

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

September 30, 2018 and 2017

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

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September 30, 2018 and 2017

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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, 2018 and 2017, 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 audit opinion.

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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, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (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, 2018 on page 41 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 April 16, 2019 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.



Koror, Republic of Palau
April 16, 2019



PALAU INTERNATIONAL CORAL REEF CENTER

Management's Discussion and Analysis
Fiscal Year Ended September 30, 2018

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, 2018, with selected comparative information for the fiscal years ended September 30, 2017 and 2016.

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 a 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, Minister of Natural Resources, Environment, and Tourism, and the Chief Executive Officer 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 educational 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 2013-2017 with a clear vision, core values and a mission statement. The fiscal year the Board adopted a five-year Strategic Plan 2018-2022 with a new set goal and objectives.

VISION

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

MISSION STATEMENT

To guide efforts supporting coral reef stewardship through research and its applications for the people of Palau, Micronesia, and the World.

CORE VALUES

The Center is guided by the following core values:

1. We believe in working together in a spirit of cooperation, teamwork and partnership both within the Center and with external partners.
2. We achieve meaningful results through hard work focus and effective application of our knowledge and skills.
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 2018, operating revenues decreased by 21% (\$932,467 in fiscal year 2018 versus \$1,179,814 in fiscal year 2017), mainly due to an decrease in grant revenues by 85% due to less grant payments received in Fiscal Year 2018. Other decreases were in research facilities by 75%, donations by 9% and merchandise sale by 6%. On the other hand, the following were increased in FY 2018, facility and admissions fees (51%), fundraising (213%), contract service (14%), boat fees (88%), accommodation (17%), and other income (58%).

In fiscal year 2017, operating revenues decreased by 5% (\$1,179,814 in fiscal year 2017 versus \$1,248,831 in fiscal year 2016) mainly due to decrease in grant revenues by 49% due to less grant payments received in Fiscal Year 2017. Other decrease was fund raising by 5% and merchandise sale by 0.6%. On the other hand, the following were increased in FY 2017, facility and admissions fees (19%), research facilities (74%), contract service (122%), boat fees (26%), accommodation (170%), donations (46%), and other income (147%). The increase was mainly due to more guests using the Center's facilities to conduct research and/or meetings and the utilization of the new building that have 6 single studios, 3 office, and 80 capacity conference room.

Operating expense decreased by 3% (\$1,712,839 in fiscal year 2018 versus \$1,758,328 in fiscal year 2017). Salaries and Fringe Benefits increased by 10% mainly due to unfunded pension expenses in FY 2018, Professional Fees increased by 6% due to the water feasibility studies

consultancy, Fuel by 1% due to increase of guest renting the boat, Anniversary by 236% due to increase expenses of supplies and equipment, and travel due to sending researchers to attend conferences. Notable decrease in expenses includes Depreciation (6%), Supplies and Printing (13%), Utilities (1%), Merchandise (48%), Training (33%), Insurance (28%), Repair and Maintenance (47%), Communication (10%), Dues and Subscription (84%), Entertainment(83%), Rentals (100%), and Sales and Marketing (48%).

Government appropriations remained at the same level in fiscal year 2018 of \$400,000 in fiscal year 2017. Fair value of investments decreased by 21% \$27,956 in fiscal 2017 from to \$21,973 in fiscal year 2018. Net income before capital contributions decreased by 127% from (\$158,639) in fiscal year 2017 to (\$359,951) in fiscal year 2018 due to a notable decrease in revenue by 21% and an increase in expenses by 2%. Net position decreased by 21% from \$1,728,823 to \$1,368,872.

A summary of operations, changes in net position and cash flows for the fiscal years ended September 30, 2018, 2017 and 2016 follows:

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018, 2017 and 2016**

	2018	2017	(Increase) Decrease	2016
Operating revenues:				
Grants	\$ 55,652	\$ 359,345	84.51%	\$ 704,477
Facility user and admission fees	253,714	168,523	(50.55%)	141,735
Research facilities	32,460	128,877	74.81%	74,073
Fund raising	16,300	5,200	(213.46%)	5,500
Contract service	166,929	146,601	(13.87%)	66,000
Boat fee	91,157	48,561	(87.72%)	38,428
Merchandise sales	44,866	47,677	5.90%	48,008
Accomodation	47,555	40,499	(17.42%)	14,945
Donations	196,510	216,961	9.43%	148,192
Education program fee	-	325	100.00%	500
Other	27,324	17,245	(58.45%)	6,973
Total operating revenues	932,467	1,179,814	20.96%	1,248,831
Bad debts	(1,552)	(8,081)	0.00%	(16,409)
	<u>\$ 930,915</u>	<u>\$ 1,171,733</u>	20.55%	<u>\$ 1,232,422</u>

OVERVIEW FINANCIAL OPERATIONS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2018, 2017 and 2016

	2018	2017	(Increase) Decrease 2018	2016
Operating expenses:				
Salaries, wages and fringe benefits	\$ 761,405	\$ 693,118	(9.85%)	\$ 605,446
Depreciation	276,772	293,084	5.57%	265,703
Supplies and printing	146,461	167,405	12.51%	99,036
Utilities	96,080	96,641	0.58%	72,748
Professional services	142,178	133,632	(6.40%)	178,556
Fuel	33,167	32,827	(1.04%)	27,426
Merchandise cost	29,035	56,057	48.20%	22,923
Training	18,514	27,802	33.41%	45,106
Insurance	17,829	24,632	27.62%	13,875
Repairs and maintenance	22,181	41,912	47.08%	21,266
Communications	22,032	24,501	10.08%	23,268
Anniversary	19,709	5,864	(236.10%)	24,872
Travel	18,234	7,578	(140.62%)	35,333
Postage and freight	3,063	3,227	5.08%	8,273
Dues and subscriptions	1,610	10,014	83.92%	4,186
Entertainment	597	3,519	83.03%	2,096
Rentals	20	75	100.00%	10,270
Sales and Marketing	2,401	4,589	47.68%	408
Other	101,551	131,851	22.98%	76,560
Total operating expenses	<u>1,712,839</u>	<u>1,758,328</u>	2.59%	<u>1,537,351</u>
Operating loss	<u>(781,924)</u>	<u>(586,595)</u>	(33.30%)	<u>(304,959)</u>
Nonoperating revenues (expenses):				
Appropriations	400,000	400,000	0.00%	400,000
Loss on disposal of capital assets	-	-	100.00%	(14,245)
Net increase in the fair value of investments	21,973	27,956	21.40%	12,768
Total nonoperating revenues (expenses), net	<u>421,973</u>	<u>427,956</u>	1.40%	<u>398,523</u>
Net income before capital contributions	(359,951)	(158,639)	(126.90%)	93,564
Capital contributions	-	-	0.00%	-
Change in net position	(359,951)	(158,639)	(126.90%)	93,564
Net position at beginning of year	<u>1,728,823</u>	<u>1,887,462</u>	8.40%	<u>1,793,898</u>
Net position at end of year	<u>\$ 1,368,872</u>	<u>\$ 1,728,823</u>	20.82%	<u>\$ 1,887,462</u>

Statements of Cash Flows
Years Ended September 30, 2018, 2017 and 2016

			(Increase) Decrease	
	2018	2017	2018	2016
Net cash provided by (used for) operating activities	\$ (341,574)	\$ (117,842)	(189.86%)	\$ 25,719
Net cash provided by noncapital financing activities	400,000	400,000	0.00%	400,000
Net cash used for capital and related financing activities	(376,460)	(100,000)	(276.46%)	(142,254)
Net cash used for investing activities	-	(132,925)	100.00%	(107,894)
Net increase in cash	(318,034)	49,233	745.98%	175,571
Cash at beginning of year	1,174,030	1,124,797	(4.38%)	949,226
Cash at end of year	<u>\$ 855,996</u>	<u>\$ 1,174,030</u>	27.09%	<u>\$ 1,124,797</u>

OVERVIEW OF FINANCIAL POSITION

Total current assets decreased by 22% in fiscal year 2018 over fiscal year 2017 (\$1,416,327 versus \$1,811,810), due mostly to 71% decrease in grant receivables at September 30, 2018 (\$160,550 versus \$46,020), and cash decreased by 27%. Other Receivables increased by 12% and prepaid expense increased by 19% in fiscal year 2018 over fiscal year 2017. Total assets decreased by 8% in fiscal year 2018 over fiscal year 2017 (\$3,391,597 versus \$3,681,857). An increase in deferred outflow of resources from pension in fiscal 2018 over fiscal 2017 by 13%.

Total current assets increased by 6% in fiscal year 2017 over fiscal year 2016 (\$1,811,810 versus \$1,716,646), due mostly to 74% increase in investments at September 30, 2017 (\$359,841 versus \$207,221). Cash increased by 4% in fiscal year 2017 over fiscal year 2016. Total assets decreased by 3% in fiscal year 2017 over fiscal year 2016 (\$3,779,677 versus \$3,681,756). An increase in deferred outflow of resources from pension in fiscal 2017 over fiscal 2016 by 194%.

Total liabilities decreased by less than 1% as a result of a decrease in accounts payable of 79% in addition to an increase in accrued expense by 23% and an increase in deferred inflows of resources from Pension by 46% in fiscal 2018.

Capital Assets

At September 30, 2018, 2017 and 2016, the Center had \$1,975,270, \$1,869,946, and \$2,063,031 respectively, invested in capital assets, net of accumulated depreciation where applicable, including buildings, mechanical, electrical, research, office, exhibit and marine equipment, aquarium, furniture and fixtures, computers and vehicles, which represents a net increase in fiscal year 2018 of \$1,99,635 or 6% over fiscal year 2018.

Long-Term Liabilities

At September 30, 2018 a notable increase in Net Pension Liabilities by 1%. In 2018 and 2017, the Center had \$2,098,201 and \$2,078,159, respectively, in net Pension liabilities. See Notes 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, 2018, 2017 and 2016 is shown below:

**Statements of Net Position
September 30, 2018, 2017 and 2016**

<u>ASSETS</u>	2018	2017	(Increase) Decrease from 2018	2016
Current assets:				
Cash	\$ 855,996	\$ 1,174,030	27%	\$ 1,124,797
Investments	381,813	359,841	(6%)	207,221
Receivables:				
Grantor agencies	46,020	160,550	71%	151,997
Other	120,403	107,665	(12%)	165,101
	166,423	268,215	38%	317,098
Less allowance for doubtful accounts	(14,731)	(14,731)	0%	(14,731)
Total receivables, net	151,692	253,484	40%	302,367
Inventories	18,471	17,553	(5%)	73,039
Prepaid expense	8,355	7,002	(19%)	9,222
Total current assets	1,416,327	1,811,910	22%	1,716,646
Property, plant and equipment, net	1,975,270	1,869,947	(6%)	2,063,031
Total Assets	3,391,597	3,681,857	8%	3,779,677
Deferred outflows of resources from pension	622,174	551,926	(13%)	187,679
Total assets and deferred outflows of resources	<u>\$ 4,013,771</u>	<u>\$ 4,233,783</u>	5%	<u>\$ 3,967,356</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Accounts payable	\$ 10,332	\$ 49,905	79%	\$ 60,176
Accrued expenses	73,387	59,696	(23%)	79,168
Total current liabilities	83,719	109,601	24%	139,344
Net Pension liabilities	2,098,212	2,078,159	(1%)	1,565,921
Total liabilities	2,181,931	2,187,760	0%	1,705,265
Deferred inflows of resources from pension	462,968	317,200	(46%)	374,629
Total liabilities and deferred inflows of resources	2,644,899	2,504,960	(6%)	2,079,894
Net position:				
Invested in capital assets	1,975,270	1,869,947	(6%)	2,063,031
Restricted	11,420	92,477	88%	289,994
Unrestricted	(617,818)	(233,601)	(164%)	(465,563)
Total net position	1,368,872	1,728,823	21%	1,887,462
Total liabilities and deferred inflows of resources and net position	<u>\$ 4,013,771</u>	<u>\$ 4,233,783</u>	5%	<u>\$ 3,967,356</u>

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 Scientific Research were conducted in Palau which increases the use of our facilities and we anticipate this to continue for the next two years.

The Center's researchers continue to reach out to different stakeholders from local communities, and attend various international meetings and more research publication are published in peer journal reviews has helped promote the Center's facilities within Palau and around the world.

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.

The Center continues to find ways to be able to capture more tourists to the Palau Aquarium. 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. Furthermore, the Center continues to develop different promotional packages to attract more tourist to the Aquarium.

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, 2018 is set forth in the Center's report on the audit of financial statements, which is dated April 30, 2019. That discussion and analysis explains the major factors impacting the 2018 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, 2018 and 2017

<u>ASSETS AND</u>		
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 855,996	\$ 1,174,030
Investments	381,813	359,841
Receivables:		
Grantor agencies	46,020	160,550
Other	120,403	107,665
	<u>166,423</u>	<u>268,215</u>
Less allowance for doubtful accounts	<u>(14,731)</u>	<u>(14,731)</u>
Total receivables, net	<u>151,692</u>	<u>253,484</u>
Inventories	18,471	17,553
Prepaid expense	8,355	7,002
Total current assets	<u>1,416,327</u>	<u>1,811,910</u>
Capital assets, net	<u>1,975,270</u>	<u>1,869,947</u>
Total assets	3,391,597	3,681,857
Deferred outflows of resources from pension	<u>622,174</u>	<u>551,926</u>
Total assets and deferred outflows of resources	<u>\$ 4,013,771</u>	<u>\$ 4,233,783</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u>		
<u>AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 10,332	\$ 49,905
Accrued expenses	73,387	59,696
Total current liabilities	<u>83,719</u>	<u>109,601</u>
Net pension liability	<u>2,098,212</u>	<u>2,078,159</u>
Total liabilities	2,181,931	2,187,760
Deferred inflows of resources from pension	<u>462,968</u>	<u>317,200</u>
Total liabilities and deferred inflows of resources	<u>2,644,899</u>	<u>2,504,960</u>
Net position:		
Invested in capital assets	1,975,270	1,869,947
Restricted	11,420	92,477
Unrestricted	<u>(617,818)</u>	<u>(233,601)</u>
Total net position	<u>1,368,872</u>	<u>1,728,823</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,013,771</u>	<u>\$ 4,233,783</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Facility user and admission fees	\$ 253,714	\$ 168,523
Donations	196,510	216,961
Contract service	166,929	146,601
Boat fees	91,157	48,561
Grants	55,652	359,345
Accommodations	47,555	40,499
Merchandise sales	44,866	47,677
Research facilities	32,460	128,877
Fundraising	16,300	5,200
Education program fees	-	325
Other	<u>27,324</u>	<u>17,245</u>
Total operating revenues	932,467	1,179,814
Bad debts	<u>(1,552)</u>	<u>(8,081)</u>
	<u>930,915</u>	<u>1,171,733</u>
Operating expenses:		
Salaries, wages and fringe benefits	761,405	693,118
Depreciation	276,772	293,084
Supplies and printing	146,461	167,405
Professional services	142,178	133,632
Utilities	96,080	96,641
Fuel	33,167	32,827
Merchandise cost	29,035	56,057
Repairs and maintenance	22,181	41,912
Communications	22,032	24,501
Anniversary	19,709	5,864
Training	18,514	27,802
Travel	18,234	7,578
Insurance	17,829	24,632
Postage and freight	3,063	3,227
Sales and marketing	2,401	4,589
Dues and subscriptions	1,610	10,014
Entertainment	597	3,519
Rentals	20	75
Other	<u>101,551</u>	<u>131,851</u>
Total operating expenses	<u>1,712,839</u>	<u>1,758,328</u>
Operating loss	<u>(781,924)</u>	<u>(586,595)</u>
Nonoperating revenues (expenses):		
Appropriations	400,000	400,000
Loss on disposal of capital assets	-	-
Net increase in the fair value of investments	<u>21,973</u>	<u>27,956</u>
Total nonoperating revenues (expenses), net	<u>421,973</u>	<u>427,956</u>
Net loss before capital contributions	(359,951)	(158,639)
Capital contributions	<u>-</u>	<u>-</u>
Change in net position	(359,951)	(158,639)
Net position at beginning of year	<u>1,728,823</u>	<u>1,887,462</u>
Net position at end of year	<u>\$ 1,368,872</u>	<u>\$ 1,728,823</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,005,472	\$ 1,220,650
Cash payents to suppliers for goods and services	(675,580)	(826,678)
Cash payments to employees for services	(665,831)	(511,814)
Net cash used in operating activities	<u>(335,939)</u>	<u>(117,842)</u>
Cash flows from capital and related financing activities:		
Appropriations	<u>400,000</u>	<u>400,000</u>
Net cash provided by noncapital financing activities	<u>400,000</u>	<u>400,000</u>
Cash flows from capital and related financing activities:		
Capital assets acquisitions	(382,095)	(100,000)
Payments on note payable	<u>-</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(382,095)</u>	<u>(100,000)</u>
Cash flows from investing activities:		
Purchase of investments	<u>-</u>	<u>(132,925)</u>
Net cash used in investing activities	<u>-</u>	<u>(132,925)</u>
Net change in cash	(318,034)	49,233
Cash at beginning of year	<u>1,174,030</u>	<u>1,124,797</u>
Cash at end of year	<u>\$ 855,996</u>	<u>\$ 1,174,030</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (781,924)	\$ (586,595)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	276,772	293,084
Bad debts	1,552	8,081
Loss on disposal of capital asset	-	-
Noncash pension costs	95,574	90,742
(Increase) decrease in assets:		
Receivables grantor agencies	114,530	(8,553)
Receivables, other	(14,290)	57,436
Inventories	(918)	55,486
Prepaid expense	(1,353)	2,220
Increase (decrease) in liabilities:		
Accounts payable	(39,573)	(10,271)
Accrued expenses	<u>13,691</u>	<u>(19,472)</u>
Net cash used in operating activities	<u>\$ (335,939)</u>	<u>\$ (117,842)</u>
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of contributed capital assets:		
Noncash increase in capital assets	\$ -	\$ -
Noncash increase in capital contribution	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

Palau International Coral Reef Center
(A Component Unit of the Public of Palau)

Notes to Financial Statements
September 30, 2018 and 2017

(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.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(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, 2018 and 2017, the Center had cash totaling \$855,996 and \$1,174,030, respectively, and the corresponding bank balances were \$886,222 and \$1,213,692, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2018 and 2017, bank deposits of \$412,678 and \$569,530 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 \$18,342 and \$69,530 and investments of \$381,813 and \$359,841 have been internally restricted as of September 30, 2018 and 2017, 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.

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

General:

1. Any pertinent restrictions existing under the laws of ROP with respect to the Center, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
3. No individual security of any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of Investment Manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the Investment Manager are subject to the prior approval of the Board of Directors.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

General, continued:

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

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

General, continued:

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. 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, 2018 and 2017.

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

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Investments, continued

The Center values its investments at fair value in accordance with GASB Statement 31. The Center's investments as of September 30, 2018 and 2017 are as follows:

Investment Type	Fair Value	
	2018	2017
Cash and money market funds	\$ 12,776	\$ 7,735
Exchange-traded and closed-end funds	369,037	352,105
	\$ 381,813	\$ 359,840

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.

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			
	2018	Level 1	Level 2	Level 3
Investments by fair value level				
Exchange traded funds	\$ 369,037	\$ 369,037	\$ -	\$ -
Common stock	-	-	-	-
Total investments by fair fair value level	\$ 369,037	\$ 369,037	\$ -	\$ -
Investments measured at cost based measure				
Cash and cash equivalents	\$ 12,776			

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments, continued

	Fair Value Measurement Using			
	2017	Level 1	Level 2	Level 3
Investments by fair value level				
Exchange traded funds	\$ 352,105	\$ 352,105	\$ -	\$ -
Common stock	-	-	-	-
Total investments by fair fair value level	<u>\$ 352,105</u>	<u>\$ 352,105</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at cost based measure				
Cash and cash equivalents	<u>\$ 7,735</u>			

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, 2018 and 2017, the following fixed income securities and exchange-traded and closed-end funds constituted more than 5% of the Center's total investments:

	<u>2018</u>	<u>2017</u>
Exchange-traded and Closed-end Funds:		
Ishares TR Core AGGBD ET	19%	21%
Ishares TR Core MSCI EAFE	16%	14%
Ishares TR RUS 1000 GRW ETF	15%	14%
Ishares TR RUS 1000 VAL ETF	13%	14%
SPDR Trust S&P Dividend EFT	7%	7%
SPDR S&P Midcap 400 EFT Trust	7%	7%
Ishares TR RUS 2000 GRW ETF	6%	5%

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

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, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017, the Center did not have any investments in debt securities.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(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 lives of the respective assets. Current policy is to capitalize items in excess of \$1,000.

Compensated Absences

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

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

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

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, 2018 and 2017:

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Net Position, continued

	2018	2017
Italian Minisry for Environmental Land and Sea	\$ 11,420	\$ 97,277
	\$ 11,420	\$ 97,277

- 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.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2018, the Center implemented the following GASB pronouncements:

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016. This Statement replaces Statement 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 No. 43, and Statement No. 50, *Pension Disclosures*.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions of this Statement are effective for fiscal years beginning after December 15, 2015. The implementation of this statement did not 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*. This Statement addresses an issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. GASB Statement No. 78 was effective for fiscal year ending September 30, 2017. The implementation of this statement did not have a material impact on the Center's financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. GASB Statement No. 79 was effective for fiscal year ending September 30, 2017. The implementation of this statement did not have a material impact on the Center's financial statements.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The Statement is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB Statement No. 80 was effective for fiscal year ending September 30, 2017. The implementation of this statement did not have a material impact on the Center's financial statements.

In June 2015, GASB issued statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017. This Statement replaces the requirement of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans 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*, establishes new accounting and financial reporting requirements for OPEB plans. GASB Statement No. 75 was effective for the Center for fiscal year ending September 30, 2018.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement is to improve 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. GASB Statement No. 81 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Center's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues*. This Statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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 Statements 67 and 68*. This Statement 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 of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Center's financial statements.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Center's financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 was effective for the fiscal year ending September 30, 2018. The implementation of this Statement did not have a material impact on the Center's financial statements.

Upcoming Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. GASB Statement No. 83 will be effective for the fiscal year ending September 30, 2019. Management has not evaluated the impact that the implementation of this Statement will have on the Center's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 will be effective for reporting periods after December 15, 2018. Management has not evaluated the impact that the implementation of this Statement will have on the Center's financial statements.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, Continued

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2021.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The Statement's objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of the Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, Continued

In August 2018, GASB issued Statement No. 90, *Majority Equity Interest*. The primary objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

The Center is currently evaluating whether or not the new GASB pronouncements listed above will have a significant impact on the Center's 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.

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.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

3) Employees' Retirement Plan, Continued

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	1,576
Inactive members entitled to but not receiving benefits	1,162
Active members	<u>3,422</u>
Total members	<u>6,160</u>

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

A. General information About the Pension

Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

In accordance with the directives of RPPL 5-7, the Board adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with 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:

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

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2018 and 2017

(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:

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

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

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

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

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, 2018, 2017 and 2016 were \$28,117, \$27,007, and \$26,111, respectively, which were equal to the required contributions for the respective years then ended.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(3) Employees' Retirement Plan, Continued

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, 2014, and rolled forward using generally accepted actuarial procedures to the measurement date as of September 30, 2015, 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.

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(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, 2017, 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	<u>31%</u>	7.75%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 3.62% at the current measurement date and 2.98% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for the 2017 measurement date. For years after 2022, a discount rate of 3.57% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

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 3.62%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.62%) or 1.00% higher (4.62%) from the current rate.

<u>1% Decrease 2.62%</u>	<u>Current Single Discount Rate Assumption 3.62%</u>	<u>1% Increase 4.62%</u>
\$2,429,619	\$2,098,212	\$1,823,228

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(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, 2018 and 2017, the Center reported a liability of \$2,098,212 and \$2,078,159, 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, 2018 and 2017, the Center's proportion was 0.8089% and 0.8331%, respectively.

Pension Expense. For the years ended September 30, 2018 and 2017, the Center recognized pension expense of \$122,962 and \$117,746, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2018 and 2017, the Center reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 193,156	\$ 41,009	\$ -	\$ 53,264
Net difference between projected and actual earnings on pension plan investments	11,552	10,254	17,846	4,040
Change in assumptions	245,343	198,768	318,499	49,146
Authority contributions subsequent to the measurement date				
Changes in proportion and difference between the Center's contributions and appropriate share of contributions	<u>172,123</u>	<u>212,937</u>	<u>215,581</u>	<u>210,750</u>
Total	<u>\$ 622,174</u>	<u>\$ 462,968</u>	<u>\$ 551,926</u>	<u>\$ 317,200</u>

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

(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, 2017 will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	
2019	\$ 42,722
2020	\$ 19,594
2021	\$ 23,208
2022	\$ 50,712
Thereafter	\$ (3,906)

4) Due from Grantor Agencies

The Center is a direct recipient of a contract award received from the Italy Government, and Micronesian Conservation Trust, US Department of Interior. 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 160,550	\$ 151,997
Deductions - cash receipts from grantor agencies	(55,652)	(359,345)
Additions - program outlays	<u>48,928</u>	<u>367,898</u>
Balance at end of year	<u>\$ 153,826</u>	<u>\$ 160,550</u>

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

5) Capital Assets

Capital assets as of September 30, 2018 and 2017, consist of the following:

	Estimated Useful Lives	Balance at October 1, 2017	Additions	Deletions	Balance at September 30, 2018
Buildings	10-30 years	\$3,694,472	\$ 376,460	\$ -	\$ 4,070,932
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	1,832,686	-	-	1,832,686
Aquarium	7 years	1,585,360	-	-	1,585,360
Furniture and fixtures	5 years	101,089	-	-	101,089
Computers	5 years	22,941	5,635	-	28,576
Vehicles	3 years	60,405	-	-	60,405
CIP in Progress		<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
		7,496,953	382,095	-	7,879,048
Accumulated depreciation		<u>(5,627,006)</u>	<u>(276,772)</u>	<u>-</u>	<u>(5,903,778)</u>
		<u>\$ 1,869,947</u>	<u>\$ 105,323</u>	<u>\$ -</u>	<u>\$ 1,975,270</u>
	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Buildings	10-30 years	\$3,694,472	\$ -	\$ -	\$ 3,694,472
Mechanical, electric, research office exhibit and marine equipment	2- 15 years	2,040,307	-	(207,621)	1,832,686
Aquarium	7 years	1,585,360	-	-	1,585,360
Furniture and fixtures	5 years	101,089	-	-	101,089
Computers	5 years	22,941	-	-	22,941
Vehicles	3 years	60,405	-	-	60,405
CIP in Progress		<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>200,000</u>
		7,604,574	100,000	(207,621)	7,496,953
Accumulated depreciation		<u>(5,541,543)</u>	<u>(293,084)</u>	<u>207,621</u>	<u>(5,627,006)</u>
		<u>\$ 2,063,031</u>	<u>\$ (193,084)</u>	<u>\$ -</u>	<u>\$ 1,869,947</u>

Palau International Coral Reef Center
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued
September 30, 2018 and 2017

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 \$200,000 as of September 30, 2018. The total cost to complete the project is \$840,000; however, due to funding limitations, the project was divided into two phases. Phase I 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 2019.

6) Inventories

Inventories as of September 30, 2018 and 2017, consist of the following:

	2018	2017
Merchandise	\$ 16,554	\$ 15,636
Spare parts	1,917	1,917
	\$ 18,471	\$ 17,553

7) Noncurrent Liabilities

A summary of changes in noncurrent liabilities during fiscal year ended September 30, 2018 and 2017 is as follows:

	Outstanding October 1, 2017			Outstanding September 30, 2018		
	Decreases	Increases	Current	Noncurrent		
Net Pension Liability	\$ 2,078,159	\$ -	\$ 20,053	\$ 2,098,212	\$ -	\$ 2,098,212
	\$ 2,078,159	\$ -	\$ 20,053	\$ 2,098,212	\$ -	\$ 2,098,212
	Outstanding October 1, 2016			Outstanding September 30, 2017		
	Decreases	Increases	Current	Noncurrent		
Net Pension Liability	\$ 1,565,921	\$ -	\$ 512,238	\$ 2,078,159	\$ -	\$ 2,078,159
	\$ 1,565,921	\$ -	\$ 512,238	\$ 2,078,159	\$ -	\$ 2,078,159

Palau International Coral Reef Center
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Notes to Financial Statements, continued
September 30, 2018 and 2017

8) Republic of Palau

During the year ended September 30, 2018 and 2017, the Center recorded appropriations for operations of \$400,000 through RPPL 10-12 and RPPL 10-01, 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 exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage during the past three years.

10) Subsequent Events

The Center has evaluated subsequent events from October 1, 2017 through April 16, 2018, 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*

	2017	2016	2015	2014	2013
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,332
The Center's proportionate share of the net pension liability	\$ 2,098,212	\$ 2,078,159	\$ 1,565,921	\$ 1,783,171	\$ 1,580,457
The Center's proportionate share of the net pension liability	0.809%	0.833%	0.726%	0.873%	0.868%
The Center's covered-employee payroll**	\$ 468,617	\$ 441,236	\$ 352,326	\$ 410,366	\$ 321,633
The Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	447.75%	470.99%	444.45%	434.53%	491.39%
Plan Fiduciary net position as a percentage of the total pension liability	22.33%	21.23%	22.50%	23.01%	20.35%

* 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)

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 138,960	\$ 120,112	\$ 79,187	\$ 92,733	\$ 54,602
Contribution in relation to the actuarially determined contribution	<u>28,117</u>	<u>26,111</u>	<u>20,999</u>	<u>24,165</u>	<u>21,838</u>
Contribution (excess) deficiency	<u>\$ 110,843</u>	<u>\$ 94,001</u>	<u>\$ 58,188</u>	<u>\$ 68,568</u>	<u>\$ 32,764</u>
Center's covered-employee payroll	<u>\$ 468,617</u>	<u>\$ 441,236</u>	<u>\$ 352,326</u>	<u>\$ 410,366</u>	<u>\$ 321,633</u>
Contribution as a percentage of covered-employee payroll	6.00%	5.92%	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, 2018

<u>Cash and Money Market Funds</u>	<u>Cost</u>	<u>Fair Value</u>
Goldman Sachs Bank USA	\$ 12,776	\$ 12,776
Total Cash and Money Market Funds	<u>12,776</u>	<u>12,776</u>
 <u>Equities</u>		
<u>Exchange-Traded and Closed-End Funds</u>		
IQ Hedge Multi-Strategy Tracker EFT	\$ 10,508	\$ 10,998
Ishares TR Core AGGBD ET	75,384	71,648
Ishares TR RUS 1000 VAL ETF	42,026	49,002
Ishares TR RUS 1000 GRW ETF	38,219	55,061
Ishares TR RUS 2000 GRW ETF	16,123	21,406
Ishares TR Core MSCI EAFE	51,938	57,608
Ishares TR Core 1 5yr USD	14,979	14,994
Ishares Incorporated Core MSCI EMKT	11,973	13,463
SPDR Portfolio Intermediate Term Corporate Bond ETF	10,576	10,290
SPDR Trust S&P Dividend EFT	23,401	27,028
SPDR S&P Midcap 400 EFT Trust	21,083	26,824
SPDR Series Trust Barclays CAP Investment EFT	<u>10,679</u>	<u>10,715</u>
Total Exchange-Traded and Closed-End Funds	<u>326,889</u>	<u>369,037</u>
 Total Cash, Money Market Funds and Equities	 <u>\$ 339,665</u>	 <u>\$ 381,813</u>

See Accompanying Independent Auditors's 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, 2018



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 net position as of September 30, 2018, and the related statements of revenues, expenses and changes in net position and the statement of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 16, 2019.

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.

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.



Koror, Republic of Palau
April 16, 2019