

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, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis of a Matter

As discussed in note 2 to the financial statements, during the year ended September 30, 2015, the Center implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result, the Center has elected to restate its 2014 financial statements to reflect the implementation of these standards. Our opinion is not modified with respect to this matter.

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 as well as the Schedule of Proportional Share of the Net Pension Liability on page 31 and the Schedule of Pension Contributions on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB 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, 2015 (pages 33 and 34) 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 June 30, 2016 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

June 30, 2016

PALAU INTERNATIONAL CORAL REEF CENTER

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2015



This Management's Discussion and Analysis of the Palau International Coral Reef Center (the Center) provides an overview of the financial activities and performance of the Center for the fiscal year ended September 30, 2015, with selected comparative information for the fiscal years ended September 30, 2014 and 2013.

ORGANIZATION AND MISSION

The Center was created by Republic of Palau Public Law (RPPL) 5-17 in November 1998 as a public, nonprofit coral reef research, education and training center and is a public corporation owned by the Republic of Palau (ROP). The Center has a governing Board of Directors who are appointed by the President and approved by the Senate of the Olbiil era Kelulau.

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 was established to support management, wise-use and conservation of Palau and the world's marine environment. In addition, the Center's aquarium, which highlights Palau's unique marine ecosystems and organisms living in those ecosystems, serves as a direct education tool and a tourism attraction.

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. The Center will be adding a new building that will house offices and apartments.

To achieve its mission, the Center developed and adopted its Strategic Plan 2002-2006 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 self-sustaining center of excellence in research and educational programs.

In September 2006, the Center developed and adopted Strategic Plan 2007-2012, which focused on the five program areas. In November 2012, the Center adopted a five-year Strategic Plan with a clear vision, core values and a mission statement. In June 2014, the Board of Directors revised and approved a more streamlined vision statement.

VISION

People empowered with Science and Knowledge for Effective Marine Conservation and Management.

MISSION STATEMENT

To guide efforts supporting coral reef stewardship through research and its applications 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.
2. We achieve meaningful results through hard work, focus and effective application of our knowledge and skills.

CORE VALUES, CONTINUED

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 (GASB) 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.

During the year ended September 30, 2015, the Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB Statement Nos. 68 and 71 establish standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local governments. The Center contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing multi-employer plan as defined by GASB Statement No. 68. The implementation resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on the Center's proportionate share of those of the overall Plan. Refer to note 2 for cumulative change and note 3 for details of GASB Statement No. 68.

OVERVIEW OF FINANCIAL OPERATIONS

In fiscal year 2015, operating revenues increased by 16% (\$958,953 in fiscal year 2015 versus \$826,195 in fiscal year 2014) mainly due to increases in grant revenues by 17%, research facilities by 47%, fundraising by 221%, boat fee by 61%, merchandise sales by 10% and accommodations by 794%. The increases were due to the demand for the use of the research facilities and equipment and a successful fundraising event. Facility user and admission fees decreased by 1%, contract service by 40% and other revenues by 14%.

In fiscal year 2014, operating revenues decreased by 13% (\$826,195 in fiscal year 2014 versus \$953,762 in fiscal year 2013) 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 an increase in the number of researchers using the facilities. Furthermore, the Center hosted a fundraising event which increased fundraising revenues by \$27,373.

Operating expenses increased by 8% (\$1,250,406 in fiscal year 2015 versus \$1,152,742 in fiscal year 2014). Personnel expenses (salaries, wages and fringe benefits) increased by 24% (\$547,427 in fiscal year 2015 versus \$442,151 in fiscal year 2014) as a result of the hiring of additional staff. Notable increases in expenses include depreciation (17%), fuel (5%), training (166%), insurance (19%), communications (59%) and anniversary (2%). Notable decreases in expenses include professional services (10%), repairs and maintenance (48%), supplies and printing (12%), utilities (27%), merchandise cost (4%), travel (86%) and entertainment (66%).

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Operating expenses increased by 8% (\$1,152,742 in fiscal year 2014 versus \$1,072,165 in fiscal year 2013). Personnel expenses (salaries, wages and fringe benefits) increased by 1% (\$442,151 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%).

Government appropriations were \$400,000 in fiscal years 2015 and 2014. Fair value of investments decreased by 145% from \$13,357 in fiscal year 2014 to (\$5,951) in fiscal 2015. Net income before capital contributions increased by 20% from \$85,395 in fiscal year 2014 to \$102,586 in fiscal year 2015 due to notable increases in revenues by 16% and in expenses by 8%. Net position increased by 11% from \$1,622,821 to \$1,793,898 mainly due to additional capital contributions and increase in net income before capital contributions by 20%.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2015, 2014 and 2013 follows:

Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2015, 2014 and 2013

	2015	2014 (As Restated)	Increase (Decrease) from 2014	2013 (As Restated)
Operating revenues:				
Grants	\$ 379,712	\$ 324,470	17%	\$ 577,677
Facility user and admission fees	123,435	125,281	-1%	92,521
Research facilities	107,844	73,568	47%	62,185
Fund raising	92,653	28,907	221%	1,534
Contract service	85,200	142,233	-40%	69,700
Boat fee	57,797	35,967	61%	28,712
Merchandise sales	50,100	45,738	10%	35,125
Accommodation	17,360	1,942	794%	1,665
Donations	38,600	38,602	-0%	44,523
Education program fee	-	2,230	-100%	13,966
Other	6,252	7,257	-14%	26,154
Total operating revenues	958,953	826,195	16%	953,762
Bad debts	-	(1,415)	-100%	(5,570)
	<u>958,953</u>	<u>824,780</u>	16%	<u>948,192</u>
Operating expenses:				
Salaries, wages and fringe benefits	547,427	442,151	24%	439,335
Depreciation	253,499	216,798	17%	164,956
Supplies and printing	93,424	106,382	-12%	72,517
Utilities	79,804	109,591	-27%	93,062
Professional services	60,254	67,053	-10%	82,339
Fuel	41,201	39,094	5%	29,750
Merchandise cost	28,129	29,261	-4%	25,019
Training	23,862	8,957	166%	7,549
Insurance	19,325	16,252	19%	9,698
Repairs and maintenance	18,900	36,472	-48%	47,324
Communications	14,110	8,865	59%	9,102
Anniversary	8,016	7,872	2%	170
Travel	4,369	31,071	-86%	36,873
Postage and freight	2,980	1,274	134%	919
Dues and subscriptions	1,517	467	225%	308
Entertainment	1,200	3,571	-66%	2,848
Sales and marketing	337	-	100%	-
Donations to State governments	-	-	0%	3,270
Other	52,052	27,611	89%	47,126
Total operating expenses	1,250,406	1,152,742	8%	1,072,165
Operating loss	(291,453)	(327,962)	-11%	(123,973)
Nonoperating revenues (expenses):				
Appropriations	400,000	400,000	0%	357,000
Net (decrease) increase in the fair value of investments	(5,951)	13,357	-145%	7,275
Total nonoperating revenues (expenses), net	394,049	413,357	-5%	364,275
Net income before capital contributions	102,596	85,395	20%	240,302
Capital contributions	68,481	603,535	-89%	-
Change in net position	171,077	688,930	-75%	240,302
Net position at beginning of year	1,622,821	933,891	74%	693,589
Net position at end of year	\$ 1,793,898	\$ 1,622,821	11%	\$ 933,891

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Cash Flows Years Ended September 30, 2015, 2014 and 2013

	2015	2014	Increase (Decrease) from 2014	2013
Cash flows from operating activities	\$ (20,351)	\$ (121,280)	-83%	\$ (13,723)
Cash flows from noncapital financing activities	400,000	429,784	-7%	327,216
Cash flows from capital and related financing activities	(31,503)	(72,073)	-56%	(59,107)
Cash flows from investing activities	<u>(7,701)</u>	<u>(11,996)</u>	-36%	<u>(160,075)</u>
Net increase in cash	340,445	224,435	52%	94,311
Cash at beginning of year	<u>608,781</u>	<u>384,346</u>	58%	<u>290,035</u>
Cash at end of year	\$ <u>949,226</u>	\$ <u>608,781</u>	56%	\$ <u>384,346</u>

OVERVIEW OF FINANCIAL POSITION

Total current assets increased by 39% in fiscal year 2015 over fiscal year 2014 (\$1,440,870 versus \$1,037,334), due mostly to a 56% increase in cash at September 30, 2015 (\$949,226 versus \$608,781). Grant receivables increased by 22% in fiscal year 2015 over fiscal year 2014 (\$181,738 versus \$148,362). Inventories and prepaid expenses increased by 23% and 284%, respectively, in fiscal year 2015 over fiscal year 2014. Total assets increased by 7% in fiscal year 2015 over fiscal year 2014 (\$3,596,835 versus \$3,346,814).

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 capital assets by 21% in fiscal year 2014 as a result of the transfer of equipment from the PCoRIE project to the Center.

Total liabilities increased by 13% as a result of an increase in accrued expenses by 46% and the implementation of GASB 68. As such, accounts payable decreased by 60% (\$12,205 versus \$30,327) in fiscal year 2015 over fiscal year 2014.

Grant receipts are initially posted as unearned revenue waiting to be expensed as projects are implemented. Due to a change in policy, unearned revenue was reclassified to restricted net position. With this change in policy, grant receipts are recognized as revenue upon receipt and not unearned revenues.

Capital Assets

At September 30, 2015, 2014 and 2013, the Center had \$2,155,965, \$2,309,480, and \$1,902,446, 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 decrease in fiscal year 2015 of \$153,515 or 7% over fiscal year 2014 and a net increase in fiscal year 2014 of \$407,034 or 21% over fiscal year 2013. See note 6 to the financial statements for more detailed information on the Center's capital assets.

A summary of the Center's statements of net position at September 30, 2015, 2014 and 2013 is shown below:

OVERVIEW OF FINANCIAL POSITION, CONTINUED

Statements of Net Position September 30, 2015, 2014 and 2013

	2015	2014 As Restated	Increase (Decrease) from 2014	2013 As Restated
Current assets:				
Cash	\$ 949,226	\$ 608,781	56%	\$ 384,346
Investments	<u>194,453</u>	<u>192,703</u>	1%	<u>167,350</u>
Receivables:				
Grantor agencies	181,738	148,362	22%	182,265
Receivable from Republic of Palau	-	-	0%	29,784
Other	<u>73,088</u>	<u>72,939</u>	0%	<u>91,630</u>
	254,826	221,301	15%	303,679
Less allowance for doubtful accounts	<u>(47,211)</u>	<u>(47,211)</u>	0%	<u>(51,978)</u>
Total receivables, net	<u>207,615</u>	<u>174,090</u>	19%	<u>251,701</u>
Inventories	<u>69,308</u>	<u>56,484</u>	23%	<u>53,662</u>
Prepaid expense	<u>20,268</u>	<u>5,276</u>	284%	<u>6,994</u>
Total current assets	1,440,870	1,037,334	39%	864,053
Capital assets, net	<u>2,155,965</u>	<u>2,309,480</u>	-7%	<u>1,902,446</u>
Total assets	3,596,835	3,346,814	7%	2,766,499
Deferred outflows of resources from pension	<u>178,517</u>	<u>68,335</u>	161%	-
Total assets and deferred outflows of resources	\$ 3,775,352	\$ 3,415,149	11%	\$ 2,766,499
Current liabilities:				
Current portion of note payable	\$ -	\$ -	0%	\$ 23,897
Accounts payable	12,205	30,327	-60%	49,906
Accrued expenses	<u>78,539</u>	<u>53,654</u>	46%	<u>71,056</u>
Total current liabilities	90,744	83,981	8%	144,859
Net pension liability	1,783,171	1,580,457	13%	1,659,870
Note payable, net of current portion	-	-	0%	<u>27,879</u>
Total liabilities	1,873,915	1,664,438	13%	1,832,608
Deferred inflows of resources from pension	<u>107,539</u>	<u>127,890</u>	-16%	-
Total liabilities and deferred inflows of resources	1,981,454	1,792,328	11%	1,832,608
Net position:				
Invested in capital assets	2,155,965	2,309,480	-7%	1,902,446
Restricted	132,236	123,556	7%	220,943
Unrestricted	<u>(494,303)</u>	<u>(810,215)</u>	-39%	<u>(1,189,498)</u>
Total net position	1,793,898	1,622,821	11%	933,891
Total liabilities and net position	\$ 3,775,352	\$ 3,415,149	11%	\$ 2,766,499

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 use of the Center's facilities continues to be in high demand for research activities and to conduct meetings and workshops.

The Center is currently implementing its fundraising plan which was recently adopted by the Board of Directors. Our initial analyses indicate that the Center can be successful with fundraising efforts to continue to grow and improve in the coming years.

ECONOMIC OUTLOOK, CONTINUED

The new facility is expected to be completed this year and tenants have been secured for two office spaces and two-bedroom apartments. This new facility will bring in revenue to assist in the operation of the Center. Furthermore, we are now in the process of finalizing our agreement with a solar company who will install 160 kwp which will help reduce power costs.

Finally, with the increase in tourism, the Center hopes that it will be able to capture more 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.

The Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Center's report on the audit of financial statements, which is dated March 11, 2015. That Discussion and Analysis explains the major factors impacting the 2014 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, 2015 and 2014

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2015</u>	<u>2014 (As Restated)</u>
Current assets:		
Cash	\$ 949,226	\$ 608,781
Investments	194,453	192,703
Receivables:		
Grantor agencies	181,738	148,362
Other	73,088	72,939
	254,826	221,301
Less allowance for doubtful accounts	(47,211)	(47,211)
Total receivables, net	207,615	174,090
Inventories	69,308	56,484
Prepaid expense	20,268	5,276
Total current assets	1,440,870	1,037,334
Capital assets, net	2,155,965	2,309,480
Total assets	3,596,835	3,346,814
Deferred outflows of resources from pension	178,517	68,335
Total assets and deferred outflows of resources	<u>\$ 3,775,352</u>	<u>\$ 3,415,149</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 12,205	\$ 30,327
Accrued expenses	78,539	53,654
Total current liabilities	90,744	83,981
Net pension liability	1,783,171	1,580,457
Total liabilities	1,873,915	1,664,438
Deferred inflows of resources from pension	107,539	127,890
Total liabilities and deferred inflows of resources	1,981,454	1,792,328
Net position:		
Invested in capital assets	2,155,965	2,309,480
Restricted	132,236	123,556
Unrestricted	(494,303)	(810,215)
Total net position	1,793,898	1,622,821
	<u>\$ 3,775,352</u>	<u>\$ 3,415,149</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014 (As Restated)
Operating revenues:		
Grants	\$ 379,712	\$ 324,470
Facility user and admission fees	123,435	125,281
Research facilities	107,844	73,568
Fund raising	92,653	28,907
Contract service	85,200	142,233
Boat fee	57,797	35,967
Merchandise sales	50,100	45,738
Accommodation	17,360	1,942
Donations	38,600	38,602
Education program fee	-	2,230
Other	6,252	7,257
Total operating revenues	<u>958,953</u>	<u>826,195</u>
Bad debts	-	(1,415)
	<u>958,953</u>	<u>824,780</u>
Operating expenses:		
Salaries, wages and fringe benefits	547,427	442,151
Depreciation	253,499	216,798
Supplies and printing	93,424	106,382
Utilities	79,804	109,591
Professional services	60,254	67,053
Fuel	41,201	39,094
Merchandise cost	28,129	29,261
Training	23,862	8,957
Insurance	19,325	16,252
Repairs and maintenance	18,900	36,472
Communications	14,110	8,865
Anniversary	8,016	7,872
Travel	4,369	31,071
Postage and freight	2,980	1,274
Dues and subscriptions	1,517	467
Entertainment	1,200	3,571
Sales and marketing	337	-
Other	52,052	27,611
Total operating expenses	<u>1,250,406</u>	<u>1,152,742</u>
Operating loss	<u>(291,453)</u>	<u>(327,962)</u>
Nonoperating revenues (expenses):		
Appropriations	400,000	400,000
Net (decrease) increase in the fair value of investments	(5,951)	13,357
Total nonoperating revenues (expenses), net	<u>394,049</u>	<u>413,357</u>
Net income before capital contributions	102,596	85,395
Capital contributions	68,481	603,535
Change in net position	171,077	688,930
Net position at beginning of year	1,622,821	933,891
Net position at end of year	<u>\$ 1,793,898</u>	<u>\$ 1,622,821</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014 (As Restated)
Cash flows from operating activities:		
Cash received from customers	\$ 925,427	\$ 871,503
Cash payments to suppliers for goods and services	(495,418)	(513,372)
Cash payments to employees for services	(450,360)	(479,411)
Net cash used for operating activities	<u>(20,351)</u>	<u>(121,280)</u>
Cash flows from noncapital financing activities:		
Appropriations	400,000	429,784
Net cash provided by noncapital financing activities	<u>400,000</u>	<u>429,784</u>
Cash flows from capital and related financing activities:		
Capital assets acquisitions	(31,503)	(20,297)
Payments on note payable	-	(51,776)
Net cash used for capital and related financing activities	<u>(31,503)</u>	<u>(72,073)</u>
Cash flows from investing activities:		
Purchase of investments	(7,701)	(11,996)
Net cash used for investing activities	<u>(7,701)</u>	<u>(11,996)</u>
Net increase in cash	340,445	224,435
Cash at beginning of year	608,781	384,346
Cash at end of year	<u>\$ 949,226</u>	<u>\$ 608,781</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (291,453)	\$ (327,962)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	253,499	216,798
Bad debts	-	1,415
Noncash pension costs	72,191	(19,858)
(Increase) decrease in assets:		
Receivables grantor agencies	(33,376)	33,903
Receivables, other	(149)	12,509
Inventories	(12,824)	(2,822)
Prepaid expense	(14,992)	1,718
Increase (decrease) in liabilities:		
Accounts payable	(18,122)	(19,579)
Accrued expenses	24,875	(17,402)
Net cash used for operating activities	<u>\$ (20,351)</u>	<u>\$ (121,280)</u>
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of contributed capital assets:		
Noncash increase in capital assets	\$ 68,481	\$ 603,535
Noncash increase in capital contributions	(68,481)	(603,535)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(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

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, 2015 and 2014, cash was \$949,226 and \$608,781, respectively, and the corresponding bank balances were \$1,358,346 and \$612,652, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2015 and 2014, bank deposits of \$500,000 and \$459,431 were FDIC insured, respectively. Collateralization of deposits is not required; therefore, uninsured deposits are exposed to custodial credit risk.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

In line with the Center's Strategic Plan to become self-sustaining, cash of \$10,445 and \$7,030 and investments of \$194,453 and \$192,703 have been internally restricted as of September 30, 2015 and 2014, respectively. These restricted funds consist of solicited donations and a portion of operating revenues designated by the Board.

Investments

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, 2015 and 2014, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	<u>2015</u>	<u>2014</u>
Fixed income securities:		
Federal National Mortgage Association	12%	12%
U.S. Treasury Note	11%	11%
Exchange-traded and closed-end funds:		
Ishares Intermediate Credit Bond ETF	16%	16%

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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

General, Continued:

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.

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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014.

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, 2015 and 2014 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 9,128	\$ 7,217
Common stocks	108,150	111,041
Exchange-traded and closed-end funds	31,820	29,951
Fixed income securities	<u>45,355</u>	<u>44,494</u>
	<u>\$ 194,453</u>	<u>\$ 192,703</u>

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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(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.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Center has determined the changes in assumption, changes in proportion and difference between the Center's contributions and proportionate share of contributions and pension contributions made subsequent to the measurement date qualify for reporting in this category.

Inventories

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

Capital Assets

Capital assets 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.

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.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Center has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between the Center's contributions and proportionate share of contributions qualify for reporting in this category.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014;

	<u>2015</u>	<u>2014</u>
The Pew Charitable Trust	\$ 41,295	\$ 23,794
University of South Pacific European Union Global Climate Change	14,561	64,841
Australia Aid (Environmental Education)	8,450	8,450
Australia Aid (Education and Outreach)	-	12,657
David and Lucile Packard Foundation (Monitoring and Assessing Effectiveness of Marine Protected Areas)	4,500	4,500
David and Lucile Packard Foundation (Science and Monitoring)	45,799	-
United Nations Educational, Scientific, and Cultural Organization	9,699	9,314
United Nations Office for Project Services	7,932	-
	<u>\$ 132,236</u>	<u>\$ 123,556</u>

- 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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Center recognizes a net pension liability for the defined benefit pension plan, which represents the Center's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a cost sharing multi-employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

New Accounting Standards

During fiscal year 2015, the following pronouncements were implemented:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. The implementation of these statements had a material effect on the accompanying financial statements resulting in the restatement of the Center's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68.

	As Previously Reported	Adjustment	As Restated
As of October 1, 2013:			
Net position	\$ <u>2,593,761</u>	\$ <u>(1,659,870)</u>	\$ <u>933,891</u>
For the year ended September 30, 2014:			
Operating expenses	\$ <u>1,172,600</u>	\$ <u>(19,858)</u>	\$ <u>1,152,742</u>
Change in net position	\$ <u>669,072</u>	\$ <u>19,858</u>	\$ <u>688,930</u>
As of September 30, 2014:			
Deferred outflows from pension	\$ <u>-</u>	\$ <u>68,335</u>	\$ <u>68,335</u>
Net pension liability	\$ <u>-</u>	\$ <u>(1,580,457)</u>	\$ <u>(1,580,457)</u>
Deferred inflows from pension	\$ <u>-</u>	\$ <u>(127,890)</u>	\$ <u>(127,890)</u>
Net position	\$ <u>3,262,833</u>	\$ <u>(1,640,012)</u>	\$ <u>1,622,821</u>

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: The Center contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

Plan Membership. As of September 30, 2014, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,356
Inactive members entitled to but not yet receiving benefits	206
Active members	<u>3,107</u>
Total members	<u>4,669</u>

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions.

Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated 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.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

In accordance with the directives of RPPL 5-7, the Board adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- 1/12th per year for the first 3 years before age 60;
- plus an additional 1/18th per year for the next 3 years;
- plus an additional 1/24th per year for the next 5 years; and
- plus an additional 1/50th per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Contributions. Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

The Center's contribution to the Plan for the years ended September 30, 2015, 2014 and 2013 were \$21,064, \$24,165 and \$21,134, respectively, which were equal to the required contributions for the respective years then ended.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of October 1, 2013, and rolled forward using generally accepted actuarial procedures to the measurement date as of September 30, 2014, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Investment Income:	7.5% per year
Expenses:	\$300,000 each year
Salary Increase:	3.0% per year
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years
Disabled Mortality:	PBGC Mortality Table for Disabled Persons receiving Social Security

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Retirement Age:	Age 60 and contributed for at least 5 years
Pre-retirement Beneficiary Benefit Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses
Disability:	Rates are from the 2007 US Social Security Trustees Report Intermediate Assumptions
Turnover:	5% per year prior to age 40; none after age 40
Refund of Contributions:	80% of those who terminate and are eligible to receive a refund of their employee contributions in lieu of a future benefit elect to receive the refund.
Workers Included In the Valuation:	Workers indicated in the census as Active or Inactive with a vested benefit.

Investment Rate of Return

The long-term expected rate of return on the Plan's investments of 7.5% was determined using the building-block method, creating a best-estimate range for each asset class.

As of September 30, 2014, the geometric mean rates of return for each major investment class are as follows:

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Equity	55%	8.8%
Governmental fixed income	35%	5.5%
Corporate fixed income	<u>10%</u>	6.4%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 4.22%. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for 2014. For years after 2021, a discount rate of 4.11% is used. This rate is equal to the last Bond Buyer 20-Bond Go Index rate for September.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Center, calculated using the discount rate of 4.22%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.22%) or 1.00% higher (5.22%) from the current rate.

<u>1% Decrease 3.22%</u>	<u>Current Single Discount Rate Assumption 4.22%</u>	<u>1% Increase 5.22%</u>
\$ 2,003,946	\$ 1,783,171	\$ 1,472,145

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Liability. At September 30, 2015 and 2014, the Center reported a liability of \$1,783,171 and \$1,580,457, respectively, for its proportionate share of the net pension liability. The Center's proportion of the net pension liability was based on the projection of the Center's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2015 and 2014, the Center's proportion was 0.8729% and 0.8680%, respectively.

Pension Expense. For the years ended September 30, 2015 and 2014, the Center recognized pension expense of \$93,733 and \$25,967, respectively.

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Deferred Outflows and Inflows of Resources. At September 30, 2015 and 2014, the Center reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 4,806	\$ -	\$ 260
Change of assumptions	113,982	102,733	-	127,630
The Center's contributions subsequent to measurement date	21,064	-	24,165	-
Changes in proportion and difference between the Center's contributions and proportionate share of contributions	<u>43,471</u>	<u>-</u>	<u>44,170</u>	<u>-</u>
	\$ <u>178,517</u>	\$ <u>107,539</u>	\$ <u>68,335</u>	\$ <u>127,890</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

Year ending September 30,

2016	\$ 3,777
2017	\$ 3,777
2018	\$ 3,777
2019	\$ 3,842
Thereafter	\$ 34,741

(4) 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, 2015 and 2014 are as follows:

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(4) Due From Grantor Agencies, Continued

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 148,362	\$ 182,265
Deductions - cash receipts from grantor agency	(346,036)	(358,373)
Additions - program outlays	<u>379,412</u>	<u>324,470</u>
Balance at end of year	<u>\$ 181,738</u>	<u>\$ 148,362</u>

(5) Inventories

Inventories as of September 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Spare parts	\$ 33,097	\$ 37,092
Merchandise	<u>36,211</u>	<u>19,392</u>
	<u>\$ 69,308</u>	<u>\$ 56,484</u>

(6) Capital Assets

Capital assets as of September 30, 2015 and 2014, consist of the following:

	Estimated <u>Useful Lives</u>	Balance at October 1, 2014	<u>Additions</u>	<u>Deletions</u>	Balance at September 30, 2015
Buildings	10 - 30 years	\$ 3,691,872	\$ -	\$ -	\$ 3,691,872
Mechanical, electrical, research, office, exhibit and marine equipment	2 - 15 years	1,906,911	96,589	-	2,003,500
Aquarium	7 years	1,585,360	-	-	1,585,360
Furniture and fixtures	5 years	96,476	-	-	96,476
Computers	5 years	15,073	-	-	15,073
Vehicles	3 years	<u>85,210</u>	<u>3,395</u>	-	<u>88,605</u>
		7,380,902	99,984	-	7,480,886
Less accumulated depreciation		<u>(5,071,422)</u>	<u>(253,499)</u>	-	<u>(5,324,921)</u>
		<u>\$ 2,309,480</u>	<u>\$ (153,515)</u>	<u>\$ -</u>	<u>\$ 2,155,965</u>
	Estimated <u>Useful Lives</u>	Balance at October 1, 2013	<u>Additions</u>	<u>Deletions</u>	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	<u>73,910</u>	<u>28,200</u>	<u>(16,900)</u>	<u>85,210</u>
		6,916,743	623,832	(159,673)	7,380,902
Less accumulated depreciation		<u>(5,014,297)</u>	<u>(216,798)</u>	<u>159,673</u>	<u>(5,071,422)</u>
		<u>\$ 1,902,446</u>	<u>\$ 407,034</u>	<u>\$ -</u>	<u>\$ 2,309,480</u>

PALAU INTERNATIONAL CORAL REEF CENTER

Notes to Financial Statements
September 30, 2015 and 2014

(6) Capital Assets, Continued

During the years ended September 30, 2015 and 2014, the Center received capital assets from a grantor of \$68,481 and \$603,535, respectively. 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.

(7) Republic of Palau

During the years ended September 30, 2015 and 2014, the Center recorded appropriations for operations of \$400,000 through RPPL 9-34 and RPPL 9-15, 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

Required Supplemental Information (Unaudited)
 Schedule of Proportional Share of the Net Pension Liability
 Last 10 Fiscal Years*

	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 204,281,232	\$ 182,080,332
The Center's proportionate share of the net pension liability	\$ 1,783,171	\$ 1,580,457
The Center's proportion of the net pension liability	0.873%	0.868%
The Center's covered employee payroll**	\$ 323,447	\$ 321,633
The Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	551.30%	491.39%
Plan fiduciary net position as a percentage of the total pension liability	14.01%	15.84%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

PALAU INTERNATIONAL CORAL REEF CENTER

Required Supplemental Information (Unaudited)
 Schedule of Pension Contributions
 Last 10 Fiscal Years*

	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Actuarially determined contribution	\$ 58,576	\$ 54,602
Contribution in relation to the actuarially determined contribution	<u>24,165</u>	<u>21,838</u>
Contribution (excess) deficiency	<u>\$ 34,411</u>	<u>\$ 32,764</u>
The Center's covered-employee payroll**	<u>\$ 323,447</u>	<u>\$ 321,633</u>
Contribution as a percentage of covered-employee payroll	7.47%	6.79%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Investments
September 30, 2015

<u>Cash and Money Market Funds</u>	<u>Cost</u>	<u>Fair Value</u>
Morgan Stanley Sicav US\$ Liq	\$ 8,978	\$ 9,128
Total Cash and Money Market Funds	<u>8,978</u>	<u>9,128</u>
<u>Equities</u>		
<u>Common Stock</u>		
Adobe Systems, Inc.	1,559	1,644
Alibaba Group Holding Ltd	2,433	1,356
Allergan Plc Shs	3,342	3,262
Amazon.com Inc	2,796	3,071
American International Group Inc.	1,751	1,705
American Express Co	1,392	1,260
American Tower Reit Com	2,402	2,463
Apple Inc	3,419	4,191
Bank of America Corp	3,052	2,882
Biogen Idec Inc	353	292
Boeing Co	3,227	3,536
Boston Scientific Corp	1,814	1,969
Bristol Myers Squibb Co	1,274	1,184
Celgene Corp	1,675	1,947
Charles Schwab	1,214	1,285
Cigna Corporation Com	1,086	945
Cisco Sys Inc	1,906	1,785
Citigroup Inc New	3,429	3,274
Comcast Corp Class A	2,387	2,673
CVS Health Corp Com	2,234	3,377
Delta Air Lines Inc	2,539	2,558
Dow Chemical Co	3,055	2,629
Facebook Inc	3,777	4,495
Gilead Science	1,209	2,553
Google Inc CL C	1,355	1,825
Google Inc CL A	3,531	4,469
Home Depot Inc	2,789	4,158
Honeywell International Inc	1,823	1,799
JPMorgan Chase & Co	2,999	3,292
Kinder Morgan Incorp	2,313	1,716
Marsh & McLennan Cos Inc	1,143	1,514
Mastercard Inc CL A	1,805	2,523
McKesson Corp	822	740
Medtronic Plc Shs	1,847	1,607
Merck & Co Inc	1,665	1,432
Microsoft Corp	2,413	2,346
Morgan Stanley	1,413	1,292
Nike Inc. B	1,265	1,353
Pfizer Inc.	2,181	2,042
Raytheon Co	1,060	1,093
Royal Caribbean Cruises Ltd	561	624
Salesforce.com Inc.	1,546	1,528
Schlumberger Ltd	3,083	2,414
Starbucks Corp Washington	1,248	1,307
T-Mobile US Inc. Com	1,806	2,389
Teva Pharmaceuticals Adr	1,823	1,694
TJX Cos Inc new	1,129	1,286
United Parcel Ser Inc CL-B	1,828	1,776
United Health GP Inc.	1,526	1,740
Visa Inc Cl A	1,810	1,811
Walt Disney Co Hldg Co	1,260	2,044
Total Common Stock	<u>101,369</u>	<u>108,150</u>

See Accompanying Independent Auditors' Report.

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Investments
September 30, 2015

<u>Equities, Continued</u>	<u>Cost</u>	<u>Fair Value</u>
<u>Exchange-Traded and Closed-End Funds</u>		
Ishares Interm Credit Bd Etf	32,020	31,820
Total Exchange-Traded and Closed-End Funds	<u>32,020</u>	<u>31,820</u>
Total Equities	<u>133,389</u>	<u>139,970</u>
<u>Fixed Income Securities</u>		
<u>Government Securities</u>		
United States Treasury Note @ 1.250%, due 10/31/18	20,834	21,288
Fed Natl Mtg Assn @ 0.875%, due 02/08/18	<u>23,684</u>	<u>24,067</u>
Total Government Securities	<u>44,518</u>	<u>45,355</u>
Total Fixed Income Securities	<u>44,518</u>	<u>45,355</u>
Total Cash, Money Market Funds, Equities and Fixed Income Securities	<u>\$ 186,885</u>	<u>\$ 194,453</u>

See Accompanying Independent Auditors' Report.