

*Financial Statements and Required  
Supplementary Information*

**Protected Areas Network Fund**  
(A Component Unit of the Republic of Palau)

*Years Ended September 30, 2022 and 2021  
with Report of Independent Auditors*



Protected Areas Network Fund

Financial Statements and Required Supplementary Information

Years Ended September 30, 2022 and 2021

**Contents**

Report of Independent Auditors ..... 1  
Management’s Discussion and Analysis.....4

Audited Basic Financial Statements:

Statements of Net Position .....7  
Statements of Revenues, Expenditures, and Changes in Net Position..... 8  
Statements of Cash Flows .....9  
Notes to Financial Statements ..... 10

Report on Internal Control and Compliance

Report of Independent Auditors 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* .....27



## Report of Independent Auditors

Board of Directors  
Protected Areas Network Fund

### **Report on the Financial Statements**

We have audited the financial statements of the Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the PAN Fund's basic financial statements listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the PAN Fund at September 30, 2022, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the PAN Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PAN Fund's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PAN Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PAN Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Report of Other Auditors on 2021 Financial Statements***

The financial statements of PAN Fund for the year ended September 30, 2021, were audited by other auditors who expressed an unmodified opinion on those statements on November 10, 2022.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2024, on our consideration of the PAN Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PAN Fund's 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 PAN Fund's internal control over financial reporting and compliance.

*Ernst + Young LLP*

June 20, 2024



## **Protected Areas Network Fund**

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### **Management's Discussion and Analysis Year Ended September 30, 2022**

This report presents a management's discussion and analysis of the Protected Areas Network Fund's (PANF) financial performance during the fiscal year ended September 30, 2022 with selected comparative information for fiscal year September 30, 2021.

#### **ORGANIZATION AND PURPOSE**

The mission of PANF is to “efficiently and equitably provide funding to the Protected Areas Network, and its associated activities, through strategic actions and medium- to-long-term financial support that will advance effective management and conservation of Palau’s natural and cultural resources.” The types of funds administered, managed and invested by PANF as the financial trustee corporation to the PAN include the green fee, grants, and income derived from investment. The allocation of funds is prioritized based on annual work plans developed annually which outline key activities to be undertaken each fiscal year. The annual work plans are developed based on system wide strategic plan and site-specific management plans. Funds are disbursed on a quarterly basis and are subject to verification of programs and activities implemented.

#### **FINANCIAL HIGHLIGHTS**

PANF's total net position decreased by a little over 29.37% from \$3,040,855 in fiscal year 2021 to \$2,147,796 in fiscal year 2022. Total current liabilities decreased from \$78,638 in fiscal year 2021 to \$72,358 in fiscal year 2022. Current liabilities for fiscal year 2022 include accruals for personnel expenses of \$6,231, unearned revenue for grants payments of \$57,877 and the amount owed to MCT Investment of \$5,789.

Operating expenses decreased by 1.05% from \$1,250,747 in fiscal year 2021 to \$1,237,553 in fiscal year 2022. Non-operating revenues decreased by 71.45% from \$1,206,826 in fiscal year 2021 to \$344,494 in fiscal year 2022. The decrease in operating expense and operating revenues are linked to reduced green fee revenues for the latter part of fiscal year 2021 and 2022.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Management Discussion and Analysis, continued

**Overview of Financial Statements**

	<u>2022</u>	<u>2021</u>
<b>Statements of Net Position:</b>		
Current assets	\$2,249,381	\$3,138,225
Fixed assets	<u>773</u>	<u>6,268</u>
 Total assets	 <u>2,250,154</u>	 <u>3,144,493</u>
 Current liabilities	 <u>72,358</u>	 <u>78,638</u>
 Net position:		
Invested in capital assets	773	6,268
Restricted	<u>2,147,023</u>	<u>3,034,587</u>
 <b>Total net position</b>	 <b><u>\$2,147,796</u></b>	 <b><u>\$3,040,855</u></b>
 Operating revenues	 \$ ---	 \$ ---
Operating expenses	<u>1,237,553</u>	<u>1,250,747</u>
 Operating loss	 (1,237,553)	 (1,250,747)
Non-operating revenues	<u>344,494</u>	<u>1,206,826</u>
 Change in net position	 (893,059)	 (43,921)
Net position at beginning of year	<u>3,040,855</u>	<u>3,084,776</u>
 <b>Net position at end of year</b>	 <b><u>\$2,147,796</u></b>	 <b><u>\$3,040,855</u></b>

**FINANCIAL OUTLOOK**

The outlook for fiscal year 2024 and 2025 remain uncertain, projections from The Bureau of Budget and Planning is projecting \$626,000 in green fee for fiscal year 2024. Green fee collected by PANF in fiscal year 2022 to fund fiscal year 2023 is at \$63,320. Total endowment earnings drawn in February 2022 and earmarked for fiscal year 2023 is approximately \$553,792 contributing to a total available funding of \$617,112.

The performance of the reserve funds and the endowment fund is also uncertain given that the capital markets remain highly volatile. There are a lot of uncertainty not just about inflation but supply chain issues and the fallout of going war in Ukraine which could directly or indirectly affect the performance and the market value for both funds. This could affect the level of earnings that can be used to operate PAN.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Management Discussion and Analysis, continued

Ultimately, the goal remains the same and that is to prolong the ability to operate until “business as usual” is achieved. In the short-term PANF may need to draw from its reserves or to use future drawdowns from endowment earnings to maintain liquidity until economic activity from tourism improves. In doing so, PANF will need to be conscious about the opportunity cost. Any drawdown would need to be timed perfectly to minimize its impact to the funds. Prolonging the ability to operate can only be achieved through a controlled budget measures that maintain budgets at minimum levels. This would require prioritization activities to be funded. In the long term, PANF would need to accelerate its efforts to support PAN Sites achieve sustainable development and site-based endowment programs. In addition, PANF would need to scale up its effort to increase the endowment to a level that can contribute more in earnings to support PAN.

**CONCLUDING SUMMARY**

The Management’s Discussion and Analysis for the year ended September 30, 2022 explains the major factors impacting the 2022 financial statements. This report is designed to demonstrate PANF’s accountability for the money it receives and manages for PAN and the opportunities and challenges faced in achieving sustainable financing for the Palau Protected Areas Network. If you have questions about this report, or need additional information, please send inquiries via the Protected Areas Network Fund, P.O. Box 6094, Koror, Republic of Palau 96940, or contact the following: Phone: (680) 488-FUND (3863) | Email: [info@palaupanfund.org](mailto:info@palaupanfund.org).



Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Statements of Net Position

September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets:		
Cash	\$ <u>768,306</u>	\$ <u>1,346,583</u>
Investments:		
Corporate stock	959,828	1,255,154
U.S. Government obligations	200,005	235,115
Corporate bonds	<u>203,218</u>	<u>256,516</u>
Total investments	<u>1,363,051</u>	<u>1,746,785</u>
Due from Republic of Palau	52,455	---
Prepaid expenses	<u>65,569</u>	<u>44,857</u>
Total current assets	<u>2,249,381</u>	<u>3,138,225</u>
Capital assets, net of accumulated depreciation	<u>773</u>	<u>6,268</u>
	<u>\$2,250,154</u>	<u>\$3,144,493</u>
 <b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 2,461	\$ 10,671
Accrued expenses	6,231	8,519
Due to Micronesia Conservation Trust	5,789	1,205
Due to Republic of Palau	---	38,035
Unearned revenue	<u>57,877</u>	<u>20,208</u>
Total current liabilities	72,358	78,638
Funds held in trust	<u>30,000</u>	<u>25,000</u>
Total liabilities	<u>102,358</u>	<u>103,638</u>
Commitments		
Net position:		
Net investment in capital assets	773	6,268
Restricted for conservation efforts	<u>2,147,023</u>	<u>3,034,587</u>
Total net position	<u>2,147,796</u>	<u>3,040,855</u>
	<u>\$2,250,154</u>	<u>\$3,144,493</u>

See accompanying notes.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Statements of Revenues, Expenditures, and Changes in Net Position

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ <u>---</u>	\$ <u>---</u>
Operating expenses:		
PAN site/states	910,955	879,529
PAN Institutional System	96,798	81,246
Salaries and wages	86,518	105,068
Special projects	32,945	30,138
Repairs and maintenance	26,395	1,110
Grants	22,006	3,465
Rent	20,200	36,000
Employee benefits	8,910	14,047
Other	6,419	10,930
Micronesia Conservation Trust (MCT) contribution	5,789	900
Communications	5,523	6,098
Depreciation	5,495	204
Audit	3,900	10,000
Utilities	3,905	2,192
Advertisements	1,795	---
Bad debts	<u>---</u>	<u>69,820</u>
Total operating expenses	<u>1,237,553</u>	<u>1,250,747</u>
Operating loss	<u>(1,237,553)</u>	<u>(1,250,747)</u>
Nonoperating revenues:		
Contributions from MCT	553,792	507,276
Transfer in from Republic of Palau	125,775	450,142
Other income	38,180	470
Grant revenue	15,779	3,465
Investment (loss) income, net	<u>( 389,032)</u>	<u>245,473</u>
Total nonoperating revenues, net	<u>344,494</u>	<u>1,206,826</u>
Change in net position	<u>( 893,059)</u>	<u>( 43,921)</u>
Net position at beginning of year	<u>3,040,855</u>	<u>3,084,776</u>
Net position at end of year	<u>\$2,147,796</u>	<u>\$3,040,855</u>

*See accompanying notes.*

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Statements of Cash Flows

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Cash payments to PAN sites/states and institutional system	\$(1,007,753)	\$( 971,446)
Cash payments to suppliers for goods and services	( 153,215)	( 248,004)
Cash payments to employees for services	( 97,716)	( 128,590)
Net cash used for operating activities	<u>(1,258,684)</u>	<u>(1,348,040)</u>
<b>Cash flows from non-capital financing activities:</b>		
Contributions from MCT	548,494	571,493
Transfer in from Republic of Palau	73,320	438,392
Cash received from (disbursed for) grants	53,448	( 11,536)
Interest income	145	470
Other	<u>5,000</u>	<u>25,000</u>
Net cash provided by non-capital financing activities	<u>680,407</u>	<u>1,023,819</u>
Net decrease in cash	( 578,277)	( 324,221)
Cash at beginning of year	<u>1,346,583</u>	<u>1,670,804</u>
Cash at end of year	<u>\$ 768,306</u>	<u>\$ 1,346,583</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$(1,237,553)	\$(1,250,747)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	5,495	204
Changes in operating assets and liabilities:		
Prepaid expenses	( 20,712)	( 14,991)
Accounts payable	( 8,210)	( 28,669)
Accrued expenses	( 2,288)	( 9,787)
Due to Micronesia Conservation Trust	<u>4,584</u>	<u>( 44,050)</u>
Net cash used for operating activities	<u>\$(1,258,684)</u>	<u>\$(1,348,040)</u>

*See accompanying notes.*

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements

Years Ended September 30, 2022 and 2021

**1. Organization**

The Protected Areas Network Fund (PAN Fund), a component unit of the Republic of Palau (ROP), was formed on May 2, 2008, under the provisions of the Republic of Palau Public Law (RPPL) No. 7-42 for the purpose of administering and managing all funds received for the financial sustainability of the Protected Areas Network (the PAN) in Palau and for other related purposes. Portions of RPPL 7-42 were revised by RPPL 8-9 and RPPL 8-18. The Law created a registered non-profit corporation under the ROP corporate registry managed by a Board of Directors, consisting of seven voting members and the ROP Minister of Finance and the ROP Minister of Resources and Development, appointed in accordance with PAN Fund's Articles of Incorporation and approved by no less than two thirds of the Senate of the Olbiil Era Kelulau (ROP National Congress). PAN Fund's non-profit corporate charter was issued on November 2, 2010 by ROP and operations formally launched on March 24, 2012 upon receiving tourist and visitor environmental protection and arrival fee (Green Fee) monies from the ROP Ministry of Finance (MOF).

RPPL 7-42 authorized MOF to implement Green Fees to be used for the purpose of the operation of the PAN and to be deposited into an account at the National Treasury. The ROP Minister of Finance shall subsequently transfer the funds collected to the PAN Fund. RPPL 9-15, passed into law on August 29, 2013 and effective for fiscal year 2014, reduced amounts transferred to the PAN Fund to 50% of Green Fees collected or \$2,000,000, whichever is less. During the years ended September 30, 2022 and 2021, MOF remitted \$73,320 and \$18,000, respectively, for this purpose, which PAN Fund recorded as transfers in from ROP. PAN Fund recorded \$10,000 as transfers in from ROP for audit expense reimbursement for the year ended September 30, 2021. Additionally, PAN Fund received appropriations from ROP in 2022 of \$153,810. Overpayments received from ROP in prior years amounted to \$38,035 was applied to 2022 appropriations to PAN Fund. The receivables and transfers with ROP constitute all of PAN Fund's related party transactions, except for certain immaterial grants.

Funds administered, managed and invested by PAN Fund as the financial trustee corporation of the PAN include:

- Green Fees from ROP which are used for general operations of the PAN. PAN Fund allocates five percent (5%) of Green Fees and any unallocated funds remaining at the end of each fiscal year in the Micronesia Conservation Trust (MCT) Endowment, net investment revenues from which are available for PAN Fund's exclusive use at a later time, pursuant to guidelines of MCT. PAN Fund considers its ensuing year budget to be an allocation of funds and therefore has not recorded a liability to MCT for any unallocated funds at September 30, 2022 and 2021;
- Donations, grants and other aid given to PAN Fund; and
- Income and other property derived from or attributed to the investment or application of property.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**1. Organization, continued**

PAN Fund disburses all funding for:

- The implementation of PAN management, sustainable development and work plans for PAN sites based on performance, impact/outcome and appropriate management costs for the continuing sustainable operation of the PAN Fund. During the years ended September 30, 2022 and 2021, PAN Fund provided funding to PAN sites/states for mobilization and implementation of PAN work plan of \$910,955 and \$897,529, respectively, and is recorded as PAN sites/states expense in the accompanying statements of revenue, expenses and changes in net position. Additionally, PAN Fund provided technical assistance for PAN sites/states special projects of \$32,945 and \$30,138 for the years ended September 30, 2022 and 2021.
- The undertaking of necessary research and educational activities substantially related to carrying out the provisions of RPPL No. 7-42;
- The performance of any other functions that is necessary in order to carry out the purposes of RPPL No. 7-42 including the operation of the PAN Office. The PAN Office operates under the ROP Ministry of Natural Resources, Environment and Tourism. During the years ended September 30, 2022 and 2021, PAN Fund provided funding for activities specified in an annual work plan of PAN Office in the amounts of \$96,798 and \$81,246, respectively; and
- Emergency funding to help PAN sites address exceptional needs arising from natural disasters or accidents.

PAN Fund's financial statements are incorporated into the financial statements of ROP as a component unit.

**2. Summary of Significant Accounting Principles**

The accounting policies of PAN Fund conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. PAN Fund 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.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**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.

**Basis of Accounting**

All 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 this fund are included in the statements of net position. Proprietary fund operating statements reflect increases and decreases in net total assets and utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Budget and Appropriation**

RPPL 9-15 authorized funds generated from the collection of the Green Fee to be authorized and appropriated for the sole purpose of the operation of the PAN, to be transferred to PAN Fund. No more than ten percent (10%) of such funds may be used for administrative costs of the operation of the PAN. PAN Fund has determined that the 10% restriction applies only to the PAN and not PAN Fund. Budgetary financial statements are not considered to be a disclosure requirement by management.

**Cash**

For purposes of the statements of net position and cash flows, cash is defined as cash on hand, cash in bank, and cash equivalent securities. As of September 30, 2022 and 2021, cash was \$768,306 and \$1,346,583, respectively, and the corresponding bank balances were \$786,636 and \$1,251,214, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Of those bank balances \$518,306 and \$1,096,583 were uninsured and uncollateralized at September 31, 2022 and 2021, respectively. Collateralization of deposits is not required; therefore, uninsured deposits are exposed to custodial credit risk.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**Cash, continued**

Custodial credit risk is the risk that in the event of a bank failure, PAN Fund'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. PAN Fund does not have a deposit policy for custodial credit risk.

**Investments**

PAN Fund's investment policy governs the investment of assets of PAN Fund as follows:

(1) General

- (A) Any restrictions set forth by applicable law governing allocation limits, size, or quality of investments, if more stringent than those of this Statement, will be the governing restriction.
- (B) U.S. and Non-U.S. common stocks, ADRs (American Depository Receipts), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities are permissible investments.
- (C) No individual security of any issuer, other than that of the US Government, shall constitute more than 10% (at cost) of any Investment Managers portfolio.
- (D) The following securities and transactions are not authorized without prior Board approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; short sales; margin transactions; and, options and futures.

(2) Cash & Equivalents

(A) The following investments are permitted:

- U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations.
- Commercial Paper - All commercial paper issuers must maintain an "A-1" rating by Standard & Poor's and a "P-1" rating by Moody's Investor Service and be issued by Corporations domiciled within the United States having total assets in excess of one billion dollars (\$1,000,000,000).

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**Investments, Continued**

(2) Cash & Equivalents, continued

- Certificates of Deposit - All certificate of deposit issuers must have a minimum capital of ten million dollars (\$10,000,000).
- For assets managed by Investment Committee - From time to time Investment Committee may choose to invest working capital and pending loan funds in certificates of deposit offered by minority and/or community financial institutions. These financial institutions may not meet the minimum capital requirements set forth above.
- Repurchase Agreements - Repurchase agreements must be collateralized with either: (1) U.S. Treasury or Agency Securities with a market value of 102%, marked to market daily; or, (2) money market instruments which meet the qualifications of the investment policy statement and with a market value of 102%, marked to market daily.
- Money Market Funds - Money Market Funds must be registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940.

(B) No single issue shall have a maturity of greater than one (1) year.

(C) Money market funds must have an average maturity of less than one (1) year.

(3) Fixed Income

(A) All fixed income securities held in the portfolio shall have a Moody's or Standard & Poor's credit quality rating of no less than "BBB". U.S. Treasury and Agency securities, while non-rated, qualify for inclusion in the portfolio.

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



Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**Investments, Continued**

(3) Fixed Income, continued

(C) It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local Funding institutions, with the express purpose of making funds available to the local community in the form of loans. These Local CDs will not be included in the strategic asset allocation included herein. However, these Local CDs and the local Funding institutions must meet the following criteria on an ongoing basis:

- Local CDs must offer a competitive return relative to alternative issuers.
- The local Funding institutions must provide quarterly financial statements for Investment Committee review. The Investment Committee is charged with monitoring the financial health of the local Funding institutions. Should concerns arise with respect to the financial condition of the local Funding institutions, the Investment Committee will immediately notify the Board so that appropriate action can be determined and taken.

(4) Equities

(A) Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive. Comparisons to peer group characteristics will be used to evaluate and to assure consistency of each manager's stated strategy and style.

(B) Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on major exchanges.

(C) 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.

(D) Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any state, district, territory, or of any foreign country (ADR only) are permissible investments.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**Investments, Continued**

Entities are required to provide information about the credit risk associated with their investments by disclosing the credit quality ratings.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, PAN Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. PAN Fund'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 PAN Fund's name by PAN Fund's custodial financial institutions at September 30, 2022 and 2021.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of PAN Fund's fixed income securities at September 30, 2022 and 2021:

		2022				
		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Ratings
U.S. Treasury notes	\$200,005	\$ ---	\$ 145,462	\$ 16,917	\$37,626	Aaa
Corporate bonds	10,453	---	---	---	10,453	Aaa
Corporate bonds	23,410	---	11,783	11,627	---	A
Corporate bonds	23,746	---	12,079	11,667	---	A
Corporate bonds	34,415	---	13,271	10,939	10,205	A
Corporate bonds	22,020	---	---	11,554	10,466	Baa
Corporate bonds	75,967	---	13,789	62,178	---	Baa
Corporate bonds	<u>13,207</u>	---	---	<u>13,207</u>	---	Baa
	<u>\$403,223</u>	<u>\$ ---</u>	<u>\$ 196,384</u>	<u>\$138,089</u>	<u>\$68,750</u>	
		2021				
		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Ratings
U.S. Treasury notes	\$192,728	\$ ---	\$ 93,541	\$ 99,187	\$ ---	Aaa
U.S. Treasury bonds	42,387	---	---	21,302	21,085	Aaa
Corporate bonds	58,391	---	13,726	29,408	15,257	A
Corporate bonds	29,473	---	---	14,278	15,195	A
Corporate bonds	13,996	---	---	13,996	---	A
Corporate bonds	28,611	---	---	14,617	13,994	Baa
Corporate bonds	110,650	---	---	110,650	---	Baa
Corporate bonds	<u>15,395</u>	---	---	---	<u>15,395</u>	Aaa
	<u>\$491,631</u>	<u>\$ ---</u>	<u>\$ 107,267</u>	<u>\$303,438</u>	<u>\$80,926</u>	

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**Investments, Continued**

Fair Value Measurement of the Investments

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

PAN Fund 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 following table sets forth by fair value hierarchy level assets carried at fair value at September 30, 2022 and 2021:

Investments by fair value level	<u>Total</u>	<u>2022</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
U.S. Treasury securities	\$ 200,005	\$ 200,005	\$ ---	\$ ---
Corporate bonds	203,218	---	203,218	---
Equity securities:				
Common stock	<u>959,828</u>	<u>959,828</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>\$1,363,051</u>	<u>\$1,159,833</u>	<u>\$ 203,218</u>	<u>\$ ---</u>
Investments by fair value level	<u>Total</u>	<u>2021</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt securities:				
U.S. Treasury securities	\$ 235,115	\$ 235,115	\$ ---	\$ ---
Corporate bonds	256,516	---	256,516	---
Equity securities:				
Common stock	<u>1,255,154</u>	<u>1,255,154</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>\$1,746,785</u>	<u>\$1,490,269</u>	<u>\$ 256,516</u>	<u>\$ ---</u>

**Capital Assets**

Capital assets are stated at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$1,000.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**Retirement Plan**

On October 5, 2017, PAN Fund adopted a 401K Retirement Savings Plan (the Plan) to provide an individual account retirement system for the employees of PAN Fund. PAN Fund's General Manager is responsible for the general administration and operation of the Plan. Each member of the Plan is required to contribute to the members' individual account an amount equal to 4% of the member's gross salary. On February 26, 2019, the contribution rate increased to 6% of the member's gross salary. PAN Fund is required to provide matching contributions on behalf of each member equal to the employees' contributions. PAN Fund recorded \$5,091 and \$7,038 of contributions to the Plan for the years ended September 30, 2022 and 2021. Total plan assets at September 30, 2022 and 2021 were \$31,917 and \$44,420, respectively.

On August 8, 2013, PAN Fund withdrew from the Palau Civil Service Pension Trust Fund (the Fund) as the Fund considers PAN Fund to be a non-profit, non-governmental organization, and to be exempt from participation in the Fund.

**Net Position**

PAN Fund's net position is classified as follows:

- Net investment in capital assets: capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted: net position subject to externally imposed stipulations that can be fulfilled by actions of PAN Fund pursuant to those stipulations or that expire by the passage of time. PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42.
- Unrestricted: net position that is not subject to externally imposed stipulations. As PAN Fund considers all assets, except investments in capital assets, to be restricted in accordance with the provisions of RPPL 7-42, PAN Fund does not have unrestricted net position at September 30, 2022.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Principles, continued**

**Recently Adopted Accounting Pronouncements**

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 as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of this statement did not have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this 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. Starting October 1, 2021, no interest was capitalized.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The adoption of this statement did not have a material effect on the financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on PAN Fund's financial statements.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The adoption of GASB Statement No. 97 did not have an effect on PAN Fund's financial statements.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The adoption of this statement did not have a material effect on the financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation does not have a material effect on the accompanying financial statements.
- Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation does not have a material effect on the accompanying financial statements.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation does not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation does not have a material effect on the accompanying financial statements.
- Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation does not have a material effect on the accompanying financial statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation does not have a material effect on the accompanying financial statements.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements**

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.



Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. GASB Statement No. 99:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

PAN Fund is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

**Reclassification**

Certain reclassifications have been made to the 2021 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported change in net position.

**Subsequent Events**

The Company has evaluated subsequent events through June 20, 2024, the date on which the financial statements were available to be issued. Based on the Company's evaluation, there were no subsequent events that require adjustments to or disclosures in the financial statements.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**3. Capital Assets**

Capital assets of PAN Fund as of September 30, 2022 and 2021, are summarized below:

	Estimated Useful Lives	Balance at October 1, 2021	Additions	Deletions	Balance at September 30, 2022
Furniture, fixtures and equipment	3 years	\$ 20,694	\$ ---	\$ ---	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>---</u>	<u>---</u>	<u>7,000</u>
		27,694	---	---	27,694
Less accumulated depreciation		<u>(21,426)</u>	<u>(5,495)</u>	<u>---</u>	<u>(26,921)</u>
		<u>\$ 6,268</u>	<u>\$(5,495)</u>	<u>\$ ---</u>	<u>\$ 773</u>
	Estimated Useful Lives	Balance at October 1, 2020	Additions	Deletions	Balance at September 30, 2021
Furniture, fixtures and equipment	3 years	\$ 20,694	\$ ---	\$ ---	\$ 20,694
Vehicle	3 years	<u>7,000</u>	<u>---</u>	<u>---</u>	<u>7,000</u>
		27,694	---	---	27,694
Less accumulated depreciation		<u>(21,222)</u>	<u>( 204)</u>	<u>---</u>	<u>(21,426)</u>
		<u>\$ 6,472</u>	<u>\$( 204)</u>	<u>\$ ---</u>	<u>\$ 6,268</u>

**4. Contributions**

The Micronesia Challenge (MC) is a commitment by the Chief Executives of the Republic of Palau, the Federated States of Micronesia (FSM), the Republic of the Marshall Islands, the U.S. Territory of Guam and the U.S. Commonwealth of the Northern Mariana Islands to effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources across Micronesia by 2020.

MCT is a non-profit trust corporation registered in the FSM whose mission is to support biodiversity conservation and related sustainable development of the people of Micronesia by providing long-term sustained funding opportunities, management and investment services. MCT holds MC assets in restricted endowment funds. During the years ended September 30, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012, PAN Fund contributed \$5,789, \$43,188, \$32,549, \$71,762, \$76,425, \$97,750, \$100,000, \$98,177, \$96,750, \$84,596 and \$1,400,000, respectively, to the MC endowment funds held by MCT.

During the years ended September 30, 2022 and 2021, PAN Fund received contributions of \$553,792 and \$507,276, respectively, from MCT. The contribution from MCT represents 5% of a three-year moving average of the endowment fund balance.

Protected Areas Network Fund  
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

**5. Commitment**

PAN Fund leased an office space in Koror, Palau. The term of the lease is one year commencing on October 1, 2021 and expiring on September 30, 2022. PAN Fund voluntarily vacated the office space in April 2022 and started to occupy an office space at the Ministry of Agriculture, Fisheries and the Environment (MAFE) with no monthly rental charges.

On January 17, 2023, PAN Fund entered into an agreement with MAFE to continue to allow PAN Fund to occupy the office space with no monthly rental charges. However, PAN Fund is to pay MAFE for its share of the building's electricity, water, and sewer costs. The term of the lease is for a period of three years, ending on July 30, 2025.

Protected Areas Network Fund  
Report of Independent Auditors  
on Internal Control and on Compliance  
Year ended September 30, 2022



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Report of Independent Auditors 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  
Protected Areas Network Fund

We have audited, 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, the financial statements of Protected Areas Network Fund (PAN Fund), which comprise the balance sheet as of September 30, 2022 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2024.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the PAN Fund'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 statement, but not for the purpose of expressing an opinion on the effectiveness of the PAN Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the PAN Fund'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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during the 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 the PAN Fund'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 entity'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.

*Ernst + Young LLP*

June 20, 2024