PALAU INTERNATIONAL CORAL REEF CENTER
(A Component Unit of the Republic of Palau)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2016 and 2015

PALAU INTERNATIONAL CORAL REEF CENTER
(A Component Unit of the Republic of Palau)

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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 net position of Palau International Coral Reef Center (the Center), a component unit of the Republic of Palau, as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2016 and 2015, 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 Matter

As discussed in Note 2 to the financial statements, for the year ended September 30, 2016, the Center adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. 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 (MD&A) on pages 4 through 10, the Schedule of Proportional Share of the Net Pension Liability on page 40, and the Schedule of Pension Contributions on page 41 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. 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 Financial Information

Our audits were conducted for the purpose of forming an opinion on the Center's basic financial statements as a whole. The Schedule of Investments as of September 30, 2016 on pages 42 and 43 is presented for purposes of additional analysis and are not required part of the financial statements. The Schedule of Investments is the responsibility of management and was derived from and relates 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 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 taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing on internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Burger Comer Magliari

Koror, Republic of Palau
June 26, 2017

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2016

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, 2016, with selected comparative information for the fiscal years ended September 30, 2015 and 2014.

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. It is public corporation owned by the Republic of Palau. The Center has a governing board of directors, nine of whom are appointed by the President and approved by the Senate of the Olbiil era Kelulau and three are ex-officio members. The Minister of Finance, Director of the Bureau of Marine and the CEO of PICRC are board members by virtue of their positions.

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, serve as a direct education tool and a tourism attraction.

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. At this time, the Center is 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 2012-2017 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.

P.O. Box 7086, Koror, Republic of Palau 96940
Tel.680.488.6950, Fax.680.488.6951, picrc@picrc.org, www.PICRC.org

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.

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 2016, operating revenues increased by 30% ($1,248,801 in fiscal year 2016 versus $958,953 in fiscal year 2015) mainly due to increase in grant revenues by 86%, Facilities and Admissions by 15%, Donations by 284%, and other revenues by 12%. The increase was driven by the increase in grant project, and donations. The Admission and Facilities was increased mainly due to more customers hosting meetings at the Center that increased the facility revenues. On the other hand, research facilities decreased by 31%, fundraising by 94%, contract revenue by 23%, boat fees by 34%, merchandise sales by 4%, and accommodation by 14%. The decrease was due to less visiting researcher's to the center during this fiscal year to conduct their research. The fundraising decreased because we redefine how we classify donations versus fundraising that causes an increase in donation and decrease in fundraising.

In fiscal year 2015, operating revenues increased by 16% ($958,953 in fiscal year 2015 versus $824,780 in fiscal year 2014) mainly due to increase in grant revenues by 17%, Research Facilities by 47%, Fundraising by 220%, Boat Fees by 61%, Merchandise Sales by 10%, and Accommodations by 10%. The increase was driven by the increase in demand for the use of the research facilities and equipment and a successful fundraising event. On the other hand, facility usage and admission fees decreased by 1%, contract service by 40%, and other revenues by 14%.

Operating expense increased by 24% ($1,250,416 in fiscal year 2016 versus $1,250,416 in fiscal year 2015). Personnel expenses (salaries, wages and fringe benefits) increased by 10.60% ($605,446 in fiscal year 2016 versus $547,437 in fiscal year 2015) as a result of hiring more staff and adding more fringe benefits and also the pension expenses. Notable increases in expenses include depreciation (5%), supplies and printing (6%), professional services (200%), trainings (89%), repair and maintenance (13%), Communication (65%), Anniversary (210%), Travel (700%), Dues and Subscription (176%). Notable decreases in expenses include utilities (9%), Fuel (33 %), Merchandise cost (19%), and Insurance expense by (28%).

Operating expenses in fiscal year 2015 increased by 8%; $1,250,416 in fiscal year 2015 versus $1,152,742 in fiscal year 2014. Personnel expenses (salaries, wages and fringe benefits) increased by 24% ($547,437 in fiscal year 2015 versus $442,151 in fiscal year 2014) as a result of hiring more staff, more fringe benefits, and the added pension expenses. Notable increases in expenses include depreciation (17%), fuel (5%), training cost (100%), 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%).

Government appropriations remained at the same level in fiscal year 2016 of $400,000 in fiscal year 2015. Fair value of investments decreased by 315% from ($5,951) in fiscal year 2015 to $12,768 in fiscal 2016. Net income before capital contributions decreased by 4% from $102,586 in fiscal year 2015 to $98,564 in fiscal year 2016 due to a notable increase in revenue by 30% and an increase in expenses by 24%. Net position increased by 5% from $1,622,821 to $1,733,888 mainly due to total non-operating revenues increased by 6%, and net position a the beginning of year increased by 11%.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2016, 2015 and 2014 follows:

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016, 2015 and 2014

	2016	2015	(Increase) Decrease 2016	2014
Operating revenues:				
Grants	$ 704,447	$ 379,712	(85.52%)	$ 324,470
Facility user and admission fees	141,735	123,435	(14.83%)	125,281
Research facilities	74,073	107,844	31.31%	73,568
Fund raising	5,500	92,653	94.06%	28,907
Contract service	66,000	85,200	22.54%	142,233
Boat fee	38,428	57,797	33.51%	35,967
Merchandise sales	48,008	50,100	4.18%	45,738
Accomodation	14,945	17,360	13.91%	1,942
Donations	148,192	38,600	(283.92%)	38,602
Education program fee	500	-	100.00%	2,230
Other	6,973	6,252	(11.53%)	7,257
Total operating revenues	1,248,801	958,953	(30.23%)	826,195
Bad debts	(16,409)	-	0.00%	(1,415)
	$ 1,232,392	$ 958,953	(28.51%)	$ 824,780

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016, 2015 and 2014

	2016	2015	(Increase) Decrease 2016	2014
Operating expenses:				
Salaries, wages and fringe benefits	$ 605,446	$ 547,427	(10.60%)	$ 442,151
Depreciation	265,703	253,499	(4.81%)	216,798
Supplies and printing	99,036	93,424	(6.01%)	106,382
Utilities	72,748	79,804	8.84%	109,591
Professional services	178,556	60,254	(196.34%)	67,053
Fuel	27,426	41,201	33.43%	39,094
Merchandise cost	22,923	28,129	18.51%	29,261
Training	45,106	23,862	(89.03%)	8,957
Insurance	13,875	19,325	28.20%	16,252
Repairs and maintenance	21,266	18,900	(12.52%)	36,472
Communications	23,268	14,110	(64.90%)	8,865
Anniversary	24,872	8,016	(210.28%)	7,872
Travel	35,333	4,369	(708.72%)	31,071
Postage and freight	8,273	2,980	(177.62%)	1,274
Dues and subscriptions	4,186	1,517	(175.94%)	467
Entertainment	2,096	1,200	(74.67%)	3,571
Rentals	10,270	-	100.00%	-
Sales and Marketing	408	337	(21.07%)	-
Other	76,560	52,052	(47.08%)	27,611
Total operating expenses	1,537,351	1,250,406	(22.95%)	1,152,742
Operating loss	304,959	(291,463)	204.63%	(327,962)
Nonoperating revenues (expenses):				
Appropriations	400,000	400,000	0.00%	400,000
Loss on disposal of capital assets	(14,245)	-	100.00%	-
Net increase in the fair value of investments	12,768	(5,951)	314.55%	13,357
Total nonoperating revenues (expenses), net	398,523	394,049	(1.14%)	413,357
Net income before capital contributions	703,482	102,596	(585.68%)	85,395
Capital contributions	-	68,481	100.00%	603,535
Change in net position	703,482	171,077	(311.21%)	688,930
Net position at beginning of year	1,793,898	1,622,821	(10.54%)	933,891
Net position at end of year	$ 1,887,462	$ 1,793,898	(5.22%)	$ 1,622,821

OVERVIEW OF FINANCIAL OPERATIONS, CONTINUED

Statements of Cash Flows
Years Ended September 30, 2016, 2015 and 2014

	2016	2015	(Increase) Decrease 2016	2014
Net cash provided by (used for) operating activities	$ 25,719	$ (20,351)	226.38%	$ (121,280)
Net cash provided by noncapital financing activities	400,000	400,000	0.00%	429,784
Net cash used for capital and related financing activitie	(142,254)	(31,503)	(351.56%)	(72,073)
Net cash provided by (used for) investing activities	(107,894)	(7,701)	(1301.04%)	(11,996)
Net increase in cash	175,571	340,445	48.43%	224,435
Cash at beginning of year	949,226	608,781	(55.92%)	384,346
Cash at end of year	$ 1,124,797	$ 949,226	(18.50%)	$ 608,781

OVERVIEW OF FINANCIAL POSITION

Total current assets increased by 19% in fiscal year 2016 over fiscal year 2015 ($1,721,646 versus $1,440,870), due mostly to 18% increase in cash at September 30, 2016 ($1,124,797 versus $949,226). Net Receivables increased by 48% in fiscal year 2016 over fiscal year 2015. Total assets increased by 5% in fiscal year 2016 over fiscal year 2015 ($3,784,677 versus $3,596,835). An increase in deferred outflow of resources from pension in fiscal 2016 over fiscal 2015 by 5%.

Total current assets increased by 38.90% in fiscal year 2015 over fiscal year 2014 ($1,440,870 versus $1,037,334), due mostly to a 55.92% increase in cash at September 30, 2015 ($949,226 versus $608,781). Grant Receivables increased by 22.50% in fiscal year 2015 over fiscal year 201 4 ($181,738 versus $148,362). Prepaid Expenses and Inventories increased by 23% and 284% in fiscal 2015 over fiscal 2014. Total assets increased by 8% in fiscal year 2015 over fiscal year 2014 ($3,596,835 versus $3,346,814). An increase in deferred outflow of resources from pension in fiscal 2015 over fiscal 2014 by 161%.

Total liabilities increased by 9% as a result of an increased in accounts payable by 393% in addition to an increase in accrued expense by 1%, and a decrease in net pension liabilities by 12% in fiscal year 2016.

Capital Assets

At September 30, 2016, 2015 and 2014, the Center had $2,063,031, $2,155,965 and, 2,309,480, 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 2016 of $92,934 or 4% over fiscal year 2015, 2015 of $153,515 or 7% over fiscal year 2014.

Long-Term Liabilities

At September 30, 2016 a notable decrease in Net Pension Liabilities by 12%. In 2015 and 2014, the Center had $1,783,181 and $1,580,457, respectively, in net Pension liabilities. See Notes 3 and 7 to the financial statements for more detailed information on the net Pension liabilities and deferred inflows of resources from Pension and new accounting standards.

A summary of the Center's statements of net position at September 30, 2016, 2015 and 2014 is shown below:

Statements of Net Position
September 30, 2016, 2015 and 2014

ASSETS	2016	2015	(Increase) Decrease from 2016	2014
Current assets:				
Cash	$ 1,124,797	$ 949,226	(18%)	$ 60,881
Investments	207,221	194,453	(7%)	192,703
Receivables:				
Grantor agencies	151,997	181,738	16%	148,362
Other	165,101	73,088	(126%)	72,939
	317,098	254,826	(24%)	221,301
Less allowance for doubtful accounts	(14,731)	(47,211)	69%	(47,211)
Total receivables, net	302,367	207,615	(46%)	174,090
Inventories	73,039	69,308	(5%)	56,484
Prepaid expense	9,222	20,268	54%	5,276
Total current assets	1,716,646	1,440,870	(19%)	1,037,334
Property, plant and equipment, net	2,063,031	2,155,965	4%	2,309,480
Total Assets	3,779,677	3,596,835	(5%)	3,346,814
Deferred outflows of resources from Pension	187,679	178,517	(5%)	68,335
Total assets and deferred outflows of resources	$ 3,967,356	$ 3,775,352	(5%)	$ 3,415,149
LIABILITIES AND NET POSITION				
Current liabilities:				
Accounts payable	60,176	12,205	(393%)	30,327
Accrued expenses	79,168	78,539	(1%)	53,654
Total current liabilities	139,344	90,744	(54%)	83,981
Net Pension liabilities	1,565,921	1,783,181	12%	1,580,457
Total liabilities	1,705,265	1,873,925	9%	1,664,438
Deferred inflows of resources from Pension	374,629	107,539	(248%)	127,890
Total liabilities and deferred inflows of resources	2,079,894	1,981,464	(5%)	1,792,328
Net position:				
Invested in capital assets	2,063,031	2,155,965	4%	2,309,480
Restricted	289,994	14,561	(1892%)	123,556
Unrestricted	(465,563)	(376,638)	(24%)	(810,215)
Total net position	1,887,462	1,793,888	(5%)	1,622,821
Total liabilities and deferred inflows of resources and net position	$ 3,967,356	$ 3,775,352	(5%)	$ 3,415,149

ECONOMIC OUTLOOK

As the world continue to face the issue on climate change, fisheries, and depleted natural resources PICRC continues to play a vital role within Palau, Micronesia and the world as the only research facility within Palau and Micronesia that is equipped to conduct various research activities. This fiscal year more research papers were published in the scientist journal that has add more value to PICRC and increased demand for scientist conduct their research in Palau not just in the marine ocean but also on land activities such as measuring lightning, weather, and many more.

The Center's researchers continue to reach out different stakeholders from local communities, and attending various international meetings continue to help promote the Center's activities and facilities in which the demand has continued to increase this fiscal year and we are expecting more growth next year with the opening of the new building. The new building consists of 6 single studio apartments, 4 office spaces, and 1 50-80 capacity conference room.

Finally, the results of the research activities are very well communicated to the various supporters in which continues to increase the level of support to the Center not just monetary but volunteers and in-kind donation.

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.

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the Center's report on the audit of financial statements, which is dated June 30, 2016. That Discussion and Analysis explains the major factors impacting the 2015 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
(A Component Unit of the Republic of Palau)

Statements of Net Position
September 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
Current assets:		
Cash	$ 1,124,797	$ 949,226
Investments	207,221	194,453
Receivables:		
Grantor agencies	151,997	181,738
Other	165,101	73,088
	317,098	254,826
Less allowance for doubtful accounts	(14,731)	(47,211)
Total receivables, net	302,367	207,615
Inventories	73,039	69,308
Prepaid expense	9,222	20,268
Total current assets	1,716,646	1,440,870
Capital assets, net	2,063,031	2,155,965
Total assets	3,779,677	3,596,835
Deferred outflows of resources from pension	187,679	178,517
Total assets and deferred outflows of resources	$ 3,967,356	$ 3,775,352

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2016	2015
Current liabilities:		
Accounts payable	$ 60,176	$ 12,205
Accrued expenses	79,168	78,539
Total current liabilities	139,344	90,744
Net pension liability	1,565,921	1,783,171
Total liabilities	1,705,265	1,873,915
Deferred inflows of resources from pension	374,629	107,539
Total liabilities and deferred inflows of resources	2,079,894	1,981,454
Net positon:		
Invested in capital assets	2,063,031	2,155,965
Restricted	289,994	132,236
Unrestricted	(465,563)	(494,303)
Total net position	1,887,462	1,793,898
Total liabilities, deferred inflows of resources and net position	$ 3,967,356	$ 3,775,352

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

(A Component Unit of the Republic of Palau)

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues:		
Grants	$ 704,447	$ 379,712
Facility user and admission fees	141,735	123,435
Research facilities	74,073	107,844
Fundraising	5,500	92,653
Contract service	66,000	85,200
Boat fees	38,428	57,797
Merchandise sales	48,008	50,100
Accomodations	14,945	17,360
Donations	148,192	38,600
Education program fees	500	-
Other	6,973	6,252
Total operating revenues	1,248,801	958,953
Bad debts	(16,409)	-
	1,232,392	958,953
Operating expenses:		
Salaries, wages and fringe benefits	605,446	547,427
Depreciation	265,703	253,499
Supplies and printing	99,036	93,424
Utilities	72,748	79,804
Professional services	178,556	60,254
Fuel	27,426	41,201
Merchandise cost	22,923	28,129
Training	45,106	23,862
Insurance	13,875	19,325
Repairs and maintenance	21,266	18,900
Communications	23,268	14,110
Anniversary	24,872	8,016
Travel	35,333	4,369
Postage and freight	8,273	2,980
Dues and subscriptions	4,186	1,517
Entertainment	2,096	1,200
Rentals	10,270	-
Sales and marketing	408	337
Other	76,560	52,052
Total operating expenses	1,537,351	1,250,406
Operating loss	(304,959)	(291,453)
Nonoperating revenues (expenses):		
Appropriations	400,000	400,000
Loss on disposal of capital assets	(14,245)	-
Net (decrease) increase in the fair value of investments	12,768	(5,951)
Total nonoperating revenues (expenses), net	398,523	394,049
Net income before capital contributions	93,564	102,596
Capital contributions	-	68,481
Change in net position	93,564	171,077
Net position at beginning of year	1,793,898	1,622,821
Net position at end of year	$ 1,887,462	$ 1,793,898

See accompanying notes to financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER

(A Component Unit of the Republic of Palau)

Statements of Cash Flows

For the year ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	$ 1,201,584	$ 925,427
Cash payents to suppliers for goods and services	(495,418)	(495,418)
Cash payments to employees for services	(680,447)	(450,360)
Net cash provided by (used for) operating activities	25,719	(20,351)
Cash flows from capital and related financing activities:		
Appropriations	400,000	400,000
Net cash provided by noncapital financing activities	400,000	400,000
Cash flows from capital and related financing activities:		
Capital assets acquisitions	(142,254)	(31,503)
Payments on note payable	-	-
Net cash used for capital and related financing activities	(142,254)	(31,503)
Cash flows from investing activities:		
Purchase of investments	(107,894)	(7,701)
Net cash used for investing activities	(107,894)	(7,701)
Net increase in cash	175,571	340,445
Cash at beginning of year	949,226	608,781
Cash at end of year	$ 1,124,797	$ 949,226
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (304,959)	$ (291,453)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	265,703	253,499
Bad debts	16,409	-
Loss on disposal of capital asset	14,245	-
Noncash pension costs	40,678	72,191
(Increase) decrease in assets:		
Receivables grantor agencies	29,741	(33,376)
Receivables, other	(92,013)	(149)
Inventories	(3,731)	(12,824)
Prepaid expense	11,046	(14,992)
Increase (decrease) in liabilities:		
Accounts payable	47,971	(18,122)
Accrued expenses	629	24,875
Net cash provide by (used for) operating activities	$ 25,719	$ (20,351)
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of contributed capital assets:		
Noncash increase in capital assets	$ -	$ 68,481
Noncash increase in capital contributioins	-	(68,481)
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization and Purpose

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.

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

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, 2016 and 2015, cash $1,124,797 and $949,226, respectively, and the corresponding bank balances were $1,204,791 and $1,358,346, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2016 and 2015, bank deposits of $483,441 and $500,000 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 $26,164 and $10,445 and investments of $207,221 and $194,453 have been internally restricted as of September 30, 2016 and 2015, 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, 2016 and 2015, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	2016	2015
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 EFT	16%	16%

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

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 sale; 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.

2) Summary of Significant Accounting Policies, Continued

Investments, continued

General, continued:

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.

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) Summary of Significant Accounting Policies, Continued

Investments, continued

Cash and Cash Equivalents, continued

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, 2016 and 2015.

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, 2016 and 2015 are as follows:

	Fair Value	
Investment Type	2016	2015
Cash and money market funds	$ 3,959	$ 9,128
Common stocks	122,549	108,150
Exchange-traded and closed-end funds	4,757	31,820
Fixed income securities	75,956	45,355
	$ 207,221	$ 194,453

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

Fair Value Measurement of the Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Center has the following fair value measurements:

		Fair Value Measurement Using		
	2016	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
US Treasury securities	$ 20,472	$ 20,472	$ -	$ -
Government Securities	24,032	-	24,032	-
Equity securities:				
Common stock	127,306	127,306	-	-
Exchange traded funds	32,626	32,626	-	-
Total investments by fair fair value level	$ 204,436	$ 180,404	$ 24,032	$ -
Investments measured at cost based measure				
Cash and cash equivalents	$ 2,785			

		Fair Value Measurement Using		
	2015	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
US Treasury securities	$ 21,288	$ 21,288	$ -	$ -
Government Securities	24,067	-	24,067	-
Equity securities:				
Common stock	108,150	108,150	-	-
Exchange traded funds	31,820	31,820	-	-
Total investments by fair fair value level	$ 185,325	$ 161,258	$ 24,067	$ -
Investments measured at cost based measure				
Cash and cash equivalents	$ 9,128			

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, Continued

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

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, 2016 and 2015, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	2016	2015
Fixed Income Securities:		
Federal National Mortgage Association	11%	12%
U.S. Treasury Note	9%	11%
Exchange-traded and Closed-end Funds:		
Ishares Intermediate Credit Bond EFT	15%	16%

Custodial credit risk

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 the 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 those agreements, all of these investments were held in the Center's name by the custodial financial institutions at September 30, 2016 and 2015.

(2) Summary of Significant Accounting Policies, Continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than 30 days in foreign accounts until it can be repatriated or expended. For the years ended September 30, 2016 and 2015, the Center did not have investments in foreign currency.

Investment income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect an investment's value. The Center does not have a formal policy regarding interest rate risk. At September 30, 2016 and 2015, the Center has the following investments in debt securities:

	2016						
		Investment Maturities (In Years)				Rating	
Investment type	Fair Value	Less than 1	1-5	6-10	More than 10	Moody	Standard & Poor's
U.S. Treasury Securities	$ 20,473	$ -	$ -	$ 20,473	$ -	AAA	No rating
Government securities	24,032	-	24,032	-	-	AAA	AA+
Total	$ 44,505	$ -	$ 24,032	$ 20,473	$ -		

	2015						
		Investment Maturities (In Years)				Rating	
Investment type	Fair Value	Less than 1	1-5	6-10	More than 10	Moody	Standard & Poor's
U.S. Treasury Securities	$ 20,473	$ -	$ -	$ 20,473	$ -	AAA	No rating
Government securities	24,032	-	24,032	-	-	AAA	AA+
Total	$ 44,505	$ -	$ 24,032	$ 20,473	$ -		

(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 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 lies 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 statements of net positon 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

Deferred Inflows of Resources

In addition to liabilities, the statements of net positon 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.

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 improvements 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, 2016 and 2015:

(2) Summary of Significant Accounting Policies, Continued

Net Position, continued

	2016	2015
The Pew Charitable Trust	$ 37,479	$ 41,295
University of South Pacific European Union Global Climate Change	95,045	14,561
Australia Aid (Environmental Education)	8,450	8,450
David and Lucile Packard Foundation (Monitoring and Assessing Effectiveness of Marine Protected Areas)	-	4,500
David and Lucile Packard Foundation (Science and Monitoring)	-	45,799
United Nations Educational, Scientific and Cultural Organization	9,699	9,699
United Nations Office for Project Services (GEF Small (GEF Small Grants Programme)	-	7,932
Italian Minisry for Environmental Land and Sea	139,321	-
	$ 289,994	$ 132,236

- 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.

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 expenses on a closed basis over a five-year period beginning with the period in which the difference occurred.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

In February 2015 GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. Management does not believe that the implementation of this statement will have a material impact on the Center's 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 68 and Amendments to Certain Provisions of GASB Statement 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. 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 non-employer contributing entities for pensions that are not within the scope of Statement 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 impact on the Center's financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB Statement No. 74*, Financial Reporting for Postemployment benefits Plans Other Than Pension Plans.* This Statement 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*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This Statement also addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions 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 impact on the Center's the financial statements.

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*, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and provide 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 establish new accounting and financial reporting requirements for OPEB plans. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The provisions in Statements 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 Center's financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted. Management does not believe that the implementation of this statement will have a material effect on the Center's 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. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. 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 impact on the Center's financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The provisions in Statement No. 78 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this Statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.

(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 services 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 their 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.

3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2. 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, 2015, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,507
Inactive members entitled to but not receiving benefits	1,151
Active members	3,120
Total members	5,778

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.

(3) Employees' Retirement Plan

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

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.

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 PPL 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 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:

Factor	If the Spouse or Beneficiary is:
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

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employees 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:

- $1/12^{th}$ per year for the first 3 years before age 60;
- plus an additional $1/18^{th}$ per year for the 3 years;
- plus an additional $1/24^{th}$ per year for the next 5 years; and
- plus and additional $1/50^{th}$ 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 g shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, he 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 benefits 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.

(3) Employees' Retirement Plan

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

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 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.

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 (15) fifteen years membership service may elect to receive a refund of all his or her contributions. Subsequent changes in the percentage contributed by members may be made through and 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 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, 2016, 2015 and 201 were $26,111, $21,065 and $24,165, respectively, which were equal to the required contributions for the respective years then ended.

(3) Employees' Retirement Plan

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

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 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
Retirement Age:	Age 60 and contributed for at least 5 years
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the works 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.

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General information About the Pension Plan, Continued:

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:

Asset Class	Target Allocation	Expected Rate of Return
Cash	3%	4.55%
Equity	61%	6.35%
Corporate fixed income	5%	4.00%
Governmental fixed income	31%	7.75%
	100%	

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, 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 3.83%, 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 (2.83%) from the current rate.

1% Decrease 2.83%	Current Single Discount Rate Assumption 3.83%	1% Increase 4.83%
$1,810,853	$1,565,921	$1,362,302

(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

Pension Liability. At September 30, 2016 and 2015, the Center reported a liability of $1,565,921 and $1,783,171, 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, 2016 and 2015, the Center's proportion was 0.726% and 0.873%, respectively.

Pension Expense. For the years ended September 30, 2016 and 2015, the Center recognized pension expense of $66,789 and $94,070, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2016 and 2015, the Center reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 56,065	$ -	$ 4,806
Change of assumptions	128,474	64,180	113,982	102,733
The Center's contributions subsequent to measurement date	26,111	-	21,064	-
Changes in portion and difference between the Center's contribution and proportionate share of contributions	33,094	254,384	43,471	-
Total	$ 187,679	$ 374,629	$ 178,517	$ 107,539

(3) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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, 2016 will be recognized in pension expense as follows:

Year ending September 30,	
2017	$ 32,884
2018	$ 32,829
2019	$ 19,490
2020	$ 40,395
Thereafter	$ 36,815

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, 2016 and 2015 are as follows:

	2016	2015
Balance at beginning of year	$ 181,738	$ 148,362
Deductions - cash receipts from grantor agencies	(703,203)	(346,036)
Additions - program outlays	673,462	379,412
Balance at end of year	$ 151,997	$ 181,738

5) Capital Assets

Capital assets as of September 30, 2016 and 2015, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Buildings	10-30 years	$ 3,691,872	$ 2,600	$ -	$ 3,694,472
Mechanical, electrical, research, office exhibit and marine equipment	2- 15 years	2,003,500	77,795	(40,988)	2,040,307
Aquarium	7 years	1,585,360	-	-	1,585,360
Furniture and fixtures	5 years	96,476	4,613	-	101,089
Computers	5 years	15,073	7,868	-	22,941
Vehicles	3 years	88,605	-	(28,200)	60,405
CIP in Progress		-	100,000	-	100,000
		7,480,886	192,875	(69,188)	7,604,573
Accumulated depreciation		(5,324,921)	(265,703)	49,081	(5,541,543)
		$ 2,155,965	$ (72,827)	$ (20,107)	$ 2,063,031

	Estimated Useful Lives	Balance at October 1, 2014	Additions	Deletions	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	85,210	3,395	-	88,605
		7,380,902	99,984	-	7,480,886
Accumulated depreciation		(5,071,422)	(253,499)	-	(5,324,921)
		$ 2,309,480	$ (153,515)	$ -	$ 2,155,965

During the years ended September 30, 2016 and 2015, the Center received capital assets from a grantor of $0 and $68,481, 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.

5) Capital Assets, Continued

The construction in-progress represents the cost incurred for the construction of research facilities expansion project with year-to-date cost totaling $100,000 as of September 30, 2016. The total cost to complete the project is $840,000; however, due to funding limitations, the project was divided into two phases. Phase 1 in the amount of $400,000 is funded by the ROP Economic Stimulus Package (ESP) FY-2014 and Phase II in the amount of $440,000 is funded by the Center. The project is expected to be completed during 2017.

6) Inventories

Inventories as of September 30, 2016 and 2015, consist of the following:

	2016	2015
Merchandise	$ 39,942	$ 19,392
Spare parts	33,097	37,092
	$ 73,039	$ 56,484

7) Noncurrent Liabilities

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2016 and 2015 is as follows:

	Outstanding October 1, 2015	Decreases	Increases	Outstanding September 30, 2016	Current	Noncurrent
Net Pension Liablitiy	$ 1,783,171	$ 217,250	$ -	$ 1,565,921	$ -	$ 1,565,921
	$ 1,783,171	$ 217,250	$ -	$ 1,565,921	$ -	$ 1,565,921

	Outstanding October 1, 2014	Decreases	Increases	Outstanding September 30, 2015	Current	Noncurrent
Net Pension Liablitiy	$ 1,580,457	$ -	$ 202,714	$ 1,783,171	$ -	$ 1,783,171
	$ 1,580,457	$ -	$ 202,714	$ 1,783,171	$ -	$ 1,783,171

8) Republic of Palau

During the year ended September 30, 2016 and 2015, 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.

9) Risk Management

The Center is exposes 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.

10) Subsequent Events

The Center has evaluated subsequent events from October 1, 2016 through June 26, 2017, the date of financial statements were available to be issued. The Center did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

PALAU INTERNATIONAL CORAL REEF CENTER
(A Component Unit of the Republic of Palau)

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

	2015	2014	2013
Civil Service Pension Trust Fund (Plan) total net pension liability	$215,546,176	$204,281,232	$182,080,332
The Center's proportionate share of the net pension liability	$ 1,565,921	$ 1,783,171	$ 1,580,457
The Center's proportionate share of the net pension liability	0.726%	0.873%	0.868%
The Center's covered-employee payroll**	$ 352,326	$ 410,366	$ 321,633
The Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	444.45%	434.53%	491.39%
Plan Fiduciary net position as a percentage of the total pension liability	53.50%	56.60%	53.94%

* 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
(A Component Unit of the Republic of Palau)

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

	2015	2014	2013
Actuarially determined contribution	$ 79,187	$ 92,733	$ 54,602
Contribution in relation to the actuarially determined contribution	20,999	24,165	21,838
Contribution (excess) deficiency	$ 58,188	$ 68,568	$ 32,764
Center's covered-employee payroll	$ 352,326	$ 410,366	$ 321,633
Contribution as a percentage of covered-employee payroll	5.96%	5.89%	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.

PALAU INTERNATIONAL CORAL REEF CENTER
(A Component Unit of the Republic of Palau)

Schedule of Investments
September 30, 2016

Cash and Money Market Funds	Cost	Fair Value
Morgan Stanley Sicav US$ Liq	$ 2,785	$ 2,785
Total Cash and Money Market Funds	2,785	2,785
Equities		
Common Stock		
Abbvie Incorporated	1,198	1,198
Anadarko Pete Corporation	1,331	1,331
Adobe Systems, Inc.	1,086	1,302
Alibaba Group Holding Ltd	2,433	3,068
Allergan Plc Shs	1,795	1,382
Alphabet Incorporated Cap Stk Class A	3,531	5,628
Altria Group Incorporated	2,237	2,213
Amazon Com Incorporated	1,492	2,512
American International Group Inc.	1,893	1,840
American Tower Reit Com	2,833	3,627
Apple Inc.	4,315	4,861
AT&T Incorporated	2,811	3,208
Bank of America Corp	2,899	2,786
Boston Scientific Corp	1,115	1,571
Canadian Nat Res Limited	2,467	2,747
Celgene Corp	1,415	1,359
Charter Communications Inc. New Class A	2,160	2,160
Cisco Sys Inc.	2,001	2,411
Citigroup Inc. Com New	2,312	2,125
Comcast Corp Class A	4,441	5,108
Crown Castle Int. Corp.	1,201	1,131
CSX Corporation	1,253	1,312
CVS Health Corp Com	925	1,157
Disney Walt Company Com	685	929
Dow Chemical co	2,363	2,488
Duke Energey Corp.	1,212	1,121
Exxon Mobil Corp.	3,048	3,229
Facebook Inc	2,905	4,618
Fedex Corp.	1,826	2,096
General Electric Co.	1,754	1,777
Halliburton Co.	1,460	1,526
Home Depot Inc.	1,862	2,960
Honeywell International Inc	3,001	3,498
JPMorgan Chase & Co	3,395	3,995
Johnson & Johnson	1,855	1,890
Lilly Eli & Co.	1,243	1,204
Marsh & Mclennan Cos Inc	1,712	2,623
Medtronic Plc Shs	1,231	1,382
Merck & Co Inc	1,333	1,435
Microsfot Corp	1,413	3,802
Balance carry-forward	$ 81,442	$ 96,608

See accompanying Independent Auditors' Report.

Schedule of Investments
September 30, 2016

		Cost		Fair Value
Balance brought-forward	$	81,442	$	96,608
Morgan Stanley		1,693		1,763
Norfolk Southern Corp.		1,359		1,359
NXP Semiconductors N V		1,909		2,244
Pepsico Inc.		1,287		1,414
Pfizer Inc.		2,409		2,439
Proctor & Gamble Co.		1,169		1,257
Raytheon Co		1,849		2,314
Reynolds American Inc.		2,214		2,263
Salesforce Com Inc.		1,087		999
Schlumberger Ltd.		2,680		2,438
Southern Co.		1,225		1,180
Stanley Black & Decker Inc.		584		615
Starbucks Corp		1,303		1,299
T-Mobile US Inc		593		748
Time Warner Inc. Com New		1,266		1,274
United Health GP Inc.		1,526		2,100
Visa Inc Com		2,172		2,316
Westrock Co		525		727
Zimmer Biomet Hldgs Inc.		1,795		1,950
Total Common Stock		110,086		127,306
Exchange-Traded and Closed-End Funds				
Ishares TR Interm Credit Bd Etf		32,020		32,626
Total Exchange-Traded and Closed-End Funds		32,020		32,626
Total Equities		32,020		32,626
Fixed Income Securities				
Government Securities				
United States Treasury Note @ 1.750%, due 1/31/23		20,000		20,473
Fed NATL Mtg Assn @ 0.875%, due 02/08/18		24,000		24,032
Total Government Securities		44,000		44,505
Total Fixed Income Securities		44,000		44,505
Total Cash, Money Maket Funds, Equities and Fixed Income Securities	$	188,891	$	207,221

See accompanying Independent Auditors' Report.

PALAU INTERNATIONAL CORAL REEF CENTER
(A Component Unit of the Republic of Palau)

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

Year Ended September 30, 2016

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Palau International Coral Reef Center

We have audited, in accordance with the 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, the financial statements of Palau International Coral Reef Center (the Center), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Palau International Coral Reef Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Palau International Coral Reef Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palau International Coral Reef Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burger Comer Magliari

Koror, Republic of Palau
June 26, 2017