PALAU INTERNATIONAL CORAL REEF CENTER
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Palau International Coral Reef Center:

Report on the Financial Statements

We have audited the accompanying financial statements of the Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended 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 accounting principles generally accepted in the United States of America; this includes 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 financial position of the Palau International Coral Reef Center as of September 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Center's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Investments as of September 30, 2014 (pages 25 and 26) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Investments is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Investments is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2015 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Deloitte & Touche LLC

March 11, 2015

Palau International Coral Reef Center

PALAU INTERNATIONAL CORAL REEF CENTER

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2014

This Management's Discussion and Analysis of the Palau International Coral Reef Center (the Center) provides an overview to the financial activities and performance of the Center for the fiscal year ended September 30, 2014, with selected comparative information for the fiscal years ended September 30, 2013 and 2012.

ORGANIZATION AND MISSION

The Center was created by Public Law 5-17 in November 1998 as a public nonprofit coral reef research, education and training center operating under a Board of Directors. The mission of the Center is to guide efforts supporting coral reef stewardship through research and its applications for the people of Palau, Micronesia and the world. The Center is designed to assist in improving the management, use and conservation of Palau and the world's marine environment, and to serve as a direct education tool and a tourism attraction through aquarium exhibits which highlight Palau's marine ecosystems and species.

The Republic of Palau (ROP) received funding of US $7.3 million from the Government of Japan for the construction of the Center. The construction commenced in November 1999 and the facility opened in January 2001. Located on an 8,248 square meter pier, the Center features three main buildings: a research facility, visitor education and awareness exhibit areas, and an administration complex.

To achieve its mission, the Center developed and adopted its Strategic Plan 2002-2006 (phase 1) with goals and objectives to guide it towards a self-sustaining center of excellence for marine research, training and educational activities. The strategic plan focuses on the Center's activities in five program areas - research, environmental education and public awareness, aquarium exhibits, institutional development and income generation, and engineering and maintenance - as key to becoming a center of excellence in self-sustained research and educational programs.

In September 2006 when phase 1 of the Palau International Coral Reef Center Strengthening Project was completed, the Center developed and adopted Strategic Plan 2007-2012, which is phase 2 of the project with the same focus on the five program areas, but with a regional focus. That is, sharing what we have learned over the years with our neighbors in the Micronesia region by way of collaboration, sharing and transfer of knowledge, and capacity building. Activities of the Center will be locally responsive and globally significant.

In November 2012, the Center adopted a five-year Strategic Plan with a clear vision and core values along with its mission. In June 2014, the Board of Directors revised and approved a more streamlined vision statement.

VISION

The Center's vision is to guide efforts supporting coral reef stewardship through research and its application for the people of Palau, Micronesia and the world.

CORE VALUES

The Center is guided by the following core values:

1. We believe in working together in a spirit of cooperation, teamwork and partnership both within the Center and with external partners.

CORE VALUES, CONTINUED

2. We achieve meaningful results through hard work focus and effective application of our knowledge and skills.

3. We are reliable and consistent, providing excellent service to our guests, clients and partners.

4. We deliver quality information and objective and innovative science in order to support sound resource management decisions and actions.

5. We are visionaries, pursuing and adapting to important trends and opportunities.

6. We invest in people and learning, creating a nurturing environment for our staff and partners and promoting cultural awareness and sensitivity, community well-being and the application of traditional knowledge.

FINANCIAL STATEMENTS

The financial statements of the Center are prepared following the provisions of the Governmental Accounting Standards Board and in compliance with accounting principles generally accepted in the United States of America as applied to governmental entities and proprietary funds. The flow of economic resources measurement focus is used as the basis of accounting for proprietary funds in which the statement of net position includes all assets and liabilities associated with the operation of the fund. The accrual basis of accounting is the method used to record revenues when earned and expenses when incurred.

OVERVIEW OF FINANCIAL OPERATIONS

In fiscal year 2014, operating revenues decreased by 13% ($826,195 in fiscal year 2014 versus $953,762 in fiscal year 2014) mainly due to decreases in grant revenues by 44%, education program fee by 84% and donations by 13%. On the other hand, facility user and admission fees increased by 35%, research facilities by 18% and boat fee by 25% mainly due to increase numbers of researchers using the facilities. Furthermore, the Center hosted a fundraising event which increased fundraising revenues by $27,373.

In fiscal year 2013, operating revenues increased by 42% ($953,762 in fiscal year 2013 versus $673,546 in fiscal year 2012) mainly due to increases in research facilities by 389%, grant revenues by 114%, education program fee by 116%, merchandise sales by 47%, boat fee by 6% and other revenues by 165%. On the other hand, facility user and admission fees decreased by 17% mainly due to a decrease in admissions to the aquarium. As Palau is still recovering from Typhoon Bopha, the Center was not able to hold its annual anniversary fundraising event which decreased donation and fundraising revenues by $53,610.

Operating expenses increased by 9%; $1,172,600 in fiscal year 2014 versus $1,072,165 in fiscal year 2013. Personnel expenses (salaries, wages and fringe benefits) increased by 5% ($462,009 in fiscal year 2014 versus $439,335 in fiscal year 2013) as a result of hiring more researchers. Notable increases in expenses include depreciation (31%), utilities (18%), supplies and printing (47%), fuel (31%), merchandise cost (17%) and anniversary (4,531%). Notable decreases in expenses include professional services (19%), repairs and maintenance (23%), travel (16%) and other expenses (41%).

Operating expenses increased by 16% from $921,716 in fiscal year 2012 to $1,072,165 in fiscal year 2013. Personnel expenses (salaries, wages and fringe benefits) increased by 8% from $405,233 in fiscal year 2012 to $439,335 in fiscal year 2013 as a result of hiring a Business Manager and researchers. Notable increases in expenses include supplies and printing (85%), fuel (15%), communications (20%), travel (80%) and professional services (37%). Notable decreases in expenses include depreciation (1%), insurance (38%), anniversary (95%), training (11%) and dues and subscriptions (66%). The increase in operating costs is also attributed largely to an increase in merchandise cost (100%), repair and maintenance (144%) and utilities (2%). Most of the repair and maintenance included constructing new exhibits and signs and repairing existing exhibits aiming to make the aquarium more appealing and attractive.

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Government appropriations increased by 12% from $357,000 in fiscal year 2013 to $400,000 in fiscal year 2014. Fair value of investments increased by 84% from $7,275 in fiscal year 2013 to $13,357 in fiscal 2014. Net income before capital contributions decreased by 73% from $240,302 in fiscal year 2013 to $65,537 in fiscal year 2014 due to a notable decrease in revenues by 13% and an increase in expenses by 9%. Net position increased by 26% from $2,593,761 to $3,262,833 mainly due to capital contributions of $603,535 from the Project for Sustainable Management of Coral Reef and Island Ecosystem: Responding to the Climate Change (PCoRIE) project.

In fiscal year 2013, total operating loss decreased by $121,113 due to management's continued implementation of cost-cutting measures and an increase in fundraising activities such as grant writing proposals, accommodating researchers, etc. Changes implemented resulted in an increase in net position $128,610 greater than fiscal year 2012. Change in net position for fiscal year 2013 as compared to fiscal year 2012 improved by 115% from $111,692 in fiscal year 2012 to $240,302 in fiscal year 2013. As a result, total net position increased from $2,353,459 in fiscal year 2012 to $2,593,761 in fiscal year 2013.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2014, 2013 and 2012 follows:

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014, 2013 and 2012

	2014	2013	Increase (Decrease) from 2013	2012
Operating revenues:				
Grants	$ 324,470	$ 577,677	-44%	$ 270,040
Facility user and admission fees	125,281	92,521	35%	111,826
Donations	38,602	44,523	-13%	66,656
Merchandise sales	45,738	35,125	30%	23,884
Fund raising	28,907	1,534	1784%	33,011
Contract service	142,233	69,700	104%	103,179
Boat fee	35,967	28,712	25%	27,097
Accommodation	1,942	1,665	17%	8,822
Research facilities	73,568	62,185	18%	12,705
Education program fee	2,230	13,966	-84%	6,455
Other	7,257	26,154	-72%	9,871
Total operating revenues	**826,195**	**953,762**	**-13%**	**673,546**
(Bad debts) recoveries	(1,415)	(5,570)	-75%	3,084
	824,780	948,192	-13%	676,630
Operating expenses:				
Salaries, wages and fringe benefits	462,009	439,335	5%	405,233
Depreciation	216,798	164,956	31%	167,337
Utilities	109,591	93,062	18%	90,879
Donations to State governments	-	3,270	-100%	-
Supplies and printing	106,382	72,517	47%	39,276
Professional services	67,053	82,339	-19%	60,135
Travel	31,071	36,873	-16%	20,488
Fuel	39,094	29,750	31%	25,759
Merchandise cost	29,261	25,019	17%	12,536
Insurance	16,252	9,698	68%	15,714
Communications	8,865	9,102	-3%	7,578
Anniversary	7,872	170	4531%	3,472
Repairs and maintenance	36,472	47,324	-23%	19,380
Training	8,957	7,549	19%	8,509
Dues and subscription	467	308	52%	898
Entertainment	3,571	2,848	25%	746
Postage and freight	1,274	919	39%	142
Other	27,611	47,126	-41%	43,634
Total operating expenses	**1,172,600**	**1,072,165**	**9%**	**921,716**
Operating loss	**(347,820)**	**(123,973)**	**181%**	**(245,086)**
Nonoperating revenues (expenses):				
Appropriations	400,000	357,000	12%	356,708
Net increase in the fair value of investments	13,357	7,275	84%	70
Total nonoperating revenues (expenses), net	**413,357**	**364,275**	**13%**	**356,778**
Net income before capital contributions	**65,537**	**240,302**	**-73%**	**111,692**
Capital contributions	603,535	-	100%	-
Change in net position	**669,072**	**240,302**	**178%**	**111,692**
Net position at beginning of year	**2,593,761**	**2,353,459**	**10%**	**2,241,767**
Net position at end of year	**$ 3,262,833**	**$ 2,593,761**	**26%**	**$ 2,353,459**

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Cash Flows
Years Ended September 30, 2014, 2013 and 2012

	2014	2013	Increase (Decrease) from 2013	2012
Cash flows from operating activities	$ (121,280)	$ (13,723)	784%	$ (278,912)
Cash flows from noncapital financing activities	429,784	327,216	31%	356,708
Cash flows from capital and related financing activities	(72,073)	(59,107)	22%	(60,131)
Cash flows from investing activities	(11,996)	(160,075)	-93%	70
Net increase in cash	**224,435**	**94,311**	**138%**	**17,735**
Cash at beginning of year	**384,346**	**290,035**	**33%**	**272,300**
Cash at end of year	**$ 608,781**	**$ 384,346**	**58%**	**$ 290,035**

OVERVIEW OF FINANCIAL POSITION

Total current assets increased by 20% in fiscal year 2014 over fiscal year 2013 ($1,037,334 versus $864,053), due mostly to a 58% increase in cash at September 30, 2014 ($608,781 versus $384,346). Investments increased by 15% in fiscal year 2014 over fiscal year 2013 ($192,703 versus $167,350). Accounts receivable decreased by 27% mainly due to a decrease in grant receivables by 19% and other receivables by 20%. Total assets increased by 21% in fiscal year 2014 over fiscal year 2013 ($3,346,814 versus $2,766,499). The increase in total assets was mainly due to an increase in property, plant and equipment by 21% in fiscal year 2014 as a result of the transfer of equipment from the PCoRIE project to the Center.

Total current assets increased by 65% in fiscal year 2013 over fiscal year 2012 ($864,053 versus $524,603), due mostly to a 51% increase in receivables at September 30, 2013 ($251,701 versus $166,650). Cash increased by 33% in fiscal year 2013 over fiscal year 2012 ($384,346 versus $290,035). Most grants are multi-year and $182,265 represents grant amounts that have been expended but not received in fiscal year 2013. The total assets increased by 8% in fiscal year 2013 over fiscal year 2012 ($2,766,499 versus $2,568,871).

Total liabilities decreased by 51% as a result of repayment of the Center's note payable to the Palau Public Utilities Corporation. Accrued expenses decreased by 24% mainly due to payout of staff who retired or resigned to further their education. As such, accounts payable decreased by 39% ($30,327 versus $49,906) in fiscal year 2014 over fiscal year 2013. Total invested in capital assets increased by 21% mainly due to the donation of capital assets from the PCoRIE project.

Grant receipts are initially posted as deferred revenue waiting to be expensed as projects are implemented. Due to a change in policy, deferred revenue was reclassified to restricted net position resulting in an increase in change in net position of 115%. The Center strived to pay its debts and signed a note payable with the Palau Public Utilities Corporation (PPUC) for its outstanding electric bills. The balance of the note payable to PPUC at the end of fiscal year 2013 was $51,776 and $87,749 in fiscal year 2012. Total liabilities decreased by 20% during fiscal year 2013 from $215,412 in fiscal year 2012 to $172,738 in fiscal year 2013.

As the Center continues to grow and operate, it incurs expenses and recognizes revenues as projects are implemented. As such, accounts payable increased by 109% ($49,906 versus $23,862) in fiscal year 2013 over fiscal year 2012 and deferred revenue decreased by 100% ($-0- versus $29,979) in fiscal year 2013 over fiscal year 2012.

OVERVIEW OF FINANCIAL POSITION, CONTINUED

Capital Assets

At September 30, 2014, 2013 and 2012, the Center had $2,309,480, $1,902,446 and $2,044,268, respectively, invested in capital assets, net of accumulated depreciation where applicable, including buildings, mechanical, electrical, research, office, exhibit and marine equipment, aquarium, furniture and fixtures, computers and vehicles, which represents a net increase in fiscal year 2014 of $407,034 or 21% over fiscal year 2013 and a net decrease in fiscal year 2013 of $141,822 or 7% over fiscal year 2012. The increase in capital assets was due to the transfer of lab equipment, a boat and a car from the PCoRIE project to the Center. See note 5 to the financial statements for more information on the Center's property, plant and equipment.

Long-Term Debt

At September 30, 2014 and 2013, the Center had $-0- and $51,776, respectively, in long-term debt outstanding. See note 6 to the financial statements for more detailed information on the Center's long-term debt and changes therein.

A summary of the Center's statements of net position at September 30, 2014, 2013 and 2012 is shown below:

Statements of Net Position
September 30, 2014, 2013 and 2012

	2014	2013	Increase (Decrease) from 2013	2012
Current assets:				
Cash	$ 608,781	$ 384,346	58%	$ 290,035
Investments	192,703	167,350	15%	-
Receivables:				
Grantor agencies	148,362	182,265	-19%	142,345
Receivable from Republic of Palau	-	29,784	-100%	-
Other	72,939	91,630	-20%	70,861
	221,301	303,679	-27%	213,206
Less allowance for doubtful accounts	(47,211)	(51,978)	-9%	(46,556)
Total receivables, net	174,090	251,701	-31%	166,650
Inventories	56,484	53,662	5%	62,642
Prepaid expense	5,276	6,994	-25%	5,276
Total current assets	**1,037,334**	**864,053**	**20%**	**524,603**
Property, plant and equipment, net	2,309,480	1,902,446	21%	2,044,268
Total assets	**$ 3,346,814**	**$ 2,766,499**	**21%**	**$ 2,568,871**
Current liabilities:				
Current portion of note payable	$ -	$ 23,897	-100%	$ 21,565
Accounts payable	30,327	49,906	-39%	23,862
Deferred revenue	-	-	0%	29,979
Accrued expenses	53,654	71,056	-24%	73,822
Total current liabilities	**83,981**	**144,859**	**-42%**	**149,228**
Note payable, net of current portion	-	27,879	-100%	66,184
Total liabilities	**83,981**	**172,738**	**-51%**	**215,412**
Net position:				
Invested in capital assets	2,309,480	1,902,446	21%	2,044,268
Restricted	123,556	220,943	-44%	-
Unrestricted	829,797	470,372	76%	309,191
Total net position	**3,262,833**	**2,593,761**	**26%**	**2,353,459**
Total liabilities and net position	**$ 3,346,814**	**$ 2,766,499**	**21%**	**$ 2,568,871**

ECONOMIC OUTLOOK

The Center's role in the region and internationally continues to increase as research groups that work in Palau continue to publish their results in high impact journals. The Center has several research groups from the United States of America and Australia who conduct much of their research in Palau using the Center's facilities and boats. These outside researchers are bringing in a significant amount of funding to the Center.

The Center's researchers are also being recognized because of their publications and technical reports. The outlook for contract services utilizing our researchers will continue to improve as our researchers become even more established.

Finally, the Center has developed a fundraising plan which was recently adopted by the Board of Directors. The Center is now in the process of hiring a full-time fundraiser who will focus on raising unrestricted funds for the Center. Our initial analyses indicate that the Center can be successful with fundraising efforts to continue to grow and improve in the coming years.

A ground breaking ceremony was held for the Center's new facility that will provide office space and living accommodations and will generate new revenue to improve the Center's financial standing.

Finally, with the increase in tourism, the Center hopes that it will be able to capture tourists, especially those from mainland China. The Center is focusing on marketing those independent travelers while at the same time training to work with tour companies to include the Center in their travel package.

The Center is confident that the economic outlook is positive in the coming years as it continues to work to improve its revenue streams and financial standing.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the Center's report on the audit of financial statements, which is dated April 25, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

CONTACTING THE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Center's finances and to demonstrate the Center's accountability for the money it receives. If you have questions about this report, or need additional information, please contact the Chief Executive Officer at the Palau International Coral Reef Center, P.O. Box 7086, Koror, Palau 96940, or e-mail ygolbuu@picrc.org or call 488-6950.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash	$ 608,781	$ 384,346
Investments	192,703	167,350
Receivables:		
Grantor agencies	148,362	182,265
Receivable from Republic of Palau	-	29,784
Other	72,939	91,630
	221,301	303,679
Less allowance for doubtful accounts	(47,211)	(51,978)
Total receivables, net	174,090	251,701
Inventories	56,484	53,662
Prepaid expense	5,276	6,994
Total current assets	1,037,334	864,053
Property, plant and equipment, net	2,309,480	1,902,446
	$ 3,346,814	$ 2,766,499

LIABILITIES AND NET POSITION	2014	2013
Current liabilities:		
Current portion of note payable	$ -	$ 23,897
Accounts payable	30,327	49,906
Accrued expenses	53,654	71,056
Total current liabilities	83,981	144,859
Note payable, net of current portion	-	27,879
Total liabilities	83,981	172,738
Net position:		
Invested in capital assets	2,309,480	1,902,446
Restricted	123,556	220,943
Unrestricted	829,797	470,372
Total net position	3,262,833	2,593,761
	$ 3,346,814	$ 2,766,499

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Grants	$ 324,470	$ 577,677
Contract service	142,233	69,700
Facility user and admission fees	125,281	92,521
Research facilities	73,568	62,185
Merchandise sales	45,738	35,125
Donations	38,602	44,523
Boat fee	35,967	28,712
Fund raising	28,907	1,534
Education program fee	2,230	13,966
Accomodation	1,942	1,665
Other	7,257	26,154
Total operating revenues	826,195	953,762
Bad debts	(1,415)	(5,570)
	824,780	948,192
Operating expenses:		
Salaries, wages and fringe benefits	462,009	439,335
Depreciation	216,798	164,956
Utilities	109,591	93,062
Supplies and printing	106,382	72,517
Professional services	67,053	82,339
Fuel	39,094	29,750
Repairs and maintenance	36,472	47,324
Travel	31,071	36,873
Merchandise cost	29,261	25,019
Insurance	16,252	9,698
Training	8,957	7,549
Communications	8,865	9,102
Anniversary	7,872	170
Entertainment	3,571	2,848
Postage and freight	1,274	919
Dues and subscriptions	467	308
Donations to State governments	-	3,270
Other	27,611	47,126
Total operating expenses	1,172,600	1,072,165
Operating loss	(347,820)	(123,973)
Nonoperating revenues (expenses):		
Appropriations	400,000	357,000
Net increase in the fair value of investments	13,357	7,275
Total nonoperating revenues (expenses), net	413,357	364,275
Net income before capital contributions	65,537	240,302
Capital contributions	603,535	-
Change in net position	669,072	240,302
Net position at beginning of year	2,593,761	2,353,459
Net position at end of year	$ 3,262,833	$ 2,593,761

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	$ 871,503	$ 870,208
Cash payments to suppliers for goods and services	(513,372)	(441,830)
Cash payments to employees for services	(479,411)	(442,101)
Net cash used for operating activities	(121,280)	(13,723)
Cash flows from noncapital financing activities:		
Appropriations	429,784	327,216
Net cash provided by noncapital financing activities	429,784	327,216
Cash flows from capital and related financing activities:		
Property, plant and equipment acquisitions	(20,297)	(23,134)
Payments on note payable	(51,776)	(35,973)
Net cash used for capital and related financing activities	(72,073)	(59,107)
Cash flows from investing activities:		
Purchase of investments	(11,996)	(159,563)
Interest payments, net	-	(512)
Net cash used for investing activities	(11,996)	(160,075)
Net increase in cash	224,435	94,311
Cash at beginning of year	384,346	290,035
Cash at end of year	$ 608,781	$ 384,346
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (347,820)	$ (123,973)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	216,798	164,956
Bad debts	1,415	5,570
(Increase) decrease in assets:		
Receivables grantor agencies	33,903	(39,920)
Receivables, other	12,509	(20,917)
Inventories	(2,822)	8,980
Prepaid expense	1,718	(1,718)
Increase (decrease) in liabilities:		
Accounts payable	(19,579)	26,044
Unearned revenue	-	(29,979)
Accrued expenses	(17,402)	(2,766)
Net cash used for operating activities	$ (121,280)	$ (13,723)
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of contributed capital assets:		
Noncash increase in property, plant and equipment	$ 603,535	$ -
Noncash increase in capital contributions	(603,535)	-
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau (ROP), was created on November 20, 1998, under the provisions of ROP Public Law (RPPL) 5-17. The Law created a wholly owned government non-profit corporation managed by a Board of Directors appointed by the President of ROP with the advice and consent of the Senate of the Olbiil Era Kelulau (ROP National Congress). The primary purpose of the Center is to carry out marine research and educate the public about the ecological, economic and cultural importance of coral reefs and their associated marine habitats.

The Center's financial statements are incorporated into the financial statements of ROP as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of the Center conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. The Center utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statement of net position. Proprietary fund operating statements present increases and decreases in net total assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Cash

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 — Deposits that are federally insured or collateralized with securities held by the Center or its agent in the Center's name;

Category 2 — Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Center's name; or

Category 3 — Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Center's name and non-collateralized deposits.

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Center does not have a deposit policy for custodial credit risk.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2014 and 2013, cash was $608,781 and $384,346, respectively, and the corresponding bank balances were $612,652 and $393,974, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2014 and 2013, bank deposits of $459,431 and $258,162 were FDIC insured, respectively. Collateralization of deposits is not required; therefore, uninsured deposits are exposed to custodial credit risk.

In line with the Center's Strategic Plan to become self-sustaining, cash of $7,030 and $8,163 and investments of $192,703 and $167,350 have been internally restricted as of September 30, 2014 and 2013, respectively. These restricted funds consist of solicited donations and a portion of operating revenues designated by the Board.

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Center or its agent in the Center's name;

Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in the Center's name; or

Category 3 Investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Center's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Marketable securities held for investment purposes are stated at fair value, which is primarily based on quoted market prices. Fixed income securities are reported at amortized cost with discounts or premiums amortized using the effective interest method subject to adjustment for market declines judged to be other than temporary. The Center's investments are held by a bank-administered trust fund.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments that represents five percent (5%) or more of total investments of the Center. As of September 30, 2014 and 2013, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	2014	2013
Fixed income securities:		
Federal National Mortgage Association	12%	13%
U.S. Treasury Note	11%	6%
Exchange-traded and closed-end funds:		
Ishares Iboxx Investment Grade Corporate Bond	-	8%
Ishares Intermediate Credit Bond ETF	16%	8%

The following investment policy governs the investment of assets of the Center.

General:

1. Any pertinent restrictions existing under the laws of ROP with respect to the Center, that may exist now or in the future, will be the governing restriction.

2. U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.

3. No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of Investment Manager's portfolio.

4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.

5. Investments in a registered mutual fund managed by the Investment Manager are subject to the prior approval of the Board of Directors.

6. The following securities and transactions are not authorized without prior written Board of Directors' approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and margin transactions.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investments may be made in:

A. Equity Investments

1. Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive relative to the economic or industry sector allocations of the individual index benchmarks set for each Investment Manager.

2. Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on the major exchanges and over the counter.

3. The Investment Managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, the Investment Managers will be evaluated against their peers on the performance of the total funds under their direct management.

4. Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible

B. Fixed Income Investments

1. The role of fixed income investments in the Center's portfolio is to offer a highly predictable and dependable source of current cash income and to reduce the volatility of the entire portfolio.

2. All fixed income securities held in the portfolio shall have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.

3. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the Investment Manager has specific prior written authorization from the Directors.

4. Total portfolio quality (capitalization weighted) shall maintain an "A" rating.

The Center's fixed income investments will emphasize U.S. issues but will not exclude exposure to non-US dollar denominated securities.

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

C. Cash and Cash Equivalents

1. Cash equivalent reserves shall consist of cash instruments having a quality rating of A-1, P-1 or their equivalent. U.S. Treasury and agency securities, bankers acceptances, certificates of deposit, and collateralized repurchase agreements are also acceptable investment vehicles. Custodial sweep accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.

2. In the case of certificates of deposit, they must be issued by FDIC insured institutions. Deposits in institutions with less than $10,000,000 in assets may not be made in excess of $100,000 (or prevailing FDIC insurance limit), unless the deposit is fully collateralized by U.S. Treasury securities.

3. No single issue shall have a maturity of greater than two (2) years.

4. Custodial sweep accounts or similar money market portfolios are permitted and must have an average maturity of less than one (1) year.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Center will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Center's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Center's name by the Center's custodial financial institutions at September 30, 2014 and 2013.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

The Center values its investments at fair value in accordance with GASB Statement 31. The Center's investments as of September 30, 2014 and 2013 are as follows:

	Fair Value	
Investment Type	2014	2013
Cash and money market funds	$ 7,217	$ 5,401
Common stocks	111,041	100,611
Exchange-traded and closed-end funds	29,951	30,009
Fixed income securities	44,494	31,329
	$ 192,703	$ 167,350

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings. All fixed income securities have a credit rating of AAA based on Moody's credit quality rating and mature within one to five years.

(2) Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established through a provision charged to expense. Specific accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectability and prior loss experience. Bad debts are written-off against the allowance based on the specific identification method.

Inventories

Inventories of spare parts, merchandise and supplies are stated at the lower of cost (first-in, first out) or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of $1,000.

Unearned Revenue

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to their being earned.

Retirement Plan

The Center contributes to the Palau Civil Service Pension Trust Fund (the Fund), a defined benefit, cost-sharing, multi-employer pension plan established and administered by ROP. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Palau 96940.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the ROP, ROP State Governments and ROP agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. On April 30, 2013, RPPL 9-2 was enacted which eliminates the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Center contributed $24,255, $21,134 and $29,996 to the Fund during the fiscal years 2014, 2013 and 2012, respectively, which were equal to the required contributions for each year.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

Under the provisions of RPPL No. 2-26, the Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Center's payroll for the years ended September 30, 2014 and 2013 was covered by the Fund's pension plan.

The Fund utilizes the actuarial cost method termed "level aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

The Fund's October 1, 2013 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	$ 82,099,216
Participants in pay status	61,865,857
Participants with vested deferred benefits	3,323,468
Total pension benefit obligation	147,288,541
Net assets available for benefits, at market value	34,261,206
Unfunded benefit obligation	$ 113,027,335

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. The amount of the unfunded liability that the Center may be liable for has not been determined and is not included as a liability in the accompanying statements of net position.

Compensated Absences

Vested or accumulated unpaid annual leave is accrued when earned and is included in the statement of net position as an accrued expense. Annual leave accumulates at the rate of 6 hours biweekly, if less than 6 years of service, 7 hours biweekly, if between 7 and 14 years of service, and 8 hours biweekly if 15 years or more of service.

(2) Summary of Significant Accounting Policies, Continued

Taxes

RPPL 5-17 exempted the Center from all national and state non-payroll taxes or fees.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses include all direct and administrative revenues and expenses. Non-operating revenues and expenses result from investing and financing activities including operating grants.

Net Position

The Center's net position is classified as follows:

- Invested in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. The Center considers funds received through various grants to be restricted until expended in accordance with grant terms and conditions. Restricted net position resulted from the following grants at September 30, 2014 and 2013;

	2014	2013
The Pew Charitable Trust	$ 23,794	$ 47,318
University of South Pacific European Union Global Climate Change	64,841	15,161
Australia Aid (Environmental Education)	8,450	8,450
Australia Aid (Education and Outreach)	12,657	-
David and Lucile Packard Foundation	4,500	98,956
Protected Areas Network Fund	-	25,000
United Nations Educational, Scientific, and Cultural Organization	9,314	26,058
	$ 123,556	$ 220,943

- Unrestricted: net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2014, the Center implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 67, *Financial Reporting for Pension Plans, which* revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, which* revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Statement 68 will require the Center to recognize a net pension liability based on the percentage of the actuarial present value of projected benefit payments allocated to the Center by the Palau Civil Service Trust Fund (the Fund). The Fund has not communicated amounts to the Center which may be material and will be recorded on October 1, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Center.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Center.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, which* addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Center.

Reclassifications

Certain 2013 balances in the accompanying financial statements have been reclassified to conform to the 2014 presentation.

(3) Due From Grantor Agencies

The Center is a direct recipient of a contract award received from the David and Lucile Packard Foundation, the United Nations Educational, Scientific, and Cultural Organization, Micronesia Conservation Trust, the University of New Hampshire, the University of South Pacific and the University of Hawaii. Excess grant disbursements over receipts are recognized as due from grantor agencies until such funds are received in accordance with grant terms and conditions.

Changes in the due from grantor agency account for the years ended September 30, 2014 and 2013 are as follows:

	2014	2013
Balance at beginning of year	$ 182,265	$ 142,345
Deductions - cash receipts from grantor agency	(358,373)	(507,778)
Additions - program outlays	324,470	577,677
Decrease in unearned revenue	-	(29,979)
Balance at end of year	$ 148,362	$ 182,265

(4) Inventories

Inventories as of September 30, 2014 and 2013, consist of the following:

	2014	2013
Spare parts	$ 37,092	$ 37,092
Merchandise	19,392	16,570
	$ 56,484	$ 53,662

(5) Property, Plant and Equipment

Property, plant and equipment as of September 30, 2014 and 2013, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2013	Additions	Deletions	Balance at September 30, 2014
Buildings	10 - 30 years	$ 3,689,672	$ 2,200	$ -	$ 3,691,872
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,405,067	586,243	(84,399)	1,906,911
Aquarium	7 years	1,591,934	-	(6,574)	1,585,360
Furniture and fixtures	5 years	141,087	7,189	(51,800)	96,476
Computers	5 years	15,073	-	-	15,073
Vehicles	3 years	73,910	28,200	(16,900)	85,210
		6,916,743	623,832	(159,673)	7,380,902
Less accumulated depreciation		(5,014,297)	(216,798)	159,673	(5,071,422)
		$ 1,902,446	$ 407,034	$ -	$ 2,309,480

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Buildings	10 - 30 years	$ 3,694,915	$ -	$ (5,243)	$ 3,689,672
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,602,201	8,194	(205,328)	1,405,067
Aquarium	7 years	1,591,934	-	-	1,591,934
Furniture and fixtures	5 years	155,323	2,250	(16,486)	141,087
Computers	5 years	22,768	-	(7,695)	15,073
Vehicles	3 years	130,467	12,690	(69,247)	73,910
		7,197,608	23,134	(303,999)	6,916,743
Less accumulated depreciation		(5,153,340)	(164,956)	303,999	(5,014,297)
		$ 2,044,268	$ (141,822)	$ -	$ 1,902,446

During the year ended September 30, 2014, the Center received capital assets from a grantor of $603,535. Such contributions from the grantor are subject to time restrictions and will expire at the end of the project on March 31, 2018. The capital assets are recorded as additions to property, plant and equipment and capital contributions in the statement of net position and the statement of revenue, expenses and changes in net position, respectively.

(6) Note Payable

	2014	2013
Note payable to the Palau Public Utilities Corporation (PPUC, a related party), non-interest bearing, due over thirty-two months beginning March 2013, with a fixed monthly payment of $1,991. The note was fully repaid as of September 30, 2014.	$ -	$ 51,776
Less current installment	-	(23,897)
Long-term debt	$ -	$ 27,879

(6) Note Payable, Continued

Changes in note payable for the years ended September 30, 2014 and 2013, are as follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
PPUC	$ 51,776	$ -	$ (51,776)	$ -	$ -

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
PPUC	$ 87,749	$ -	$ (35,973)	$ 51,776	$ 23,897

(7) Republic of Palau

During the years ended September 30, 2014 and 2013, the Center recorded appropriations for operations of $400,000 through RPPL 9-15 and $357,000 through RPPL 9-5, respectively. As of September 30, 2014 and 2013, receivables from ROP for uncollected appropriations are $-0- and $29,784, respectively.

The Center conducts its operations on land without charge in the State of Koror, through a land settlement agreement dated February 3, 1997 between ROP, the Palau Public Lands Authority, the Koror State Government and the Koror State Public Lands Authority. The land settlement agreement stipulates that ROP will retain the use of the land for as long as it is used for the Center and as long as no commercial or other profit-making ventures are conducted on the premises.

(8) Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage during the past three years.

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Investments
September 30, 2014

	Cost	Fair Value
Cash and Money Market Funds		
Morgan Stanley Sicav US$ Liq	$ 6,477	$ 7,217
Total Cash and Money Market Funds	6,477	7,217
Equities		
Common Stock		
Allstate Corp	2,965	3,682
American Airls Group Inc	1,181	1,029
American Express Co	1,563	1,926
American Tower Reit Com	1,158	1,405
Apple Inc	4,172	5,038
Bank of America Corp	2,903	3,308
Biogen Idec Inc	1,695	2,316
Boeing Co	1,986	2,293
Capital One Financial Corp	2,294	2,285
CDN Pacific Ry Ltd	3,593	5,394
Celgene Corp	501	758
Charles Schwab	2,116	2,939
Cisco Sys Inc	1,133	1,108
Citigroup Inc	1,225	1,244
Comcast Corp Class A	3,217	3,818
ConocoPhillips	2,727	2,831
CVS Health Corp Com	2,299	3,024
Delta Air Lines Inc	1,119	1,157
Facebook Inc	1,489	1,818
Gilead Science	1,618	3,726
Google Inc CL C	839	1,155
Google Inc CL A	1,679	2,354
Halliburton Co	1,842	2,709
Hewlett Packard	2,146	2,199
Home Depot Inc	2,165	2,752
Honeywell International Inc	2,184	2,235
Johnson & Johnson	1,353	1,705
JPMorgan Chase & Co	2,689	3,133
Kinder Morgan Incorp	1,162	1,112
Macy's Inc	1,669	1,629
Marsh & Mclennan Cos Inc	973	1,361
Mastercard Inc CL A	1,223	1,552
McKesson Corp	2,716	2,920
Medtronic Inc	2,206	2,168
Merck & Co Inc	1,665	1,719
Metlife Incorporated	1,130	1,074
Micron Tech Inc	1,620	1,713
Microsoft Corp	3,075	3,570
Morgan Stanley	2,253	2,385
Ralph Lauren Corp	1,040	988
Roche Holdings Adr	1,125	1,110
Schlumberger Ltd	2,170	2,542
Starwood Htls & Rsts WW Inc	1,390	1,498
TE Connectivity Ltd	1,634	1,714
Thermo Fisher Scientific	1,119	1,095
Time Warner Inc	1,100	978
Twenty-First Century Fox CL A	2,537	2,880
Union Pacific Corp	1,163	1,735
United Technologies Corp	2,184	2,218
Walt Disney Co Hldg Co	2,413	3,739
Total Common Stock	93,418	111,041

See Accompanying Independent Auditors' Report.

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Investments
September 30, 2014

Equities, Continued	Cost	Fair Value
Exchange-Traded and Closed-End Funds		
Ishares Interm Credit Bd Etf	29,941	29,951
Total Exchange-Traded and Closed-End Funds	29,941	29,951
Total Equities	123,359	140,992
Fixed Income Securities		
Government Securities		
United States Treasury Note @ 1.250%, due 10/31/18	20,834	20,847
Fed Natl Mtg Assn @ 0.875%, due 02/08/18	23,684	23,647
Total Government Securities	44,518	44,494
Total Fixed Income Securities	44,518	44,494
Total Cash, Money Market Funds, Equities and Fixed Income Securities	$ 174,354	$ 192,703

See Accompanying Independent Auditors' Report.