of the financial year (January 1) to which they relate*". A request for payment of the 2013 annual fees was sent to all Contracting Parties on November 1, 2012. Council directed (Decision 2012/A/2(ii)) the Executive Secretary to send a letter to the Contracting Parties about the need for timely payment of annual contributions, which was sent on November 30, 2012. The Executive Secretary reported that all Contracting Parties had met their financial obligation for FY 2013. Japan and the United States paid prior to, and Canada immediately after, the due date. The Russian contribution arrived in mid-April, the Korean contribution was received in mid-May, and the Chinese contribution on October 11 (*F&A Endnote 4*). The Committee recommends that Council re-iterate the importance for all Contracting Parties to pay the Annual Fee by the January 1 deadline.

An historical analysis of annual contributions indicates that the total General Fund continues to grow faster than these contributions. In the 18 years from 1996 (when the number of Contracting Parties increased to the current six) to 2013, annual contributions have increased by approximately 44.8%. At the same time, the total

General Fund has increased by about 67.1% because additional income has allowed a significant transfer from the Working Capital Fund to the General Fund every year since 1999. The practice of transferring surpluses from the Working Capital Fund [*Regulation 6(v)*] is a viable approach to balance accounts, although the Organization has come to depend on this additional income. However, the F&A Committee recommends that Council consider an increase in the annual fee to keep pace with the increase in PICES science activities, such as the the PICES integrative science program, FUTURE (*Forecasting and Understanding Trends, Uncertainty and Responses of North Pacific Marine Ecosystems*). To inform this consideration the Committee recommends that Council instruct the F&A Chairman and Executive Secretary to develop and present at PICES-2014 appropriate metrics to characterize the growth in science activities, as well as the formula for determining the size of the increase in annual contributions and to develop alternative approaches (incremental or one time) for the increase.

The Committee confirmed its previous recommendation that for planning purposes, Contracting Parties should continue to use the guideline generally accepted at PICES-1999 (Decision 1999/A/2(ii)), which states that “*the annual contributions will increase at the rate of inflation in Canada*”. This should assist Contracting Parties in preparing timely funding requests to cover annual contributions, and assist the Executive Secretary in developing future budgets. As the Committee discussed and recommended in 2011, the method for computing the Consumer Price Index (CPI) is to use the average of the monthly values from July of the previous year to June of the current year for determining the rate of increase in the future.

AGENDA ITEM 5

Fund-raising activities

Annual contributions increasing only at the rate of inflation in Canada can impede improvement and development of the Organization. Therefore, fund-raising continues to be an important component of PICES activities. All types of contributions, monetary and “in-kind”, are equally valuable to PICES.

The Executive Secretary reported on fund-raising efforts for the period since PICES-2012 (*F&A Endnote 5*).

With respect to the North Pacific Continuous Plankton Recorder (NP CPR) survey, it was noted that the *Exxon Valdez* Oil Spill Trustee Council (EVOSTC) and Japan Society for Promotion of Science (JSPS) extended their participation in the PICES CPR Consortium until 2016, with the same level of funding as for 2009–2013. The next critical renewals are those of Canada’s Department of Fisheries and Oceans (DFO) and the North Pacific Research Board (NPRB). The DFO, a member of the consortium since 2008, provided \$50,000 for the period from April 1, 2013 to March 31, 2014. A contribution at this same level is expected to continue for several more years. The PICES pre-proposal for the NP CPR survey was selected as one of six pre-proposals to go forward as full proposals for the Long-Term Monitoring Program to be funded by NPRB for the period 2014–2018.

At PICES-2010, the F&A Committee recommended that an annual report on the NP CPR survey be presented so that the achievements and benefits of the program would be more apparent to Contracting Parties as they seek to obtain continued funding for this activity. Dr. Nick Owens, Director of the Sir Alister Hardy Foundation for Ocean Science (SAHFOS), reported on progress of the program, initiatives for expanding or improving the CPR network, and the status of fund raising to encourage involvement of Contracting Parties who are not currently supporting the project.

The level of external funding to PICES has increased significantly over the last several years. For 2010–2012, the amount of funds from voluntary contributions, grants and partnerships for various activities initiated or sponsored by PICES exceeded the total annual contribution by Contracting Parties, indicating the Organization’s large dependence on outside funding offers, most of which have specific product and service requirements. However, the level of external funding in 2013 is expected to be more than 50% less than in

2012. This reflects the volatility in external funding and the risk to the Organization of being too dependent on this type of income to support PICES scientific activities and operations.

The Executive Secretary summarized voluntary contributions and grants provided for various activities of PICES by ministries, agencies and organizations of Contracting Parties for the period from 2002–2013. The Committee discussed certain patterns in fund-raising evident from a country-based or project-based summary. Several of the Contracting Parties expressed interest in specific fund raising. China is looking for an opportunity to support the 2014 FUTURE OSM and 2017 PICES/ICES Early Career Scientist Conference; Korea is planning to redirect the funds (approximately \$20,000) currently supporting the Administrative Assistant for the Science Board Chairman to other important activities in PICES; and Canada is exploring mechanisms for providing support for the incoming Science Board Chairman.

AGENDA ITEM 6

Encumbered funds

The Executive Secretary provided information on the amount of funds in the Working Capital Fund restricted for specific purposes (encumbered funds) at the beginning of *FY* 2013, and the estimated amount of the encumbered funds for the fiscal year end.

AGENDA ITEM 7

Financing of high priority PICES projects

The F&A Committee reviewed activities proposed under high priority PICES initiatives for 2014 and had some discussion about the financial needs of FUTURE. Considering the number of activities identified by the FUTURE roadmap and that will likely emerge from the FUTURE Open Science Meeting (OSM) to be held next year, the Committee recommends that funds available from the completed projects in the Working Capital Fund as of December 31, 2013, be allocated for this Program.

In February-March 2013, following the request by Council (Decision 2012/S/1(ii)), the Executive Secretary sent letters to all Contracting Parties providing information on planned activities for FUTURE and requesting contributions to these activities, and particularly for the 2014 FUTURE OSM. The only response came from China confirming that the State Oceanic Administration will provide \$15,000 for the meeting. The Committee commended China, and recommends that Council instruct the Executive Secretary to send a new letter to the Contracting Parties requesting contributions to FUTURE.

Capacity-building activities that might require funding support for 2014 were mentioned. In addition, the Committee reviewed the current status of the Intern Program. Korea indicated that they may not be able to contribute to the Intern Program in 2013 because of their commitment to hosting PICES-2014. The Committee recommends that Council request the Executive Secretary to invite Contracting Parties to provide voluntary contributions to the Trust Fund to support the Intern Program in 2014 and beyond.

AGENDA ITEM 8

PICES Visiting Scientist Program

At PICES-2001, Council approved the PICES Visiting Scientist Program (Decision 2001/A/6), expecting that the Program will allow national agencies and other international science organizations to contribute “in-kind” toward achieving PICES goals, and will be an alternative way to enhance the ability of the Organization and the Secretariat to support the high priority projects and increasing work demand. However, the Program has been inactive since its inception.

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Following instructions from Council (Decision 2011/A/9(i)), the F&A Committee reviewed and revised the description of the Program, reflecting mostly the possibility of providing additional resources for developing FUTURE products and having scientists participate “virtually” by performing the work at their home institution/agency. At PICES-2012, Council approved the revised description of the [PICES Visiting Scientist Program](#) and instructed the Executive Secretary to send a letter to the Contracting Parties, requesting their proposals for contributions to the Program (Decision 2012/A/6). It was also expected that Science Board will suggest potential tasks for a visiting scientist.

In 2013, the Secretariat did not receive proposals from any national institution/agency or from other international science organization to second their experts for the Program, nor did the Secretariat receive recommendations from Science Board on important tasks for these experts. The F&A Committee further discussed the apparent lack of interest in the Visiting Program and determined that the description should be revised by adding a junior scientist category. Therefore, the Committee recommends that Council approve the following revision of the Program’s description. The Qualifications section would be adjusted by labelling the existing paragraph under Qualifications as ‘Senior Scientist:---‘. This would be followed by “Junior Scientist: *The scientist should be an early career Ph.D. scientist or a master’s level scientist with at least 2 years of experience and in either case has demonstrated scientific writing and oral communications skills in English. The particular qualifications will depend on tasks outlined for the collaborative project.*” The Committee also recommends that Council instruct the Science Board Chairman to review the Visiting Scientist Program at the 2014 inter-sessional Science Board meeting to insure that all Science Board members are aware of the Program and will work to identify tasks and potential candidate visiting scientists.

AGENDA ITEM 9

Schedule, structure and financing of future Annual Meetings

The Executive Secretary reported that on May 25, 2013, Korea confirmed its willingness to host PICES-2014. The Korean delegation confirmed that planning is on track for hosting this Annual Meeting. The Committee recommends that Council accept the offer of Korea to host PICES-2014 from October 17–26, 2014, in Yeosu, and approve Korea’s request for \$40,000 to partially cover costs for this meeting.

The Chinese delegation suggested that China is hoping to host PICES-2015, but formal negotiations among the agencies involved are not completed. The Committee recommends that Council request an answer from China by December 1, 2013, regarding its ability to host PICES-2015. If China is unable to host PICES-2015 or provides no response by the due date, the Annual Meeting will be held at the seat of the Organization in Victoria, Canada (Article VI.3 of the PICES Convention).

In keeping with the 6-year rotation cycle (Decision 1994/A/6), the United States (US) is expected to host the Annual Meeting in 2016. Earlier, the United States has indicated their intention to host PICES-2016; however, because the US delegate could not be present at the F&A Committee meeting due to the partial shutdown of the US federal government no update on the status of planning was available. The Executive Secretary should request the United States to confirm by March 31, 2014 that they will host PICES-2016.

The Committee reviewed various approaches to financing future PICES Annual Meetings, and recommends that Council task the F&A Chairman and Executive Secretary to present at PICES-2014 a comparison of the existing approach with an alternate approach to financing the annual meetings through annual contributions by each Contracting Party. In addition, a hybrid approach in which each Contracting Party could choose either the current approach or alternate annual contribution approach should be considered.

At PICES-2001 (Victoria, Canada), Council approved the charging of a registration fee for future Annual Meetings of the Organization and indicated that the registration fee structure should be reviewed annually (Decision 2001/A/4(iv)). The Committee discussed the current registration fee structure and recommends keeping the same structure for PICES-2014 as for PICES-2010 through PICES-2013:

Type of registration fee	CDN \$
Regular	275
Early	200
Student	50
Spousal	50

At PICES-2009, Council adopted (Decision 2009/A/6(i)) the final report of the Study Group on *Restructuring of the PICES Annual Meeting* (SG-RAM). PICES-2012 and PICES-2013 were the first two meetings conducted in accordance with the entire suite of SG-RAM recommendations. The Committee recommends that Council discuss the effectiveness of the approved changes at this Annual Meeting.

At PICES-2005, Council re-iterated its support for the concept of inter-sessional Science Board meetings with the participation of Council members, but suggested that the need for such a meeting should be evaluated each year and that, given meeting costs (including time commitment of the members), an inter-sessional meeting should be held only if the agenda is substantive. The Committee confirmed these views in 2013. Science Board has already indicated the importance of having an inter-sessional meeting in 2014, to be held immediately after the FUTURE Open Science Meeting. The Committee supports this request and recommends it to Council for approval.

AGENDA ITEM 10

The structure and staffing of the PICES Secretariat

According to Goal 10 of the [PICES Strategic Plan](#), “An effective Secretariat that supports the mission and goals of the Organization is essential to its success”. At PICES-2012, Council agreed to consider a complex of issues related to the structure and staffing of the Secretariat at PICES-2013 and, in preparation for this discussion, directed the F&A Chairman to work with the Executive Secretary to (1) prepare position descriptions for both the Executive Secretary and the Deputy Executive Secretary, (2) develop the process and timeline for staffing the Deputy Executive Secretary position, and (3) review the organizational structure and salary budget of the Secretariat (Decision 2012/A/12(ii)). As a preview to the F&A Chairman’s presentation of his report to Council it was presented to the Committee.

AGENDA ITEM 11

Preparations for the Twenty-Fifth Anniversary of PICES

At PICES-2012, Council approved the formation of a planning committee for the 25th anniversary of PICES (Decision 2012/A/5) consisting of the F&A Chairman, Science Board Chairman and Vice-Chairman, Executive Secretary, and a representative from each of the Contracting Parties. The planning committee, except for the F&A Chairman, met at PICES-2013 to discuss the development of the anniversary program, budget and fund-raising for this program and additional potential activities, such as dedicated surveys with research vessels arriving at the location of the Annual Meeting while the meeting is in progress. The F&A Committee recommends that Council consider and approve as guidance that each Contracting Party raises at least \$25,000 for the 25th Anniversary. Fund raising can be incremental and spread over the time between now and 2015. All Contracting Parties are encouraged to commence fund raising activities as early as possible. The Secretariat will create a separate encumbered fund for the 25th Anniversary to track contributions.

AGENDA ITEM 12

Financial issues related to the Pension Plan for PICES employees

At PICES-2010, the Committee received a report from the Executive Secretary about the deficiency in the pension funds for PICES employees and the recommendations of the International Fisheries Commissions

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(IFC) Pension Society for addressing these, and agreed that additional employer contributions to the IFC Pension Plan in 2010 and beyond be made in advance in order to reduce future payments. The Committee recommends that Council approve: (1) a lump sum employer contribution of \$20,000 to the IFC Pension Plan be made from the FY 2014 budget to pay down unfunded liabilities and (2) an additional lump sum payment (up to \$25,000) be paid to the IFC Pension Plan, if there is a FY 2013 surplus in the General Fund as determined by the Auditor's Report for 2013.

AGENDA ITEM 13

Budget

Estimated accounts for FY 2013 (Agenda Item 13a)

The Committee reviewed the estimated accounts for FY 2013 and recommends their acceptance by Council, noting that the expenses for "foreign exchange loss/gain" are only estimates at this time.

Interest and other income (Agenda Item 13b)

In FY 2012, the total income was \$917,553. This amount includes \$688,185 in voluntary contributions and grants (\$652,130 credited to the Working Capital Fund, \$32,097 credited to the Trust Fund and \$3,958 credited to the Megrey Student Fund).

In FY 2013, the estimated total income is \$470,117. This amount includes \$256,195 in voluntary contributions and grants (\$193,364 credited to the Working Capital Fund and \$59,731 credited to the Trust Fund).

Relocation and Home Leave Fund (Agenda Item 13c)

At PICES-2007, Council approved the recommendation that the level of the Relocation and Home Leave Fund be allowed to fluctuate between \$90,000 and \$110,000, to minimize the need for small transfers between funds (Decision 2007/A/3(iii)). The F&A Committee recommends that Council approve a transfer from the Working Capital Fund to the Relocation and Home Leave Fund in order to bring the Relocation and Home Leave Fund to \$110,000.

Trust Fund (Agenda Item 13d)

In FY 2013, the total Trust Fund income is estimated at \$63,554 and estimated expenses are \$85,655. The Committee recommended that Council approve a transfer from the Working Capital Fund to the Trust Fund to recover the 2013 expenses and restore the Trust Fund to the level of \$110,000.

Japanese Trust Fund (Agenda Item 13e)

The Executive Secretary presented the report on the 2012–2017 PICES/MAFF project on "*Marine ecosystem health and human well-being*". The progress report and the financial report for *Year 1* (April 1, 2012 – March 31, 2013) were submitted to the Fisheries Agency of Japan (JFA) on July 22, 2013. The set of documents requesting funding for *Year 2* (April 1, 2013 – March 31, 2014) was directed to the Consulate General of Japan in Vancouver (Canada) on July 23, 2013, and, following instructions from JFA, the revised version of the document titled "*Year 2 workplan and budget*" was re-sent on August 8, 2013. Funds in the amount of \$130,036 were transferred to the PICES/MAFF bank account on September 20.

The status of the MAFF account, for the period from April 1 to December 31, 2012, was assessed during the regular PICES audit for FY 2012. The financial statements for the rest of *Year 1* of the MAFF project (January 1 to March 31, 2013) and for the part of *Year 2* (from April 1 to December 31, 2013) will be evaluated during the regular PICES audit for FY 2013.

Working Capital Fund (Agenda Item 13f)

After all approved inter-fund transfers, the amount of funds available in the Working Capital Fund (WCF) on January 1, 2013, was \$934,749. This included \$581,213 in encumbered funds and \$353,536 in "operating"

funds. In FY 2013, the total WCF income and expenses are estimated at a level of \$404,963 (\$193,364 are in extra-budgetary contributions and grants) and \$535,625, respectively. After the recommended inter-fund transfers, the amount of funds available in WCF at the fiscal year end is estimated at \$650,986. This includes \$281,881 in encumbered funds, and \$369,105 in “reserve operating” funds.

Budget for FY 2014 and forecast budget for FY 2015 (Agenda Item 13g)

The Committee reviewed the proposed FY 2014 budget of \$875,000 (*F&A Endnote 6*) and recommends its approval by Council. The amount of \$131,000 will be transferred from the Working Capital Fund to balance the budget, setting the total annual contribution at \$744,000, and the 2014 annual fee at \$124,000 per Contracting Party. The annual fee increase is a 0.96% increase from the FY 2013 level and the increase is based on the monthly average CPI from July 2012 to June 2013 reported by Statistics of Canada.

The Executive Secretary presented the forecast FY 2015 budget of \$887,000 and noted that this budget is prepared based on preliminary information available as of August 15, 2012, and is approximately 2.0% higher than the FY 2013 budget.

AGENDA ITEM 14

PICES Rules of Procedure, Financial Regulations and Chairman’s Handbook

The circumstances of the partial US federal government shutdown highlighted the need to review the section on the F&A Committee in the PICES Rules of Procedure, because there is currently no option for appointing an interim F&A Chairman if the sitting Chairman cannot attend an Annual Meeting. To rectify this situation the Committee recommends that Council approve the following revision to *Rule 19(iii)*. Preceding the last sentence of 19(iii) add the following: “*If the Chairman of the Finance and Administration Committee cannot attend an annual meeting, for any reason, then the Chairman of the Council will appoint an alternate to serve as interim Chairman of the Finance and Administration Committee.*”

AGENDA ITEM 15

F&A Committee Action Plan

The [PICES Strategic Plan](#) approved at PICES-2011 (Decision 2011/A/4(i)) mandates the preparation of 3-year Action Plans not only by Scientific and Technical Committees, but also by Executive Committees (F&A Committee and Science Board). These Action Plans are to describe specific actions and tasks needed to achieve the goals identified in the Strategic Plan. The Committee reviewed the [F&A Committee Action Plan for 2012–2015](#) approved at PICES-2012, and determined that the plan does not need to be revised.

AGENDA ITEM 16

Administrative matters

The Committee discussed the progress on the status of negotiations regarding the possibility of obtaining an *ex gratia* grant from the British Columbia government to PICES equal to the amount of the provincial personal income taxes remitted, and encouraged the Executive Secretary to continue his efforts to request this tax rebate. The Executive Secretary requested assistance from Canadian members of Council to facilitate the process for the coming year.

PICES has a Headquarters Agreement with the Government of Canada that entered into force on December 15, 1993. In accordance with this agreement, Fisheries and Oceans Canada (DFO) hosts the PICES Secretariat at the Institute of Ocean Sciences (IOS) in Sidney, British Columbia, Canada. The Executive Secretary provided a report on current arrangements between PICES and DFO/IOS and local companies on general administrative services. There appears to be no change in the arrangements at this time.

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AGENDA ITEM 17

Other business

There were no additional matters requiring the attention of the F&A Committee.

AGENDA ITEM 18

Adoption of the F&A report and recommendations to Governing Council

A set of recommendations was circulated and approved by all F&A members. The F&A report was brought forward by Dr. Stein at the first session of Council on October 19, 2013.

F&A Endnote 1**2013 F&A participation list**Canada

Robin Brown (F&A member)
Darlene Smith (advisor)

Japan

Hiroyuki Shimada (F&A member)
Akihiko Yatsu (advisor)

People's Republic of China

Ying Jing (advisor)
Jilong Li (alternate)
Gongke Tan (advisor)
Rui Zheng (alternate)

Republic of Korea

Chul Park (F&A member)

Naesun Park (advisor)
Gidong Yeo (advisor)

Russian Federation

Igor Shevchenko (F&A member)

U.S.A.

None

Other

John Stein (F&A Chairman)
Laura Richards (PICES Chairman)
Alexander Bychkov (Executive Secretary)
Sonia Batten (SAHFOS) – for Agenda Item 5 only
Nick Owens (SAHFOS) – for Agenda Item 5 only

F&A Endnote 2**2013 F&A Committee meeting agenda**

1. Welcome and opening remarks
2. Adoption of agenda and meeting procedures
3. Audited accounts for *FY* 2012
4. Annual contributions
5. Fund-raising activities
6. Encumbered funds for PICES activities
7. Financing of PICES high priority activities
8. PICES Visiting Scientist Program
9. Schedule, structure and financing of future Annual Meetings
10. The structure and staffing of the PICES Secretariat
 - a. Structure and salary budget of the Secretariat
 - b. Staffing of the Deputy Executive Secretary position
 - c. Process and timeline for staffing the Executive Secretary position
11. Report and recommendations of the Planning Committee for the 25th Anniversary of PICES
12. Financial issues related to the Pension Plan for PICES employees
13. Budget
 - a. Estimated accounts for *FY* 2013
 - b. Interest and other income
 - c. Relocation and Home Leave Fund
 - d. Trust Fund
 - e. Japanese Trust Fund
 - f. Working Capital Fund
 - g. Proposed budget for *FY* 2014 and forecast budget estimates for *FY* 2015
14. PICES Rules of Procedure, Financial Regulations and Chairman's Handbook
15. F&A Action Plan
16. Administrative matters
17. Other business
18. 2013 F&A report and recommendations to Governing Council

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F&A Endnote 3

**NORTH PACIFIC MARINE SCIENCE ORGANIZATION
FINANCIAL STATEMENTS
DECEMBER 31, 2013**

INDEPENDENT AUDITORS' REPORT

To the Council of the
North Pacific Marine Science Organization

We have audited the accompanying financial statements of the North Pacific Marine Science Organization, which comprise the statement of financial position as at December 31, 2013 and the statement of operations and changes in fund balances for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the North Pacific Marine Science Organization's Financial Regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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


Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 in the financial statements, which describes the basis of accounting. The financial statements are prepared to comply with the North Pacific Marine Science Organization's Financial Regulations as referred to above.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the North Pacific Marine Science Organization as at December 31, 2013, and the results of its operations and changes in fund balances for the year then ended.

Sidney, B.C.
May 9, 2014



Hale Hughesman
Chartered Accountants

NORTH PACIFIC MARINE SCIENCE ORGANIZATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and short term deposits (note 4)	\$ 1,530,256	\$ 1,586,896
Accounts receivable	129,771	191,825
Prepaid expenses	4,192	2,676
	\$ 1,664,219	\$ 1,781,397

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 182,070	\$ 191,923
Funds held for Contracting Parties (note 3)	248,000	245,600
	430,070	437,523

FUND BALANCES

WORKING CAPITAL FUND (note 4)	902,415	1,047,949
TRUST FUND	116,073	110,000
RELOCATION AND HOME LEAVE FUND	110,000	100,000
MINISTRY OF AGRICULTURE, FORESTRY AND FISHERIES FUND	105,661	85,925
	1,234,149	1,343,874
	\$ 1,664,219	\$ 1,781,397

**STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Working Capital Fund	Trust Fund	Relocation and Home Leave Fund	Ministry of Agriculture, Forestry and Fisheries Fund	2013 Total	2012 Total
FUND BALANCES, beginning of year	\$ -	\$ 1,047,949	\$ 110,000	\$ 100,000	\$ 85,925	\$ 1,343,874	\$ 1,154,393
SOURCES OF FUNDS							
Contributions from Contracting Parties	736,800	-	-	-	-	736,800	719,400
Budgeted transfer to General Fund (note 5)	113,200	(113,200)	-	-	-	-	-
Voluntary contributions and grants (note 6)	-	133,342	60,509	-	130,036	323,887	834,107
Interest and other income (note 7)	-	233,998	3,922	1,706	450	240,076	229,567
	850,000	254,140	64,431	1,706	130,486	1,300,763	1,783,074
FUND BALANCES, before expenditures	850,000	1,302,089	174,431	101,706	216,411	2,644,637	2,937,467
EXPENDITURES							
Personnel services	563,487	46,156	-	-	-	609,643	596,532
Annual Meeting	15,741	151,780	-	-	-	167,521	81,288
Special meetings/travel	123,404	-	31,603	-	-	155,007	432,796
Publications	29,643	3,156	-	-	-	32,799	43,428
Communication	35,397	-	-	-	-	35,397	32,740
Office and administration	28,563	1,209	31	-	-	29,803	23,972
Projects (note 8)	-	246,706	-	-	-	246,706	188,840
Intern program	-	-	26,724	-	-	26,724	28,472
Relocation	-	-	-	-	-	-	11,248
MAFF Fund expenditures (note 9)	-	-	-	-	110,750	110,750	155,057
Foreign exchange gain (note 10)	(3,862)	-	-	-	-	(3,862)	(780)
	792,373	449,007	58,358	-	110,750	1,410,488	1,593,593
NET FUNDS AVAILABLE	57,627	853,082	116,073	101,706	105,661	1,234,149	1,343,874
TRANSFER TO							
WORKING CAPITAL FUND (note 4)	(57,627)	57,627	-	-	-	-	-
INTERFUND TRANSFERS (note 5)	-	(8,294)	-	8,294	-	-	-
FUND BALANCES, end of year	\$ -	\$ 902,415	\$ 116,073	\$ 110,000	\$ 105,661	\$ 1,234,149	\$ 1,343,874

NORTH PACIFIC MARINE SCIENCE ORGANIZATION**NOTES TO THE FINANCIAL STATEMENTS****DECEMBER 31, 2013****1. PURPOSE OF ORGANIZATION**

The North Pacific Marine Science Organization (PICES) is an intergovernmental non-profit scientific Organization whose present members include Canada, Japan, the People's Republic of China, the Republic of Korea, the Russian Federation and the United States of America. The purpose of the Organization is to promote and coordinate marine scientific research in order to advance scientific knowledge of the North Pacific and adjacent seas.

2. ACCOUNTING POLICIES

The financial statements are prepared in accordance with the North Pacific Marine Science Organization's Financial Regulations. The following is a summary of the significant accounting policies used in the preparation of these financial statements:

(a) Fund Accounting

The Working Capital Fund represents the accumulated excess of contributions provided from Contracting Parties over expenditures in the General Fund. The purposes of the General Fund and Working Capital Fund are established by Regulation 6 of the Organization Financial Regulation.

The Trust Fund was established in 1994 for the purpose of facilitating participation of a broad spectrum of scientists in activities of the Organization.

The Relocation and Home Leave Fund was established in 1995 to pay relocation and home leave expenses of new employees and their dependents to the seat of the Secretariat and removal after period of employment has ended, and to provide home leave for international staff. The fund balance must be maintained between \$90,000 and \$110,000.

The Ministry of Agriculture, Forestry and Fisheries Fund was established in 2007. The Ministry of Agriculture, Forestry and Fisheries of Japan, through the Fisheries Agency has provided voluntary contributions for a project dedicated to the development of the prevention systems for harmful organisms in the Pacific Rim.

(b) Capital Assets

Capital assets acquired by the Organization are expensed in the year of acquisition. During the current year the Organization purchased \$4,086 of capital assets.

(c) Contributions

Contributions from Contracting Parties are recorded in the year in which they relate to. All other contributions and grants are recorded in the year received.

(d) Income Tax

The Organization is a non-taxable Organization under the Privileges and Immunities (International Organizations) Act (Canada).

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(e) Foreign Exchange

Transactions originating in foreign currencies are translated at the exchange rate prevailing at the transaction dates. Assets and liabilities denominated in foreign currency are translated to equivalent Canadian amounts at the current rate of exchange at the statement of financial position date.

(f) Financial Instruments

The Organization's financial instruments consist of cash and short-term deposits, accounts receivable and accounts payable, the fair value of which approximates their carrying value. Unless otherwise noted it is management's opinion that the organization is not exposed to significant interest, currency or credit risks.

(g) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. FUNDS HELD FOR CONTRACTING PARTIES

The funds held for Contracting Parties are advance contributions from Japan in the amount of \$124,000 and the U.S.A. in the amount of \$124,000.

4. WORKING CAPITAL FUND

Of the total amount in the Working Capital Fund, \$294,530 of cash and short term deposits is restricted for specific designated projects.

Pursuant to decision 2013/A/3(ii) of the Governing Council, \$131,000 of the funds held in the Working Capital Fund will be transferred to the General Fund at the beginning of the 2014 fiscal year to balance the budget, setting the total annual contribution at \$744,000, and the 2014 annual fee at \$124,000 per Contracting Party.

Pursuant to Financial Regulation 6 (iii), the Working Capital Fund is to be increased/decreased by the surplus/deficit in the General Fund.

NORTH PACIFIC MARINE SCIENCE ORGANIZATION

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5. INTERFUND TRANSFERS

The Governing Council approved the transfer of \$113,200 at the beginning of 2013 from the Working Capital Fund to the General Fund (Decision 2012/A/3/ii) to balance the budget, setting the total annual contribution at \$736,800, and the 2013 annual fee at \$122,800 per Contracting Party.

The Governing Council approved the transfer of funds from the Working Capital Fund to restore the Trust Fund to \$110,000 by the end of 2013 (Decision 2013/A/3/iv). No amount was transferred in 2013.

The Governing Council approved the transfer of funds from the Working Capital Fund to restore the Relocation and Home Leave Fund to \$110,000 (Decision 2013/A/3/iii). The amount of the transfer was \$8,294.

6. VOLUNTARY CONTRIBUTIONS AND GRANTS

	Working Capital	
	Fund	Trust Fund
Contributions for the North Pacific CPR Project		
DFO (Canada)	\$ 50,000	\$ -
NPRB (U.S.A.)	54,955	-
2013 inter-sessional FUTURE Workshop		
ICES	5,068	-
Contributions for PICES 2012:		
SCOR travel grant	-	5,205
Contributions for PICES 2013:		
IMBER	3,123	-
Contributions to part time Secretariat position:		
KIOST (Korea)	20,196	-
Contributions to Intern program:		
DFO (Canada)	-	10,000
KIOST (Korea)	-	5,202
NOAA (U.S.A.)	-	24,188
Contributions for 2013 PICES Summer School:		
IMBER	-	2,965
NPRB (U.S.A.)	-	4,961
SCOR	-	5,100
SOLAS	-	2,888
	\$ 133,342	\$ 60,509

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7. INTEREST AND OTHER INCOME

	Working Capital Fund	Trust Fund	Relocation and Home Leave Fund	Ministry of Agriculture, Forestry and Fisheries Fund
Interest income	\$ 12,418	\$ 330	\$ 1,706	\$ 450
Income tax levies	80,221	-	-	-
GST/HST & PST rebates	13,724	-	-	-
Overhead from MAFF Project	16,905	-	-	-
Overhead from PICES - 2013	10,000	-	-	-
Overhead from WOA	25,194	-	-	-
PICES 2013 registration fees	75,536	-	-	-
PICES - 2012 LOC Contribution	-	3,498	-	-
Miscellaneous income	-	94	-	-
	\$ 233,998	\$ 3,922	\$ 1,706	\$ 450

8. PROJECTS

The expenditures in the Working Capital Fund for projects funded by voluntary contributions designated for the respective projects are as follows:.

	2013	2012
ESSAS Annual Meeting	4,403	-
Development of FUTURE	45,784	9,299
North Pacific CPR Project	103,905	178,931
Climate Change Symposium Series	22,225	-
World Ocean Assessment	70,325	-
North Pacific Ecosystem Status Report	64	610
	\$ 246,706	\$ 188,840

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9. MINISTRY OF AGRICULTURE, FORESTRY AND FISHERIES FUND EXPENDITURES

2007-2012 PICES/MAFF Project: Development of the prevention systems for harmful organisms' expansion in the Pacific Rim

	2013	2012
Special meetings/travel	\$ -	\$ 45,081
Contractual services	-	20,278
Equipment	-	24,357
Miscellaneous	-	19
	\$ -	\$ 89,735

2012-2017 PICES/MAFF Project: Marine ecosystem health and human well being

	2013	2012
Special meetings/travel	\$ 51,815	\$ 36,685
Contractual services	41,950	8,960
Equipment/supplies	-	146
Overhead to PICES	16,905	19,484
Miscellaneous	80	47
	\$ 110,750	\$ 65,322
Total MAFF expenses	\$ 110,750	\$ 155,057

10. FOREIGN EXCHANGE GAIN/LOSS

At year end all funds held in foreign currency (US \$38,370) are converted to Canadian dollars using the December 31st exchange rate. A foreign exchange gain has been reported on the current year financial statements; this amount is an unbudgeted item which has been caused by the ongoing fluctuations in the US dollar (2013 = 1.0636, 2012 = 0.9908), and not by the actual purchase or sale of any foreign currencies.

11. UNFUNDED PENSION LIABILITY

The Organization holds a pension plan for its employees with the International Fisheries Commissions Pension Society. The actuarial valuation report was prepared as at January 1, 2014 and showed an unfunded pension liability for PICES of \$177,000. The unfunded pension liability of \$268,000 reported in the 2011 actuarial valuation has been reduced due to monthly instalments and voluntary lumpsum payments approved by the Governing Council. It is expected that payments to the plan will continue on a similar basis. The next actuarial valuation is expected January 1, 2017.

No amount has been recorded in the financial statements with regards to the total unfunded liability.

12. ANNUAL LEAVE AND OVERTIME LIABILITY

The Organization accrues annual leave not taken and overtime worked for its employees on a per hour basis. No amount has been recorded in the financial statements with regards to the total liability.

13. FINANCIAL STATEMENTS

A statement of cash flows has not been presented, as the required information is readily apparent from the other financial statements presented and the notes to the financial statements.

F&A Endnote 4

Payment schedule of annual fees, 2005–2013¹

	<i>Canada</i>	<i>China</i>	<i>Japan</i>	<i>Korea</i>	<i>Russia</i>	<i>USA</i>
2005	Dec. 24, 04	Sept. 22, 05²	Mar. 2, 05	Mar. 30, 05	Mar. 31, 05³	Jan. 10, 05
2006	Dec. 28, 05	Aug. 1, 06	Dec. 15, 05	Feb. 8, 06	Feb. 28, 06	Jan. 30, 06
2007	Jan. 23, 07	July 3, 07	Dec. 5, 06	Apr. 3, 07	Feb. 13, 07	Jan. 10, 07
2008	Jan. 16, 08	May 15, 08	Dec. 20, 07	Feb. 15, 08	Feb. 13, 08	Jan. 7, 08⁴
2009	Jan. 5, 09	June 3, 09	Dec. 11, 08	Apr. 1, 09	Mar. 27, 09	Dec. 24, 08
2010	Apr. 1, 10	Aug. 5, 10	Dec. 14, 09	Mar. 2, 10	Mar. 26, 10	Dec. 11, 09
2011	Feb. 8, 11	June 30, 11	Dec. 3, 10	Mar. 25, 11⁵	Feb. 9, 11	Dec. 7, 10
2012	Jan. 3, 12	Aug. 31, 12	Nov. 22, 11	Oct. 11, 12	Mar. 29, 12	Nov. 16, 11
2013	Jan. 7, 13	Oct. 11, 13	Nov. 21, 12	May 14, 13	Apr. 12, 13	Dec. 17, 12

¹ Late (after March 31) or partial payments are indicated in bold

² Partial (86%) payment, remainder paid December 30, 2005

³ Partial (96.6%) payment, remainder paid April 25, 2005

⁴ Partial (92.3%) payment, remainder paid on May 22, 2009

⁵ Partial (88.1%) payment, remainder paid on September 20, 2011

F&A Endnote 5

External funding and voluntary contributions received since PICES-2011

For the period since PICES-2012, the following external funding and voluntary contributions were provided or committed for various activities of the Organization:

Special projects

- In December 2011, the Ministry of Agriculture, Forestry and Fisheries (MAFF) of Japan, through the Fisheries Agency of Japan (JFA), approved funding for a 5-year (April 1, 2012 – March 31, 2017) PICES project on “*Marine ecosystem health and human well-being*”. The goal of this project is to identify the relationships between sustainable human communities and productive marine ecosystems in the North Pacific, under the concept of fishery social-ecological systems. The budget allocated for *Year 2* (April 1, 2013 – March 31, 2014) of the project is \$130,036.
- Recognizing the Continuous Plankton Recorder (CPR) data as the only long-term biological indicator of global change on the scale of the North Pacific, PICES has endorsed the North Pacific CPR (NP CPR) survey in 1999 and, since 2008, manages the funding consortium that supports this regional activity. PICES also maintains, under its Technical Committee on Monitoring (MONITOR), an Advisory Panel on *Continuous Plankton Recorder Survey in the North Pacific* (AP-CPR) comprising scientists representing each Contracting Party (Dr. Sonia Batten, project PI, is an *ex-officio* member of the Panel representing SAHFOS). The Panel meets annually to contribute advice and oversee the project; AP-CPR reports are available at http://www.pices.int/members/advisory_panels/cpr.aspx. The following 5 agencies have committed their resources for the project:
 - The Department of Fisheries and Oceans (Canada), a member of the consortium since 2008, provided \$50,000 for the period from April 1, 2013 to March 31, 2014. The contribution at the same level is expected to continue for several more years.
 - The North Pacific Research Board (USA) joined the consortium in 2009 and committed \$50,000 US per year for 5 years (until May 31, 2014) to support operations of the project. A pre-proposal titled “*The North Pacific Continuous Plankton Recorder Survey*” has been submitted for the Long-term

Monitoring Program to be funded by NPRB in 2014–2018. On September 30, PICES was invited (among 6 of 36 proponents) to submit a full proposal by February 14, 2014.

- The *Exxon Valdez* Oil Spill Trustee Council (EVOSTC) provided \$188,600 US for operations of the NP CPR project in 2010–2012, and report writing in 2013 (project on “*Measuring inter-annual variability in the herring’s forage base from the Gulf of Alaska*”). A new project on “*Long-term monitoring of zooplankton populations on the Alaskan Shelf and Gulf of Alaska using Continuous Plankton Recorders*” was approved as a part of a Long Term Monitoring Program of EVOSTC for 2013–2016, with the amount of \$61,300 US for 2013. Funding in subsequent years will be incremented slightly for cost of living increases.
- The Japanese Society for Promotion of Science (JSPS) awarded a grant (2009–2017) for CPR work to Dr. Sanae Chiba (JAMSTEC). While funds are not passed to the PICES consortium, this project provides in-kind support by taking over the analysis of samples from the western Pacific and is equivalent to a financial contribution of about \$37,500 US per year.
- The CPR parent organization, the Sir Alister Hardy Foundation for Ocean Science (SAHFOS, UK), contributes the remaining funds required to operate the survey at its current level.

Symposia/sessions/workshops

- The State Oceanic Administration (China) hosted the workshop on “*Radionuclide science and environmental quality of radiation in the North Pacific*” (March 14–15, 2013, Xiamen, China) and covered on-site expenses (accommodation and meals) for all members of the Study Group on *Radionuclide Science in the North Pacific Ocean*.
- The Federal Agency for Fisheries and Pacific Research Institute of Fisheries and Oceanography (Russia) hosted the inter-sessional Science Board meeting (May 20–21, 2013, St. Petersburg, Russia).
- ICES provided \$5,068 for the FUTURE-related workshop on “*Global assessment of the implications of climate change on the spatial distribution of fish and fisheries*” (May 22–24, 2013, St. Petersburg, Russia).
- Several international and national organizations/programs were invited, and subsequently agreed, to co-sponsor (by covering travel of additional invited speakers and/or convenors for these events) the following scientific sessions and workshops to be held at PICES-2013 (October 11–20, 2013, Nanaimo, Canada): “*The changing carbon cycle of North Pacific continental shelves and marginal seas*” (SOLAS), “*Marine ecosystem services and the contribution from marine ecosystems to the economy and human well-being*” (IMBER), “*Banking on recruitment curves; returns on intellectual investment*” (ISC), “*Comparison of size-based and species based ecosystem models*” and “*Identifying mechanisms linking physical climate and ecosystem change: Observed indices, hypothesized processes, and “data dreams” for the future*” (ICES), and “*Tools, approaches and challenges for accessing and integrating distributed datasets*” (IODE).
- The State Oceanic Administration (China) committed \$15,000 for the 2014 FUTURE Open Science Meeting (April 14–18, 2014, Kohala Coast, Hawaii, USA).

Capacity building

- Several contributions were received/committed for the Trust Fund in support of the PICES Intern Program:
 - Department of Fisheries and Oceans, Canada – \$10,000;
 - Korea Institute of Ocean Science and Technology, Korea – \$5,000 US;
 - National Marine Fisheries Service of NOAA, USA – \$23,219 (\$11,219 from the 2012/2013 grant and \$12,000 from the 2013/2014 grant);
- The following organizations/programs provided funding for the 2013 PICES Summer School on “*Ocean observing systems and ecosystem monitoring*” (August 19–23, 2013, Newport, Oregon, USA):
 - National Science Foundation (USA) ~ \$33,500 US (a grant to the US national delegate through the Oregon State University)
 - Ocean Observatories Initiatives and Hatfield Marine Science Center ~\$11,000 US (through the Oregon State University)
 - North Pacific Research Board (USA) –\$5,000 US;
 - Scientific Committee on Oceanic Research (SCOR) – \$4,900 US
 - Integrated Marine Biogeochemistry and Ecosystem Research (IMBER) – \$2,850 US
 - Surface Ocean Lower Atmosphere Study (SOLAS) – \$2,800 US;

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- SCOR provided a grant of \$5,000 US to support participation of scientists from countries with “economies in transition” in SCOR-relevant sessions and/or workshops at PICES-2013.

Operations of the PICES Secretariat

- The Korea Institute of Ocean Science and Technology contributed \$20,000 US to support a part-time contract position at the PICES Secretariat to assist the Science Board Chairman.
- An overhead of \$16,905 of the *Year 2* budget for the PICES/MAFF project on “*Marine ecosystem health and human well-being*” was retained to offset expenses related to the Secretariat’s involvement in the project.
- An overhead of \$25,194 of the US contribution related to the World Ocean Assessment was retained to offset expenses related to the Secretariat’s involvement in the project.

F&A Endnote 6

PROPOSED *FY* 2014 BUDGET

Sources for General Fund (GNE)	Amount	
National contributions	744,000	(\$124,000 per Contracting Party)
Transfer from Working Capital Fund	131,000	
Total	875,000	

Category	GNE Allotment	WCF Allotments
Personnel Services	570,000	benefit adjustments and additional contribution to the IFC Pension Plan
Annual Meeting	40,000	registration fee revenue as needed/available
Special Meetings/Travel	180,000	encumbered funds as needed/available
Publications/Communications	58,000	
Office/Administrative	27,000	
Projects		encumbered funds as needed/available
Total	875,000	

Estimated interest and other income	169,000
Net income tax levies	70,000
Tax (GST, PST) rebate	10,000
Interest	10,000
Registration fees for PICES-2014	65,000
Overhead from the PICES/MAFF project	14,000